

In case of recession,
GET READY
FOR NEW BEHAVIORS
FROM THE PANDEMIC-
HARDENED CONSUMER

Americans eager to leave the pandemic behind showed their enthusiasm over the past year by flocking to restaurants, bars, and hotels, eating, drinking, taking day trips, vacationing, attending sporting events, and leaning over in casinos – as if it were 2019 again. But over the last few months their behavior has begun shifting yet again.

Even as the pent-up demand for leisure, conviviality, and adventure normalizes, an economic slowdown is now looming, and many second- and third-quarter earnings point to a **shifting consumer mindset**.

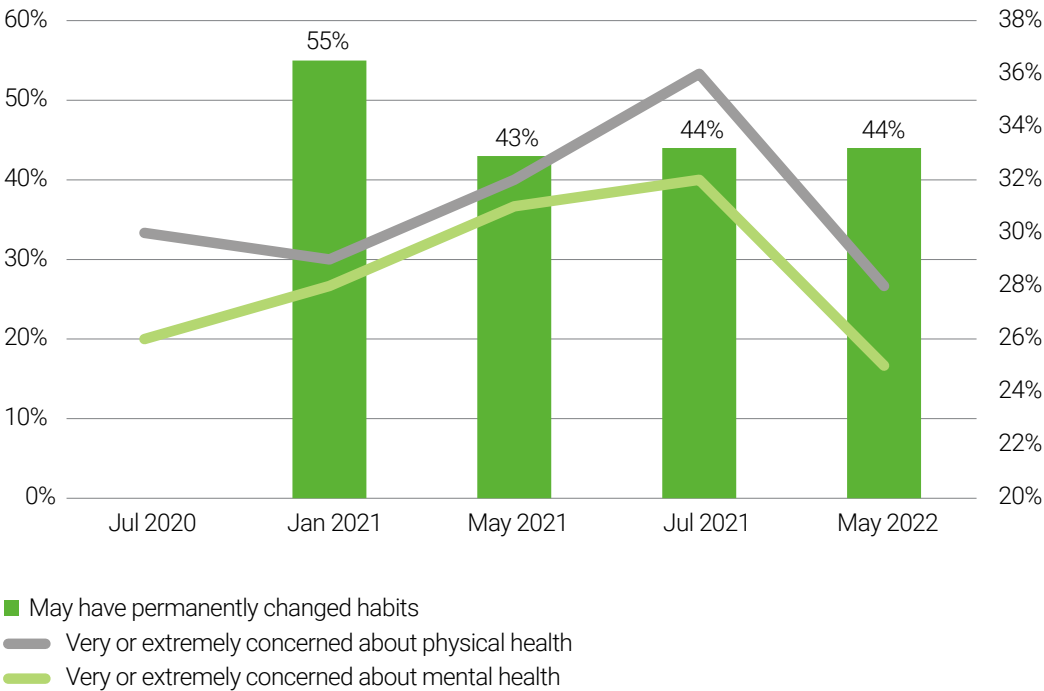
As financial pressures mount, the pandemic-hardened customer will likely respond differently than in past recessions. Restaurant, hospitality, travel, and leisure (RHTL) operators need to be prepared for what these changes will look like.

While business challenges resulting from COVID-19 are in the rear view mirror of many sectors of the hospitality and leisure industry, our research suggests that the pandemic experience has left an enduring imprint on the consumer mindset. In the 2022 AlixPartners Restaurant, Travel, Hospitality and Leisure Consumer Survey, 44% of U.S. consumers said shifts they made in consumption habits due to COVID-19 may be permanent.

This figure has remained unchanged since May 2021, despite the easing of pandemic-related consumer vulnerabilities around physical and mental health and robust spending recovery across many sectors.

In part, how American consumers reacted to greater freedom of physical movement after pandemic restrictions lifted may have been a reflection of “revenge spending” that was fueled by increased savings as well as a collective expression of pent-up desires for normality in recreation. This period masked some of the more foundational and likely longer-term changes in consumer mindset.

FIGURE 1: THE PERCENTAGE OF CONSUMERS HAS REMAINED CONSISTENT DESPITE LOWERED PHYSICAL AND MENTAL HEALTH CONCERNS



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of U.S. consumers said shifts they made in consumption habits due to COVID-19 may be permanent.

More recently, some of the greatest areas of post-pandemic reported change in consumer behavior include a stronger interest in at-home eating, accelerated concern over climate change, and a heightened priority on experiential spending:

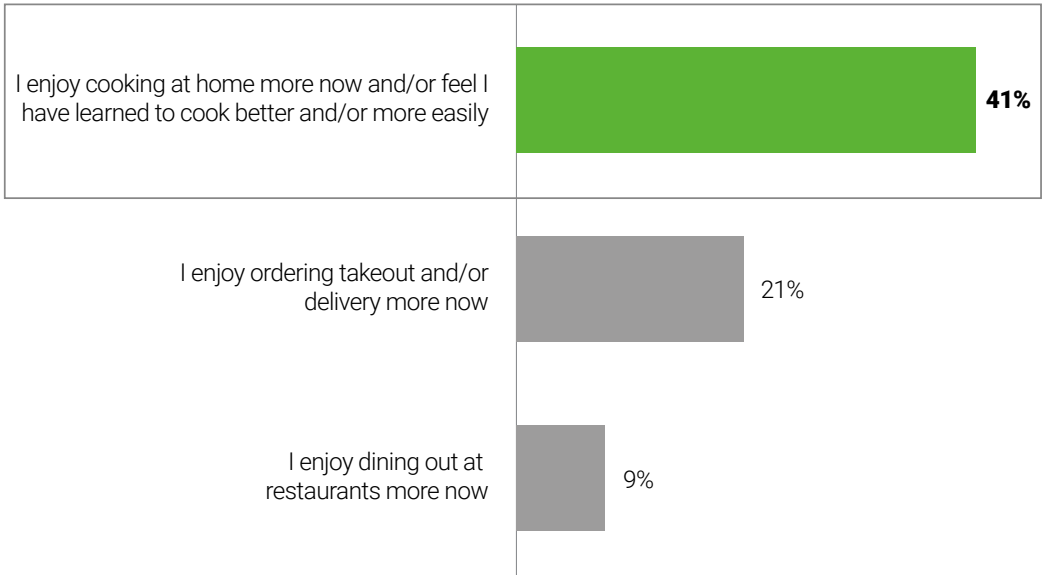
AT-HOME EATING

More consumers are continuing to cook and eat at home. Absence only made the heart grow fonder for very few, with just 9% of consumers reporting enjoying dining out more now than prior to the pandemic. By comparison, 21% of consumers say the pandemic made them love ordering takeout and delivery more, with 80% of consumers now saying they generally enjoy ordering takeout and/or delivery. Ultimately, COVID-19 seems to have only further accelerated the restaurant industry's shift toward off-premise occasions that has been underway for a decade.

But restaurants in the post-pandemic era will face heightened competition from outside foodservice channels; almost half (41%) of consumers report increased enjoyment and/or improved ability to cook due to the pandemic.

In fact, meals cooked from scratch continue to sit at 43% of all meal occasions – unchanged over the past year despite record restaurant spending in 2021. A deeper look at reported meal occasions suggests share increases in dining-out since May 2021 have been predominately filled by declines in reported occasions for semi-homemade meals (e.g. rotisserie chicken, prepared foods, etc.) and meals kits.

FIGURE 2: CONSUMERS ARE LEANING MORE TOWARD COOKING AT HOME



This implies consumers' decisions for dining out now may be even more highly indexed on both experience and convenience. They may have honed their cooking skills during the pandemic and so now going out to eat is viewed more as a treat than as a routine.

CLIMATE CONCERN

Two-thirds of consumers say the pandemic has made them more environmentally concerned, with 30% saying it impacts buying decisions more than before the pandemic. This is heightened even more for higher frequency hospitality and leisure customers.

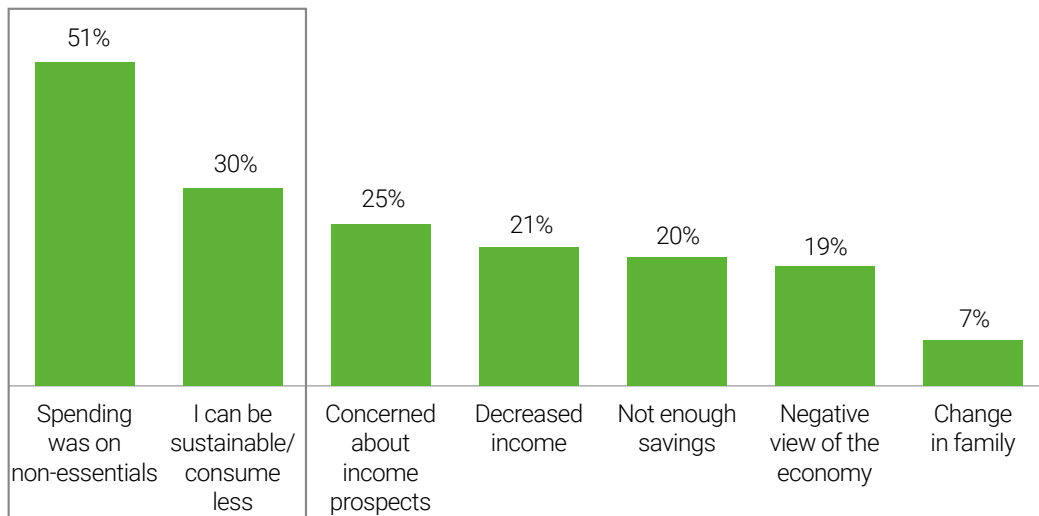
Our consumer research suggests both rising interest in electric vehicle usage and growing influence of companies' ecofriendly-focused initiatives on the RHTL consumer. In this year's study, 39% of consumers said the top priority for food and beverage operators should be increasing paper usage and moving away from plastics. But this new climate awareness is also vitally shaping the overall consumer mindset.

In our Changing Consumer Priorities H2 2021 report, we introduced the notion of a **more intentional consumer** as nearly 40% said the pandemic had prompted them to reevaluate what they deemed essential spending and/or taught them how to consume less overall to be more sustainable.

These figures are even greater for higher-income consumers. In fact, consumers are beginning to realize the biggest contribution to solving climate change going forward may not be whether they choose paper or plastic packaging but rather just simply cutting back, particularly on impulsive purchases, to save or potentially redirect spending towards more planned, meaningful purchases. A recession may be the perfect excuse to fully flex this newfound skill.

FIGURE 3: THE PANDEMIC FORCED CONSUMERS TO REASSESS WHAT 'ESSENTIAL' MEANS

Reasons for decreased spending



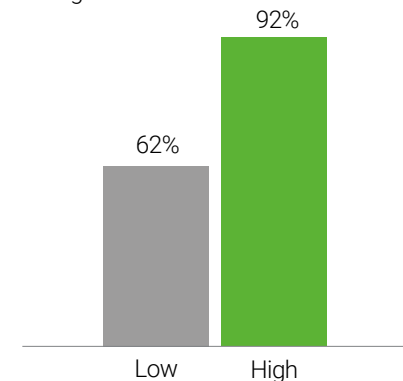
>65%

of consumers say the pandemic has made them more environmentally concerned.

FIGURE 4: CONSUMERS ARE INCREASINGLY MORE CONCERNED ABOUT THE CLIMATE

% of consumers with increased concern

Hotel guests

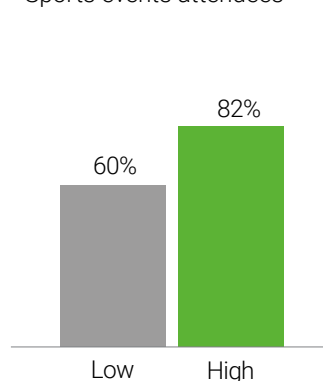


VISIT FREQUENCY DEFINITION

Hotel guests

- Low: Less than 1 visit per year or never
- High: 1 visit per month or more

Sports events attendees



VISIT FREQUENCY DEFINITION

Professional/college sports events attendees

- Low: Zero events
- High: 2 events per year or more

40%

of high frequency sports events attendees now say increased concern impacts their buying decisions

Who has the biggest role to play in solving climate changes?

66%

Large companies

34%

Individuals

MORE EXPERIENTIAL

It is no surprise that services spending this past year has **outpaced hard-goods** consumption. A year ago, we began asking consumers to report their sentiment to trade up (that is, to seek more luxury/indulgence) or trade down (that is, to look for more value) within purchases across consumer sectors – including retail, grocery, beauty, restaurants, travel and leisure – as they exited into the post-pandemic world.

In the summer of 2021, the restaurant sector significantly led in share of consumers looking to trade up, followed by travel and leisure with 25% and 19%, respectively. In fact, the restaurant sector was the only one where consumers suggested their interest in indulgence outpaced their desire to seek value entering the post-pandemic era. While this past year has seen declines in indulgence interest across all sectors, at least 50% more consumers are still looking to trade up for restaurant, travel, and leisure purchases than they are for retail, grocery, and beauty products.

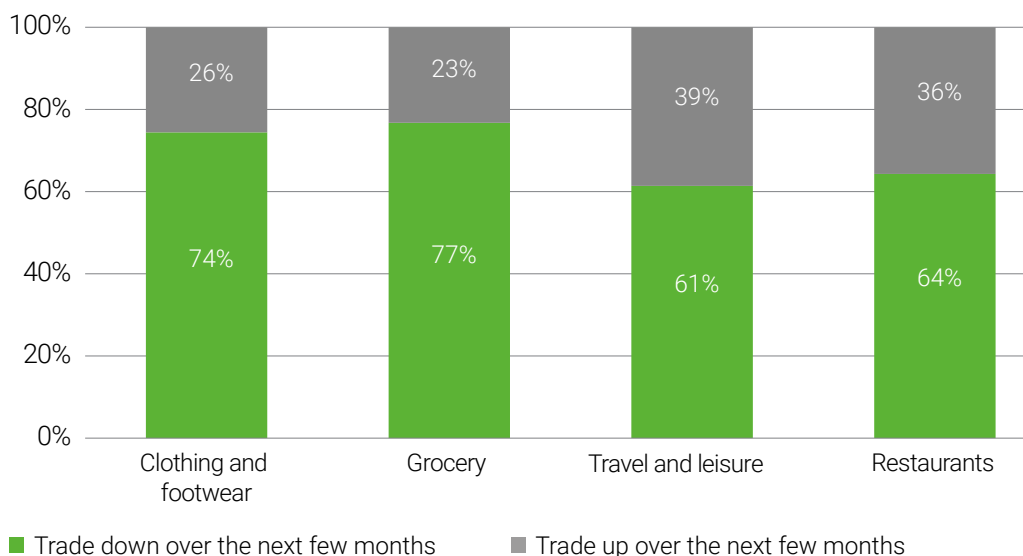
In fact, grocery and retail lead in trading-down sentiment, with nearly one-thirds of consumers looking to seek more value in purchases in 2022.

Overall, consumers suggest they are allocating more toward experiences to treat themselves over hard goods, even as finances tighten.

Yet, at the moment, the RHTL market is in a bit of a transition from consumers' initial post-pandemic dash to experience leisure the way they did traditionally – and now to an era where these three factors are set to dominate. What is likely to help complete that transition is the economic slowdown that has been gathering since the beginning of the year, exacerbated by high inflation, continued U.S. Federal Reserve rate increases, and a slowdown in the housing market – underscored by **thousands of layoffs** in the U.S. tech sector and beyond.

In our recent Turnaround and Transformation survey, 87% of the world's leading restructuring experts believe a **recession will happen** in America within the next 12 months. Meanwhile, pressures on household finances have been growing, including debt and loan delinquencies and the spigot of extra federal income realized by tens of millions of Americans during the pandemic turning off.

FIGURE 5: MORE CONSUMERS PLANNED TO TRADE DOWN SPENDING IN GROCERY AND RETAIL THAN IN TRAVEL & LEISURE AND RESTAURANTS

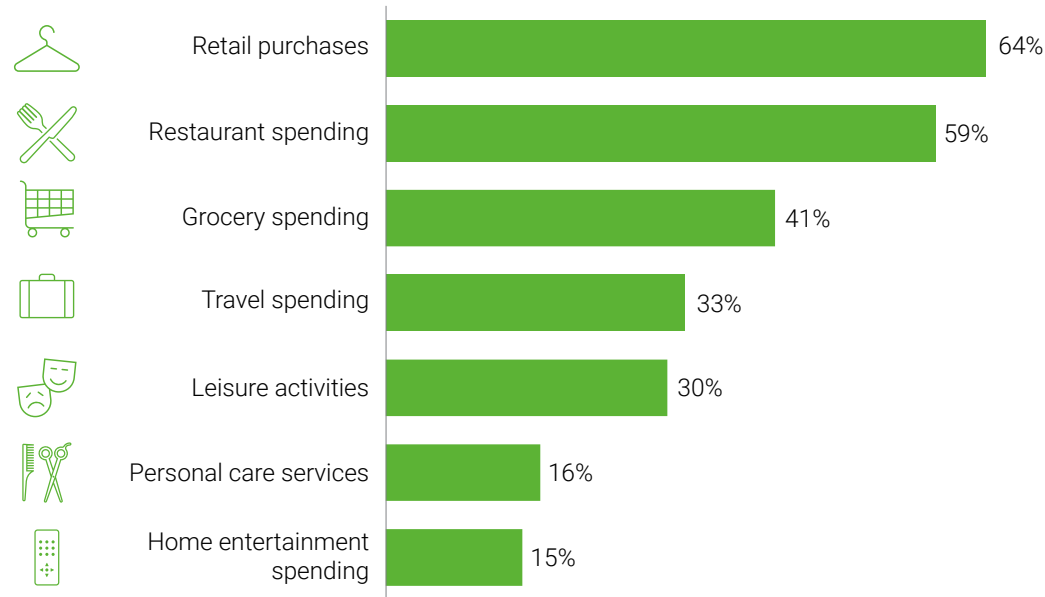


Grocery and retail lead in trading-down sentiment, with nearly one-thirds of consumers looking to seek more value in purchases in 2022.

All of this feeds directly into the biggest current obstacle for RHTL operators: dwindling disposable income and economic expectations by many Americans. In May, 61% consumers said rising financial pressures would impact what they will be able to afford. By mid-summer, a similar report suggested this figure had grown to 82%.

FIGURE 6: CONSUMERS PLAN TO BE DELIBERATE ABOUT WHERE AND HOW TO REDUCE SPENDING

QUESTION: Where do you plan to reduce spending?

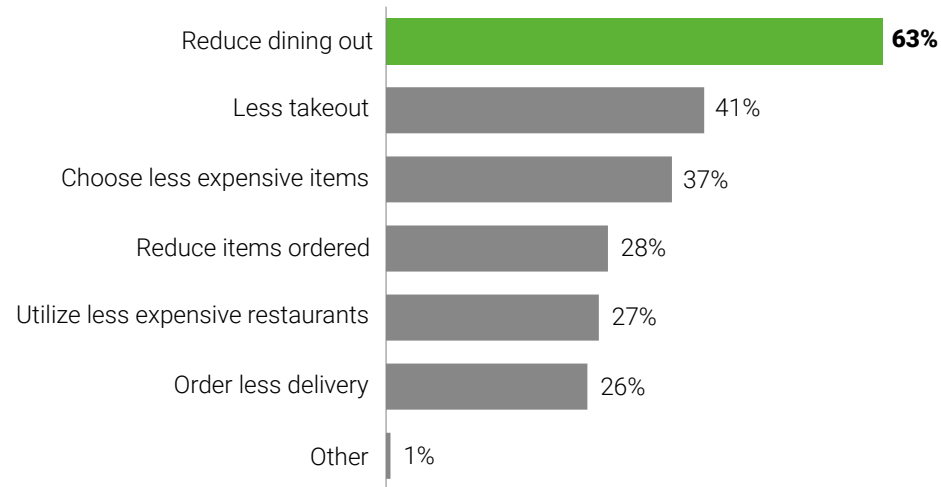


61%

of consumers said rising financial pressures will impact what they will be able to afford.

And when we asked consumers how they plan to cut back, their responses generally fell in line with the fundamental shifts in consumer mindset. More reported planning to cut back in retail over restaurants. For those cutting back on restaurants, reducing dining out significantly led their intentions, with less interest in reducing takeout/delivery. Ordering less expensive food, reducing the number of items purchased, or utilizing cheaper restaurants were less prioritized cutback intentions.

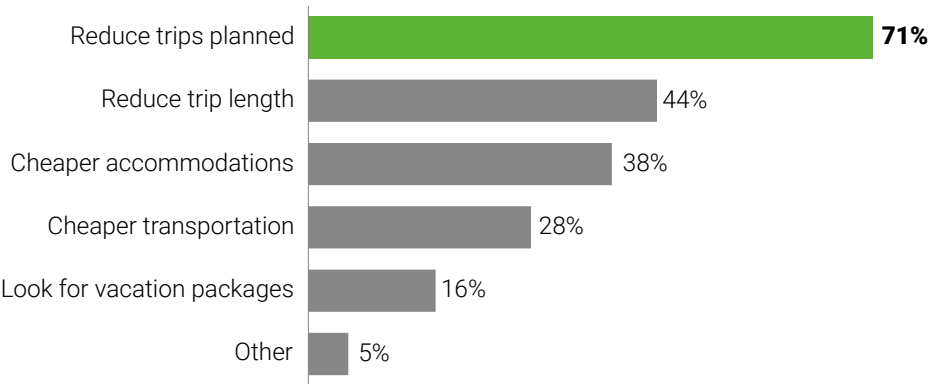
FIGURE 7: MOST CONSUMERS WOULD PREFER TO REDUCE DINING OUT THAN BUY FEWER OR LESS EXPENSIVE ITEMS



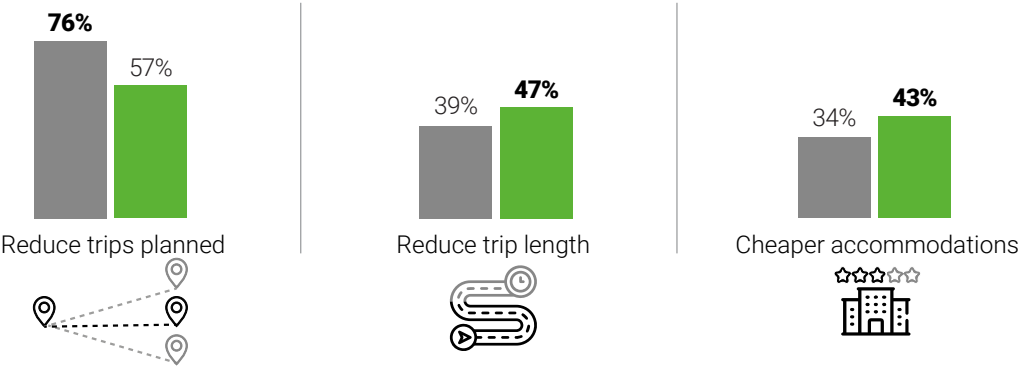
For those planning to reduce travel spending, eliminating trips led plans, followed by shortening trip lengths. Utilizing cheaper accommodations and transportation weren't the leading tactics. There appeared to be a stronger inclination with consumers across the RHTL sector to drop frequency in lieu of trading down.

FIGURE 8: OVERALL, CONSUMERS PLAN TO CUT THE NUMBER OF TRIPS, BUT TACTICS VARY BY TRAVEL FREQUENCY TYPE

QUESTION: How will you reduce spending on travel?



SPENDING REDUCTION TACTIC BY FREQUENCY OF HOTEL VISITS



FREQUENCY DEFINITION

- **Low:** Less than 1 visit per year or never
- **High:** 1 visit per month or more

Hospitality industry leaders have pointed to recent challenges in nailing down patterns to this unpredictable post-pandemic consumer. Consumers forcedly paused longstanding buying patterns during the pandemic and spent ample time reflecting on what mattered and what didn't, and have emerged with more of an intentional ability to shift their share of wallet to reflect this. With the potential period of 'revenge spending' winding down, rising financial pressures may finally and rapidly unmask this changed consumer mindset.

Additionally, a multitude of pandemic-accelerated changes across the RHTL landscape will have a defining effect on performance in the next era. From the rushed but overdue acceleration toward technology as a way to survive for some sectors to navigating through supply and labor shortages, operators have learned how to broaden their target customer base and, in many cases, with fewer resources.

The good news for the industry: Operators already own a menu of possibilities that can help them become proactive in planning.

Convenience driven by health and safety has reintroduced new potential for many, such as a stronger relationship with higher-end consumers for quick-service restaurants or the ability of full-service operators to successfully gain share in off-premise channels. Opportunities exist across sectors around reimagining loyalty programs as well, particularly taking into consideration remote working trends or harmonizing programs with ESG mindsets.

Companies will also have to reconcile the momentum and challenges associated with accelerating revenue fragmentation across many RHTL business models, whether that be third-party delivery companies or the consumption of media by sports consumers.

The leverage created by these partnerships will have to be balanced against what this means for customer data ownership and third-party influence, consistency of experience, and the blurring of lines between segments. Also to consider: the untapped potential of these organizations to assist with rising labor headwinds in the form of unionization and legislation.

RHTL will see both robust opportunities as well as significant challenges, with the environment demanding unprecedented out-of-the-box thinking.

This next evolution of the industry will be less centered on universal themes we saw in the Great Recession, when headwinds and tailwinds were more generally grouped at the sector level (such as, quickserve does well and full-service suffers). Instead it will likely be defined by clear winners and losers within specific segments based on their ability to adapt to both changing consumer dynamics and rapidly changing business models.

Those companies that are further along on their journey to transform against these changes will be able to act more nimbly in a downturn to keep the consumer engaged.

Over the next several months, we will dive more deeply into how RHTL operators need to shift to compete in these changing times.

We will cover the following areas of potential action:

- ✓ How to shift from studying to **operationalizing environmental, social, and governance** to better engage with the consumer and win the war on talent
- ✓ The path to building **resilient supply chains**
- ✓ Why leaning into the **next generation of loyalty** across sectors can help better identify high-potential consumers and grow key segments among the customer of the future
- ✓ How implementing an **efficient, digital** mindset can solve business problems while limiting inefficient digital spend
- ✓ The key to developing **underwritable growth** strategies that embrace changing business models and result in winning market share in segments of the future
- ✓ Why we must **permanently reimagine labor** models during this projected period of prolonged labor scarcity and improve service levels

METHODOLOGY:

The Annual 2022 AlixPartners Restaurant, Travel, Hospitality and Leisure Consumer Survey polled U.S. consumers to better understand their concerns tied to health and finances and investigate behaviors, sentiment, and intentions around dining, hospitality, travel, and leisure experiences.

The survey was conducted May 12-18, 2022, across 1,005 consumers aged 18 and above balanced in gender, age, income, and education, spanning all 50 states. Core sectors studied were restaurants (including fast food, fast casual, bar and grill or casual dining, fine dining, coffee, pizza), retail foodservice such as C-stores and grocery, hotels (including home-sharing), sports, casinos, theme parks, and cruise lines.

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ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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