INSIGHTS FROM THE BDO GAMING & LEISURE PRACTICE

Changing the Game:

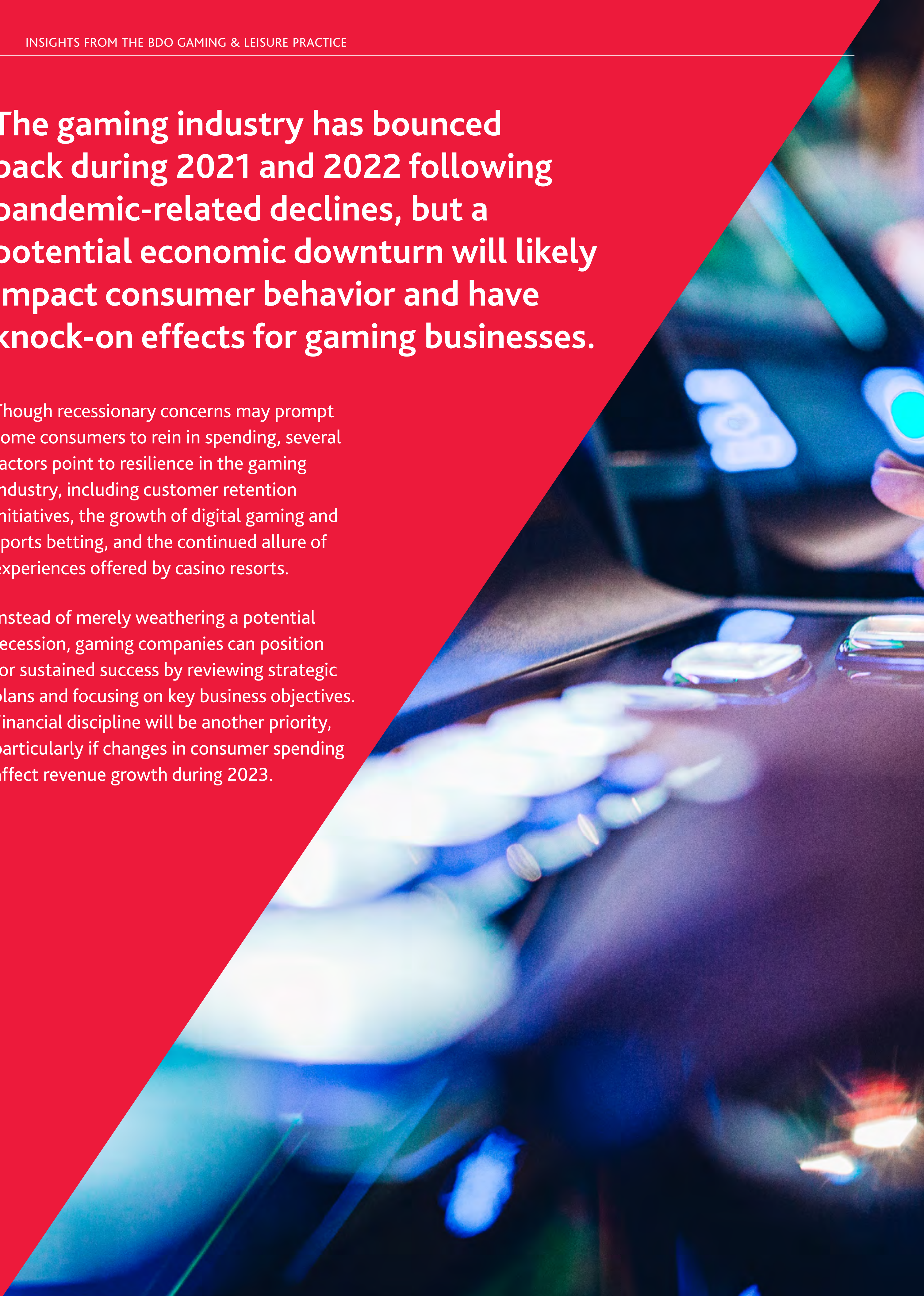
How Recessionary Pressures Impact Consumer Behavior and Corporate Strategy in the Gaming Industry

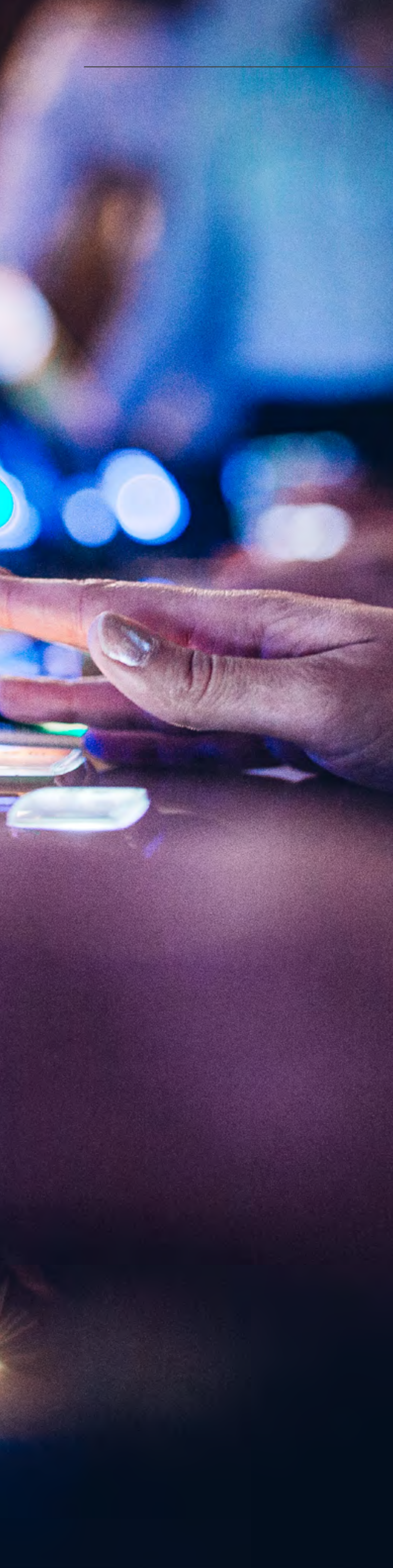
BDO

The gaming industry has bounced back during 2021 and 2022 following pandemic-related declines, but a potential economic downturn will likely impact consumer behavior and have knock-on effects for gaming businesses.

Though recessionary concerns may prompt some consumers to rein in spending, several factors point to resilience in the gaming industry, including customer retention initiatives, the growth of digital gaming and sports betting, and the continued allure of experiences offered by casino resorts.

Instead of merely weathering a potential recession, gaming companies can position for sustained success by reviewing strategic plans and focusing on key business objectives. Financial discipline will be another priority, particularly if changes in consumer spending affect revenue growth during 2023.





RETENTION HAS A BIG PAYOFF IN A RECESSIONARY ENVIRONMENT

Despite the rate of inflation in the U.S. reaching levels not seen in more than 40 years during 2022, consumer spending has remained relatively strong. According to **data from the Bureau of Economic Analysis (BEA)**, disposable personal income and personal consumption expenditures both increased slightly more than expected during September. Interest rates have continued to rise, however, and there are indications that some consumers are delaying the purchase of big-ticket items, which suggests a slowdown in some areas of spending.

To help mitigate the effects of a potential recession, gaming companies may consider shifting more attention to customer retention in addition to customer acquisition. That strategy could be especially important for sports betting, a subsector that has invested heavily in customer acquisition in recent years and may not be as recession-proof as some had predicted. According to a TransUnion study, 54% of U.S. sports bettors earn at least $100,000 per year, but even high-income earners show signs of cutting back on discretionary spending like gambling. Nevertheless, many sportsbooks have seen relatively low rates of customer churn this year despite inflation, which could be due partly to the growth in popularity of unique multi-leg wagers such as same-game parlays.

High costs for customer acquisition **due to digital competition** can pose challenges for companies trying to grow their consumer base, and recessionary pressures make it even more important to keep existing customers engaged. Fragmentation and evolving competition also complicate predictions for the lifetime value of a new customer. The longer a customer stays, however, the bigger the return on initial acquisition costs.

Strategies that focus on retention can help reduce churn amid growing recessionary pressures. These strategies vary for different types of companies, such as online gambling (iGaming), land-based casinos or a hybrid of online and on-premises gaming. Taking steps to **improve customer experience and leverage data analytics** can both help increase engagement. Such initiatives can include customized loyalty and reward programs based on a customer's unique habits, as well as data insights about the most popular types of games and bets to enable cross-promotion. Reload bonuses, referral bonuses, free bets and percentage back on losses are examples of other strategies to help keep existing players engaged. Critically, even small improvements in retention can have a significant impact on margins and profitability.

GROWTH POTENTIAL REMAINS, BUT A DOWNTURN WOULD IMPACT INDUSTRY SUBSECTORS DIFFERENTLY

If recessionary pressures prove to be a drag on consumer spending in the months ahead, that would likely affect some gaming sectors differently than others. Even if consumers reduce discretionary spending, casino resorts could still fare well because of their diversified offerings, but they also have much higher operating costs than dedicated iGaming companies. Land-based casinos in particular should practice financial discipline and **manage labor costs**, such as by maintaining balanced staffing levels, expanding electronic casino games and adopting cashless gaming and digital payments.

Overall, casino resorts can provide a relatively affordable range of unique leisure experiences. People remain eager to travel after dealing with pandemic-related restrictions, and recent TSA checkpoint data indicates airport activity has been near or above 2019 levels. BEA data also indicates that consumer spending on services, such as travel and dining, has outpaced spending on goods overall in recent months.

Although research has shown **flat levels of growth** for casino gambling during previous recessions, the industry has seen several notable changes in recent years. Digital gaming remains a convenient option for consumers and has experienced a spike in adoption in recent years, which aids both digital-only operators and land-based casinos with a digital component. Casino resorts can also use data-backed insights to help convert their online customers into on-premises customers through targeted offers and other marketing initiatives.

Sports betting has also grown rapidly during the past five years, which provides an accessible platform for a much larger population of customers than previously. Before the U.S. Supreme Court's 2018 decision in Murphy v. National Collegiate Athletic Association, only a few states could claim partial exemption to the 1992 federal ban on sports betting. As of November 2022, **more than 30 states** and the District of Columbia allow sports betting, and additional states are considering similar legislation.

Recession-related shifts in discretionary spending may not impact gaming as much as other consumer sectors. **A May 2022 YouGov poll** of 16 countries shows that while monthly gamblers may cut back on betting, they are more likely to reduce spending in other areas to maintain their monthly budget. A recession would still likely impact growth, so it is critical for gaming companies to protect revenue during a downturn.

Other developments hold promise for the gaming industry as well. Casino stocks recently surged following China's announcement of eased travel restrictions that would allow tour groups into Macau, the world's largest gambling jurisdiction. Overall, publicly traded gaming companies have enjoyed relatively strong earnings during 2022 despite market volatility, and many analysts have maintained "buy" ratings. A downturn could also give well-capitalized companies an opportunity to gain market share through acquisitions and partnerships.

LOOKING AHEAD

To help guard against the impact of recessionary pressures, managing costs and finding efficiencies will continue to be priorities. However, cutting back spending across the board can constrain growth and exacerbate customer churn. By combining financial discipline with a business strategy tailored to the effects of a potential downturn, gaming companies can continue the pandemic recovery and even thrive during volatility.

BDO's dedicated Gaming & Leisure practice has experienced industry professionals who can help plan for how to adjust during a downturn. CONTACT US TO LEARN MORE.

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