

## India: Key Emerging Market for Hospitality Industry

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### Abstract

*Leisure, as well as business travel is on the upswing as a result of the improving global economy. Emerging economies viz. China and India will be at the center of growth for Hospitality Industry in the next decade. International hospitality leaders are adopting various strategies to create their impact in the emerging markets. The key challenges faced by the hospitality industry are brand differentiation, lack of infrastructure, vexatious regulations, changing demographic drive, crisis management, shortage of skilled human resource and sustainability. This paper takes an overview of Indian Hospitality Industry as a key emerging market for global hospitality. It is an attempt to give suggestions to face the challenges before hotel industry and maximise its performance in India.*

**Key Words:** Hospitality, India, Key Emerging Market, International Brands in India.

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## 1. INTRODUCTION

The hospitality industry is a service-oriented industry. The hotel provides the use of the room for the duration of the time that the customer has paid for. Perishability is the key feature of this industry. Service products vary from one experience to the next, from customer to customer, as well as for the same customer from one occasion to the next.

The hospitality industry is extremely sensitive to economic cycles. Asia is anticipated to account for more than 41.0% of the worldwide growth in outbound travel and tourism for the next decade. Within the BRIC countries (Brazil, Russia, India and China), a middle class that is eager and able to travel is developing. According to a recent Bloomberg survey, China, Brazil and India are preferred places to invest globally. The projections by Goldman Sachs that as many as 2bn people may join the middle class by 2030, and that the BRIC and N11 economies may represent as much as 60% of the world's GDP by 2050, suggest that there are significant opportunities for expansion.

China and India, fuelled by the economic strength, their respective middle classes are expanding and increasing the amount of disposable income they have available for international travel. The greatest future potential in these markets will lie in developing mid-market and economy-branded products aimed at the domestic travellers. India has over 563 million domestic travellers, inbound arrivals of 5 millions.

### 1.1 Objectives of the Study

1. To take an overview of Indian Hospitality Industry.
2. To enlist the strategies taken by International Brands to show presence in Indian Hospitality Market and increase their market share.
3. To suggest measures to succeed in Indian Hospitality Market.

### 1.2 Methodology

This study is based on secondary data. Researcher has used various journals, research articles, newspapers, internet, books, e-books, reports published by various Research Agencies, etc. for this study.

### 1.3 Literature Review

The history of the hotel industry is as old as the history of tourism and travel industry. In fact, both are two sides of the same coin. Both are complementary to each other. Hotel is an establishment which provides food, shelter and other amenities for comfort and convenience of the visitors with a view to make profit (**Chakravarti, B.K**).

The concept of travel and halting facilities is quite old in India. In ancient times, people used to travel for pilgrimage or business purposes. For ages, India has been known for its hospitality. Endowed with rich historic heritage, cultural diversity, natural resources and geographical advantage, India remained a big attraction for foreigners. In ancient times, the need of travellers for food and accommodation was met mainly by hospitable householders which are still in existence in interior areas of the country. Domestic tourists were looked after by the pandas or priests. They used to accommodate their clients in dharamshalas or in their own houses at places of pilgrimage like Banaras, Haridwar, Puri and Mathura etc. In general, the attitude of the ancient

Indians towards visitors was influenced by the 'Atithi Devo Bhavah'. It means guest is like God and should be treated accordingly (**R.N. Kaul, 1985**).

After this, the British came to India and Sarais took the form of western style hotels in the important cities of India like Mumbai and Kolkata. During this period, on one hand, we find western style hotels for foreigners and on the other, Indian style hotels for the people belonging to upper and middle class income groups. The old type dharamshalas were still having their importance to serve the needs and requirements of the poor classes (**Negi Jagmohan, 2008**). In the nineteenth century, western style residential hotels were developed in India by British and Swiss families mainly for their own use or for foreign visitors. Mr. Pallonjee Pestonjee is called as the pioneer of the western style hotel in India who opened the first - western style hotel under the name of British Hotel in Mumbai in 1840. By the end of the nineteenth century, many western style hotels were established in India. These hotels were very much popular for their efficient management, unsurpassed cuisine and the excellence of beers and wines. The twentieth century may be called as the beginning of star hotels in India. In this century, big and modern hotels came into existence on account of the advent of big businessmen and new entrepreneurs (Negi Jagmohan).

Ernst & Young survey revealed likely targets for hospitality investment in 2008. Emerging markets in Asia are unseating Europe as the epicenter of new hospitality investment and development while investors in the United States are switching their focus from the acquisition of existing hotels to developing new properties. According to the Ernst & Young Hospitality Investment Survey, which surveyed more than 300 investors and industry executives worldwide, capitalization rates for hotel properties are expected to stabilize and possibly even increase over the short-to-mid-term in the US. Even with the dramatic shift in the debt markets over the last few months, hotel industry sector fundamentals continue to be strong. (Brian Tress of Ernst & Young's Hospitality Advisory Services Group)

With regard to tourism Indian government has made clear that its objective is to harness the tourism industry as an engine of economic growth and reap its direct and multiplier benefits of creating employment and decreasing poverty in a sustainable manner. In an effort to boost tourism the government has sought to liberalise the aviation sector, rationalise tax rates in the hospitality sector, ensure tourist-friendly immigration and visa services and facilitate in making land available for the construction of hotels. The reason why the government is taking the hospitality industry seriously is as it expects the industry to earn US\$24 billion in annual foreign exchange by 2015 (**Asiamoney, 2007**).

According to Ministry of Tourism, an investment of Rupees one million in the hotel and restaurant sector may create 89 jobs as against 44 jobs in agriculture sector and 12.5 jobs in the manufacturing sector. Investment required to create one job in manufacturing sector is around Rs.79,000 whereas in hospitality industry it is only Rs.11,200. At present about 20 million persons are directly or indirectly employed in tourism related industry and this figure is likely to increase to 40 million by 2020. It amply proves the job potential of hospitality industry in India.

It is very evident from the literature review that hospitality industry in India is growing very fast. Present study is an attempt to take an overview of Hospitality Industry in India as a key emerging market for World Hospitality. This study is also an attempt to present some suggestions to hospitality players to maximise their performance in India.

## 2. INDIA AS A KEY EMERGING MARKET

India has the 2<sup>nd</sup> largest population in the world. India has great long-term potential as an outbound tourism market. The country's tourism is the 3<sup>rd</sup> largest foreign exchange earner, accounting for almost 2.5% of the GDP. International tourism is also increasing popularity with the Ministry of Tourism reporting 10.8 million departures in 2008. The WTO predicts the India will account for 50 million outbound tourists by 2020. Domestic traffic was recorded an 11% rise over that of 2009/10. Under the Incredible India campaign, the government had introduced the Tourist Visa on Arrival Scheme. Over the past six years, FTA into India has shown growth of 42.5% from 3.91 million in 2005 to 5.58 million in 2010. India has been ranked at the second place in global foreign direct investments in 2010 (World Investment Prospects Survey 2009-2012, UNCTAD). In the Union Budget 2011/12, capital allocation to infrastructure has gone up significantly (23%). Good roads and transportation network will improve connectivity and facilitate travel. The introduction of express trains, increase in the frequency of intercity trains, further branching of the railway network to cover more regions and an effective online interface have helped boost passenger traffic over the years. In addition, luxury trains such as the Palace on Wheels, the Indian Maharaja, Deccan Odyssey and the Golden Chariot provide unique experiences and contribute towards attracting high-end foreign tourists to the country. The most significant strategic development in the Indian domestic aviation market is that it is rapidly turning low cost. The overall market share of low-cost airlines stood at 39.6% in March 2011.

**Table-1: Comparative Infrastructural Gap**

Country	China	India	USA	UK
Area (Sq. Km)	9600000	3300000	9800000	200000
Population	1.338 bn	1.157 bn	307 m	61 m
Airports	195	76	419	41
Road network, Total (km)	3600000	3300000	6500000	400000
Road network, Expressway (km)	54000	200	75000	4000
Railways (km)	78000	64000	226000	16000
Internet users	298 m	81 m	231 m	49 m
Telephone - Main lines in use	366 m	37 m	150 m	33 m
Telephone - Mobile cellular	634 m	545 m	270 m	76 m

Source: US Central Intelligence Agency, World fact book, March 2010.

### 2.1 Key Performance Indicators of Indian Hospitality Industry Market are as below:

Occupancy Rate (OR): Rooms sold divided by rooms available multiplied by 100.

Average Daily Rate (ADR): Room revenue divided by rooms sold. Revenue per Available Room (RevPAR): Room revenue divided by rooms available.

**Table-2: Year wise Performance of Indian Hospitality Industry**

Year	OR	% change	ADR	% change	RevPAR	% change
2005-06	71.5	3.6	Rs 5,444	26.6	Rs 3,892	31.2
2006-07	71.4	-0.1	Rs 7,071	29.9	Rs 5,049	29.7
2007-08	68.8	-3.6	Rs 7,989	13.0	Rs 5,496	8.9
2008-09	60.3	-12.4	Rs 7,837	-1.9	Rs 4,726	-14.0
2009-10	65.0	7.8	Rs 6,426	-18.0	Rs 4,177	-11.6
2010-11	68.0	4.6	Rs 6,800	5.8	Rs 4,624	10.7

Source: HVS Consulting and Valuation Services Report.



## 2.2 Hotel Room Supply

The current total supply of approximately 71,531 rooms is significantly lower than that for other countries. Therefore, India offers huge potential to investors and operators across all segments. The proposed supply figure, has to rise upto 102,438 rooms in 2015/6. Traditionally, India has been associated with the development of luxury and upscale hotels. The increased development in the mid market and budget space will serve the rising domestic & international middle class, as it will improve the affordability of India as a destination. Government of India has taken decision to set up convention centers in multiple locations across various cities, as a part of infrastructural development plan. Ministry of Tourism will consider a grant for financial assistance upto Rs.5 crore for the construction of one convention centre in each state. HVS report gives opinion that domestic hotel brands that have spent several years creating a portfolio of assets across the country will seriously explore going public through IPO in the next 12-24 months, which will provide investors with an option to be part of the hospitality without building physical hotel assets.

**Table-3: City Wise Distribution of Existing & Proposed Branded Hotel Rooms (2010/11-2015/16)**

Major Cities	Existing Supply 2010/11	Proposed Supply 2015/16	Luxury Hotels	Upscale Hotels	Mid Market Hotels	Budget Hotels
Agra	1,439	667	19.5%	16.8%	63.7%	0.0%
Ahmedabad	1,785	2,319	10.8%	43.6%	23.6%	22.0%
Bangalore	5,947	12,509	23.2%	29.0%	29.1%	13.4%
Chandigarh	786	1,855	8.9%	28.4%	58.4%	4.3%
Chennai	4,066	7,819	18.8%	18.4%	35.5%	19.6%
Delhi-NCR	12,708	18,608	20.0%	36.2%	26.8%	10.6%
Goa	3,375	2,154	19.2%	19.6%	40.7%	20.5%
Hyderabad	4,036	5,713	15.4%	21.0%	46.1%	15.5%
Jaipur	2,554	4,867	10.3%	53.0%	25.9%	10.8%
Kolkata	1,588	3,612	23.1%	39.8%	37.1%	0.0%
Mumbai	11,303	12,121	35.7%	20.4%	33.0%	8.5%
Pune	4,691	5,545	12.2%	17.3%	41.9%	27.1%
Other Cities	17,253	24,649	1.7%	31.3%	53.8%	12.7%
Total	71,531	102,438	15.5%	29.5%	37.7%	13.0%

*Source: HVS Consulting and Valuation Services Report*

**Table-4: Number of Hotels Category wise - 2011**

Hotel categories	No. of Hotels	No. of Rooms
5 star	165	43,965
4 Star	770	134,200
3 Star	505	30,100
2 Star	495	22,950
1 Star	260	10,900
Heritage	70	4,200
Uncategorized	7,078	-
Total	8,707	1,32,885

*Source-The Federation of Hotels and Restaurants Association of India*

**Table-5: Key players in Indian Hospitality Market**

Company	Type of properties	Brands
Indian Hotels	Luxury, mid-segment and budget	Taj, Gateway, Vivanta and Ginger
ITC Welcomgroup	Luxury, budget and heritage hotels	Luxury Collection, Sheraton, Fortune and WelcomHeritage
EIH	Business hotels, leisure hotels and cruises	Oberoi and Trident
Carlson	Luxury, business hotels, economy and cruises	Radisson, Park Plaza, Country Inns & Suites, Park Inn
Inter Continental	Luxury, mid-segment and business hotels	InterContinental, Crown Plaza, Holiday Inn, Holiday Inn Express, Hotel

Source: Indian Brand Equity Foundation

### 3. STRATEGIES OF INTERNATIONAL BRANDS TO INCREASE MARKET SHARE IN INDIA

**3.1** Currently the top five positions are no longer occupied by only indigenous brands, but by a mix of domestic and international hotel companies. Currently at least 5 domestic and international brands are actively investing in hotel developments. New brands such as Amanda, Satinwoods, Banana Tree, Hampton Inns, Scandium by Hilt and Mandarin Oriental are planning to enter the Indian hospitality industry in joint ventures with domestic hotel majors. Many international hotel brands have entered the Indian hospitality market in the past decade and are now aggressively focusing on their expansion strategies.

**Table-6: International Hotel Brands in India**

Brand	No. of Hotels	Target Date
Carlson	50	2012
Four Seasons	6	2012-13
Starwood	15	2012
Hyatt	10	2012-13
Marriott	24	2012
Wyndham	50	2012
Hilton	75	2015
Intercontinental	41	2012
Fairmont Raffles	15	2012-13
Accor	44	2012

Source: Business Standard

### 3.2 Hyatt Group

Creating a strong presence with our complete brand portfolio: Hyatt group has focused on distribution of our full-service, extended-stay and select service brands in both new and established markets in India, including: 16 Hyatt Regency hotels under development, in addition to 5 already open, 4 Grand Hyatt hotels under development, in addition to 2 already open, 6 Park Hyatt hotels under development, in addition to one already open, 23 Hyatt Place hotels under development, 2 Andaz hotels under development, 1 Hyatt House hotel under development & 1 Hyatt hotel under development. As part of this expansion, Hyatt is seeking to attract and develop high-quality talent in order to drive future growth. Currently, more than 3,500 associates are employed at Hyatt hotels in India & expected more than 7,000 new associates. Hyatt is investing

in training curriculums and accelerated leadership programs to ensure that new associates support the company's mission to deliver authentic hospitality.

### **3.3 Starwood Group**

Starwood continues to widen our long-standing lead in India, which is second only to China in terms of their future global growth. To satisfy the keen appetite for high-caliber global brands of increasing middle class Starwood group is accelerating the expansion of all of their brands across India. In 2012, Starwood will continue its growth momentum from the luxury to mid-market tiers with the opening of ITC Grand Chola, a Luxury Collection Hotel, Chennai, Westin Chennai Velachery, ITC Rajputana, a Luxury Collection Hotel, Jaipur and 2 Aloft hotels. With the opening of the ITC Grand Chola Rajputana, The Luxury Collection brand will have nine hotels in India, making it the brand's second largest market behind only the U.S. Starwood Preferred Guest (SPG): The Company's award-winning loyalty program has grown more than 270% since 2007. Today, SPG members represent almost 50% of hotel guests at Starwood's hotels in India. Starwood opened its first Customer Contact Center in the city of Gurgaon. This is Starwood's 9th global Customer Contact Center globally and the 4th in Asia-Pacific.

**3.4 W and St. Regis to Make Landmark Debuts in India :** The W brand will arrive in India in 2015 with the opening of the W Mumbai and the W Retreat & Spa Goa, which will be followed by the opening of W Noida, Delhi NCR in 2016. St. Regis will make its entry into India with the opening of The St. Regis Noida, Delhi NCR in 2016.

**3.5 Four Points by Sheraton benefits** from the halo effect of the powerful Sheraton brand and its long legacy in India, and will add 2 new hotels to grab India's tech-savvy, younger generation's tremendous demand in India's emerging urban centers for our popular and affordable brands.

**3.6 Accor and Hilton** worldwide have both seen the respective joint venture stall.

**3.7 Carlson Group** is bringing Regent to Gurgaon by 2013. To tie-up with Pioneer Urban Land and Infrastructure that will invest US\$ 49 million. International hospitality chains are expected to acquire local players to increase their presence in the country. Both domestic and international players are expected to form strategic alliances and partnerships with regional players /developers to expand in the country, reduce risk and optimize resources. For instance, in early 2010, Carlson increased its stake in RHW Hotel Management Services Ltd from 13% to 87%. RHW has been managing hotels under Carlson's brands since 1998. Marriott has relationships with several different developers and investors in India.

**3.8 The Leela Plans To Open 6 More Properties By 2013:** ITC Ltd expects to add 8-10 hotels in the next 3-5 years. The Thailand-based hospitality major, Amari, plans seven 4-star hotels near major airports in the country.

**3.9 Many hospitality** chains that were earlier focused only on the luxury segment are now diversifying into new product segments, such as budget hotels and serviced apartments. IHCL has already launched budget hotels in India, while Accor has announced plans to introduce Formule1. Hotel chains are diversifying into niche segments such as medi-cities, wildlife lodges



and spas for additional revenues. IHCL operates wildlife lodges under the brand Taj Safari. ITC-Welcome group and IHCL operate spas at some of their luxury properties.

**3.10 Reliance Industries Ltd (RIL)** picked up a minority stake in Kolkata-based EIH Ltd. DLF acquired the entire 26% stake of its partner Hilton International. Homegrown luxury hotel brand Leelaventure announced its diversification plan to set up a chain of 3 star hotels at pilgrimage locations across India under 'Leela Gardens' brand. During the year, the company sold its luxury hotel property in Kovalam, Kerala to Travancore Enterprises Pvt. Ltd (TEPL) for Rs 500 crore, in an effort to reduce its debt.

#### **4. SUGGESTIONS**

##### **4.1 Capital decisions**

Strategic initiatives include financing of owned assets, financing timeshare receivables, forming JV partnerships, accessing the bond market, finding additional equity investors and partners and issuance of public stock . Following points to be considered while taking capital decisions:

- a. Forming groups to address restructuring and distressed debt/asset acquisitions
- b. Improving existing hotels through capital expenditure
- c. Acquisition of such a brand to complement the segment chain.

##### **4.2 Expansion**

- a. Committing greater resources to the Indian market.
- b. Broadening the brands in the budget sectors.
- c. Developing stable and long-term relationship with local partners.
- d. Lobbying Government and authorities to reduce barriers to entry.

##### **4.3 Brand Strengthening**

- a. Focus on service innovation and brand quality.
- b. Invest in technological infrastructure to establish brand.
- c. Establishing dynamic operational procedures and staffing models & integrating brands and systems through back-office consolidations and improving central reservation systems.
- d. Consider 'Lifestyle' brand opportunities. International brands have to modify their products to meet local market expectations.
- e. Many upscale guests prefer recognition to reward and need to feel special.
- f. Invest in reinforcing data security to protect guests and the reputation of the brand.

##### **4.4 Consumer drive & demographic changes**

- a. Address the youthful attitudes, distinct interest & needs of boomers.
- b. Understand the desires and motivations of Indian travellers.
- c. Develop and invest in research and development to stay ahead of consumer's needs and desires.

##### **4.5 Technology**

- a. Embrace the influence of social media.
- b. Develop a multi-channel approach with increasing use of mobile smart phone technology.
- c. Enhance in-room technologies



- d. Develop better integrated IT systems, shared services & improve cost management systems.

#### **4.6 Talent Management**

- a. Develop talent programmes and re-design operating models
- b. Introduce tailor solutions to recruit, train and retain skill work force.
- c. Redesign organisational structures.
- d. For sudden disruptions such as terrorist attacks, natural disasters and medical events, the impact of high levels of staff absenteeism is a key challenge for business planning. The cross-training of employees is an important component of ensuring continuity.

#### **4.7 Sustainability**

Develop an environmentally responsible brand and embed a 360 degree view of sustainability within business model. In India ITC' luxury hotel in Bangalore was awarded the platinum rating, making it the first hotel in India to achieve the highest rating for green building.

#### **4.8 Crisis management**

- a. Establish appropriate responses, protocols and risk management programs.
- b. Appropriate actions will vary according to the scale and impact of the event which may include: Organisational restructuring, business continuity planning, the implementation of a clear and flexible pricing policy, strengthening loyalty schemes, offering extras to entice guests, adding value rather than lowering rate, reaffirming customer care.

### **5. CONCLUSION**

The 'one size fits all' approach to business has become redundant. Hospitality operators who understand the drives and needs of these growing demographics will reap the rewards and become the future leaders in the industry. The consumers will define the future technologies they require. Major players are diversifying into the mid-market segment to develop budget hotels to cater to the changing needs of Indian market. Consistency remains a challenge for luxury brands. High employee engagement correlates to high levels of customer satisfaction, customer retention, corporate performance and brand consistency. The industry needs robust strategic plans to retain their critical employees and manage turnover. Economic uncertainty, volatile oil prices, variable demand conditions and fluctuating exchange rates present ongoing challenges to hotel owners, operators and investors alike. Events such as terrorism, pandemics and natural disasters result in sudden shift in demand. While these crises are impossible to predict, they need to be anticipated and planned for. Properly managed, a crisis can be reconfigured as an opportunity to reinforce brand values and enhance consumer relationship. Those who keep pace and effect changes, embedding sustainability across their businesses from strategy to operations, from brand value to asset management, will be prominently positioned. Hospitality industry can maximize its performance in India through more informed formulation, planning & effective implementation of a combination of corporate, functional & business strategies congruent to worldwide challenges.

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