



Vedprakash

Research scholars
Mewar University
Rajasthan

Dr. R. R. Bhardwaj

Research Supervisor
Mewar University
Rajasthan

ABSTRACT: The Indian hotel industry has emerged as one of the key industries driving growth of the services sector in India. The fortunes of the hotel industry have always been linked to the prospects of the tourism industry and tourism is the foremost demand driver of the industry. The Indian hotel industry has recorded healthy growth fuelled by robust inflow of foreign tourists as well as increased tourist movement within the country and it has become one of the leading players in the global industry.

The hotel industry is not as glamorous as it appears to be from the outside. There is a lot of hard work involved in managing a successful hotel. And this is true even for the doorman who ushers the guests in and the management makes sure that he is courteous and pleasant as he is the first representative of the hotel that any guest is going to meet. There are instances where even people in managerial positions have to roll up and pitch in case of shortage of housekeeping staff. One cannot afford to remain complacent and expect the guest to return to your hotel anyway. Each employee in this industry needs to realize that the guest is the 'king'. Making his stay enjoyable is our duty. Guest satisfaction alone guarantees successful clientele. To achieve this personalization of services is a great tool.

The Indian hotel industry is highly fragmented with a large number of small and unorganized players accounting for a lion's share. The major players in the organized segment include Indian Hotels Company Ltd, Hotel Leela Venture Ltd, EIH Ltd, ITC Hotels and ITDC.

The industry is likely to experience robust growth on the back of rising disposable incomes and favorable industry statistics. The market is estimated to reach US\$ 36 billion by 2016. One of the biggest reasons of this growth is that India has emerged as one the most important business destinations in South Asia. Growth in IT as well as India's potential to become one of the best tourist destinations in the world have attracted all major global hospitality brands towards India. Today, India hosts more than 30 hotel brands which are expanding even in the smaller towns.

INTRODUCTION

Hotels are amongst the most visible and important aspects of a country's infrastructure which is very diverse and global. This Industry is inextricably linked to the tourism industry which in turn has fuelled the growth of hotel industry. In recent years the government has taken several steps to boost travel and tourism, which have benefited the hotel industry. Factors like rapid industrial progress, liberalization of trade and opening up of economy will further lead to revolutionary growth in this sector. The future scenario of this industry is expected that the budget and mid-market hotel segment will witness huge growth and expansion while the luxury segment will continue to perform extremely well over the next coming years.

Catering and Hotel industry plays a significance role in the overall economic growth of the country. With the rapid industrial growth and promotion of tourism, the catering and hotel sector is booming and offering job prospects. There are chains of hotels which operate internationally providing scope of a career throughout the world. With the growth of hotel industry propelled by foreign and domestic tourism and business travel, the demand for well trained quality personnel too has grown impressively. The diversity of experience in hotel management is greater than in any other profession. Hotel industry involves combination of various skills like management, food and beverage service, housekeeping, front office operation, sales and marketing, accounting. Today, the rise in corporate activity as well as the wish to travel on holiday has made the hotel industry a very competitive one.

Growth is the major objectives of any business undertaking, particularly firms belonging to private sector. Every hoteliering firm in the industry, irrespective of its size, location, and ownership, aspires to grow

and expand. Hotel industry is not passive in nature to be satisfied and feel happy about its present status, occupancy rates, profitability, but it is dynamic in nature and aspires to have better growth rates. The hotels always plan to grow and expand their business in terms of increase in profitability, increase in occupancy rates, increase in market share, etc.

Indian hotel landscape was dominated by luxury five-star hotels for a very long time. There was a large vacuum in terms of quality accommodation between large five-star hotels and the way-side guest houses. With the opening up of the economy towards the end of the last millennium, the face of the Indian economy changed with large investments coming in through various sectors, including telecommunication, IT, ITES and others. Travel within the country increased manifold fuelling demand for accommodation which is value for money but affordable. The emergence of nouveau middle class in the economy with disposal income, and appetite for travel for leisure also created demand for quality affordable accommodation in the country.

The last one decade saw the rise of many budget and economy hotels in the country. More than 80 per cent of the growth in new hotels were in the budget segment. While large luxury brands had the concentration in metros and tier I cities, budgets hotels went to all possible locations where there is demand for hotels and a captive market. These included industrial towns, pilgrim destinations, leisure destinations and corporate hubs.

Accommodation facilities are the essential components of tourism products. Though these are attractions in themselves, their deficiency can deprive the tourist of a visit to a particular tourist destination. Hence, there is a need for sufficient number of hotels. In a random survey of tourists, it was observed that among the foreign tourists, only a handful preferred to stay exclusively in 5-Star hotels, the remaining were not choosy about the hotel's Star rating but looked for good and comfortable accommodation at a reasonable price. Among the domestic tourists, the preference of the majority was for good accommodation with affordable price rather than luxury.

GROWTH OF INDIAN HOTEL INDUSTRY

The hotel industry in India is going through an interesting phase. One of the major reasons for the increase in demand for hotel rooms in the country is the boom in the overall economy and high growth in sectors like information technology, telecom, retail and real estate.

Rising stock market and new business opportunities are also attracting hordes of foreign investors and international corporate travelers to look for business opportunities in the country. The arrival of low cost airlines and the associated price wars have given domestic tourists a host of options. The opening up of the aviation industry in India has led the way for exciting opportunities for the hotel industry as it relies on airlines to transport 80% of international arrivals.

Moreover, the government's decision to substantially upgrade 28 regional airports in smaller towns and privatization and expansion of Delhi and Mumbai airport will improve the business prospects of hotel industry in India. Substantial investment in tourism infrastructure is essential for Indian hotel industry to achieve its potential.

The upgrading of national highway connecting various parts of India has opened new avenues for the development of budget hotels here. The Government of India's Incredible India destination campaign and the Atithi Devo Bhavah campaign have also helped the growth of domestic and international tourism and consequently the hotel industry.

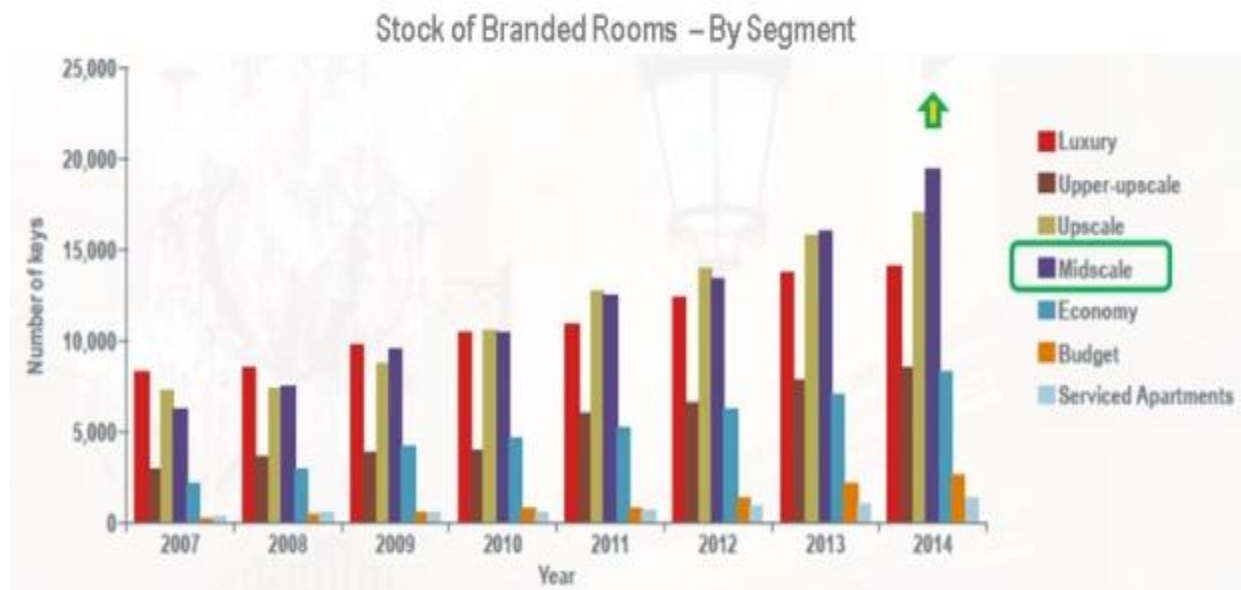
Hotels in India have supply of 110,000 rooms. According to the tourism ministry, 4.4 million tourists visited India last year and at current trend, demand will soar to 10 million in 2010 - to accommodate 350 million domestic travelers. 'Hotels in India' has a shortage of 150,000 rooms fueling hotel room rates across India. With tremendous pull of opportunity, India is a destination for hotel chains looking for growth. The World Travel and Tourism Council, India, data says, India ranks 18th in business travel and will be among the top 5 in this decade. Sources estimate, demand is going to exceed supply by at least 100% over the next 2

years. Five-star hotels in metro cities allot same room, more than once a day to different guests, receiving almost 24-hour rates from both guests against 6-8 hours usage. With demand-supply disparity, 'Hotel India' room rates are most likely to rise 25% annually and occupancy to rise by 80%, over the next two years. 'Hotel Industry in India' is eroding its competitiveness as a cost effective destination. However, the rating on the 'Indian Hotels' is bullish.

'India Hotel Industry' is adding about 60,000 quality rooms, currently in different stages of planning and development and should be ready by 2012. MNC Hotel Industry giants are flocking India and forging Joint Ventures to earn their share of pie in the race. Government has approved 300 hotel projects, nearly half of which are in the luxury range. Sources said, the manpower requirements of the hotel industry will increase from 7 million in 2002 to 15 million by 2010.

With the USD 23 billion software services sector pushing the Indian economy skywards, more and more IT professionals are flocking to Indian metro cities. 'Hotel Industry in India' is set to grow at 15% a year. This figure will skyrocket in 2010, when Delhi hosts the Commonwealth Games. Already, more than 50 international budget hotel chains are moving into India to stake their turf. Therefore, with opportunities galore the future 'Scenario of Indian Hotel Industry' looks rosy.

International tourists, a core clientele of the luxury segment, are not generating enough demand in comparison with the increased room supply. According to the Ministry of Tourism, from 2011 – 2014, the number of international tourist arrivals had a CAGR of 6%, whereas the supply of luxury rooms in India grew by over 10%. As a result, the Average Daily Rate did not rise to the level expected. The luxury segment now sees some hotels generating more revenues from non-core activities such as food, beverages and banqueting than from room rates. Certain debt-heavy hotel chains have decided to limit capital expenditure by acting only as hotel operators under management contracts, rather than as hotel owners.



Source: JLL Hotels & Hospitality

On the other hand, the number of domestic tourists grew by 10% from 2011 – 2014 and branded hotel chains have started tapping this strong internal demand. This can be seen through the supply dynamics of branded rooms, which are in the process of being re-aligned. The upcoming room supply in the luxury segment is not increasing much, while there is a higher growth in room numbers in the mid-segment (see graph) that caters to the rising Indian middle class. This brand-conscious, internet savvy and ambitious middle class finds that mid-segment branded hotels address the aspect of affordability, and this middle class demand is likely to continue as inflation in India is held in check and results in higher disposable incomes.

To have a well-rounded growth in hotel-room demand, the government realises that some policy changes are necessary. The visa-on-arrival facility is to be made available to citizens from 180 countries, up from 43 as of now. Also, the government will try to implement this within six months and before the next tourist season begins in October 2015. The easing of other visa regulations is likely to help drive international tourist demand, a segment that badly needs a push.

Occupancy is always a lead indicator to change in the cyclical performance of hotel markets worldwide. A recent survey undertaken by JLL suggests that there was a slight growth q-o-q and y-o-y in hotel occupancy levels in 4Q14 in India. As and when the economy improves, the highly correlated hotel market should improve shortly thereafter – starting first with an increase in demand for midscale rooms, followed by revival in the luxury segment.

PATTERN OF GROWTH (SEASONAL & CYCLIC)

Pattern of growth in hotel industry is both seasonal and cyclical as hotel industry is inter related and based on the tourism industry. As the industry is related and run on the demand based on the location in some regions like historical places and business centers (ex: Delhi, Hyderabad, Tirupathi, etc) the demand for the hotels are cyclical and for few places the demand is seasonal. Seasonal demand is depend on the climate and location (ex: beaches in India are mostly visited in summer because of climate and vacations)

GROWTH DETERMINANTS

Location

Location is a critical consideration because it affects hotels ability to draw customers. It is important that hotel location be visible, accessible, convenient and attractive to market. Surrounding land uses are important for all types of lodging operations. Aesthetics of the area, noise, safety and other factors should be considered.

Commercial Locations

By location along major highways or in business or industrial districts, hotels and motels benefit from high visibility and proximity to generators of room night demand. Local colleges, hospitals, attractions, services and entertainment are examples of “room night” demand generators.

Resort Locations

Hotels and motels in resort areas generate most of their business from leisure travelers who see the lodging facility and surrounds area as their “destination.” Access and visibility, while important, are secondary to the quality of the facility, services, amenities, and nearby attractions.

Local Market Area

A lodging facility must be located in a market area that attracts overnight visitors.

Business Climate

Hotels and motels that primarily serve business travelers usually rely on the strength of the local business community.

TOURISM ACTIVITY

Hotels and motels in resort areas typically rely on local attractions to bring in customers. Attractions can include both natural and man-made places of interest.

Business Travelers: Business travelers represent a large portion of lodging demand in many market areas. They include people traveling on business representing commercial, industrial and governmental organizations. Peak business demand is usually experienced Monday through Thursday nights.

Leisure Travelers: Leisure travelers may visit an area for a vacation, to attend sporting or social events, to shop, or to visit friends and relatives. They might be staying over simply because they are traveling to other

destinations. Leisure travelers may be individuals, couples, families, or small groups. Travelers visiting hospitals and universities are typically included in this market segment. Leisure room demand is often seasonal. In larger, more urban market areas, leisure room demand may be limited to weekends, summer months and holiday periods.

Other Travelers: Various lodging customers cannot be classified under the categories of business, leisure, or group. These travelers may include construction workers, truckers, utility crews and others.

WHERE IS THE GROWTH?

Overall the rises of middle class families who are willing to indulge in a weekend getaway or to visit their family in another city, as well as corporates focusing on off-sites are some of the trends that are leading to a growth in the secondary markets. This segment also seeks upper upscale hotels at upscale pricing. In addition, in-bound travel can grow sizeably and benefit the economy. However, the industry needs interesting and inviting destinations with attraction and quality. F&B and banqueting also remains a key business ingredient. SP Jain, managing director, Pride Hotels opines, “Metro and semi metro cities presently have more supply of room than the demand but there is definitely scope in Tier II and Tier III cities which are close to industrial developed areas.”

Taking cue from this analysis, many hospitality brands are expanding their portfolio by introducing their different brands to cater to every segment giving rise to micro markets. For example, InterContinental Hotels Group’s growth is focused on the midscale segment which comprises of Holiday Inn and Holiday Inn Express brands. Shantha de Silva, head of South West Asia, IHG says, “These two brands currently account for more than 85 per cent of our development pipeline (by number of hotels) in India. The hotels are planned in Chennai, Ahmedabad, Hyderabad and major metros and key secondary cities. At present, we have nine Holiday Inn hotels and three Holiday Inn Express hotels and will grow this over the next three to five years as we open 24 Holiday Inn hotels and 17 Holiday Inn Express hotels across major metros and secondary cities in India.”

India continues to be a key market growth for Accor with strong demand across all segments. Jean-Michel Cassé – Sr vice president – Operations, Accor India highlights, “Accor is uniquely placed as the only international hotel chain in India with brands that span across all segments from luxury (Sofitel), upscale (Pullman), leisure (Grand Mercure), midscale (Novotel) to economy (ibis) and budget (Formule 1). We currently have a network of 31 hotels and three convention centres in India.” Further stating, “Accor is committed to growing our network of hotels in the long-term substantially across segments here in India. We are looking to open 11 hotels this year along with the Jaipur Exhibition and Convention Centre (JECC) – South Asia largest integrated exhibition & convention centre. By the end of 2015, we will have approximately 42 hotels ranging from upscale, leisure, mid-scale to economy to be in full operation across key cities in Bengaluru, Chennai, Hyderabad, Lavasa, New Delhi, Goa, Kochi and Nashik.”

While Wyndham Hotel Group currently has 24 properties with approximately 2,586 rooms open under the Ramada, Howard Johnson, Wyndham Grand Hotels and Resorts and Days Inn brands in India and 41 properties with approximately 4,561 rooms under development. Deepika Arora, regional vice president, Indian Ocean, EMEAI, Wyndham Hotel Group adds, “The brand also has 28 operating properties in Indian Ocean with 2994 rooms which includes 23 Ramada, two Days Inn, one Wyndham Grand, one Ramada Encore and one Howard Johnson properties respectively. However, the other hotels in the pipeline to be opened this year include: Ramada Plaza Agra, Days Hotel Jalandhar Jyoti Chowk, Ramada Encore Lucknow Kanpur Road, Ramada Raipur VIP Road, Days Hotel Chennai OMR Road, Days Hotel Bangalore Whitefield, Ramada Trivandrum Palayam, Ramada Jammu City Center, and Ramada Darjeeling Hill Cart Road. Tier II and Tier III markets are very important for the Wyndham Hotel Group to take the brands forward. The aim is to cater to Tier 2 and Tier 3 markets with strong industrial segments such as.

PRESENT INVESTMENTS MADE BY 5 STAR HOTELS IN INDIA

The tourism and hospitality sector is among the top 15 sectors in India to attract the highest foreign direct investment (FDI). During the period April 2000-February 2015, this sector attracted around US\$ 7,862.08 million of FDI, according to the data released by Department of Industrial Policy and Promotion (DIPP). With the rise in the number of global tourists and realizing India's potential, many companies have invested in the tourism and hospitality sector. Some of the recent investments in this sector are as follows:

US-based Vantage Hospitality Group has signed a franchise agreement with India-based Miraya Hotel Management to establish its mid-market brands in the country. Lalit Suri Hospitality Group is soon going to open its first international hotel in London. The company has acquired a heritage building called St Olave's near Tower Bridge in central London, which is now undergoing restoration to be converted into a five star hotel. Thai firm Onyx Hospitality and Kingsbridge India hotel asset management firm have set up a joint venture (JV) to open seven hotels in the country by 2018 for which the JV will raise US\$ 100 million.

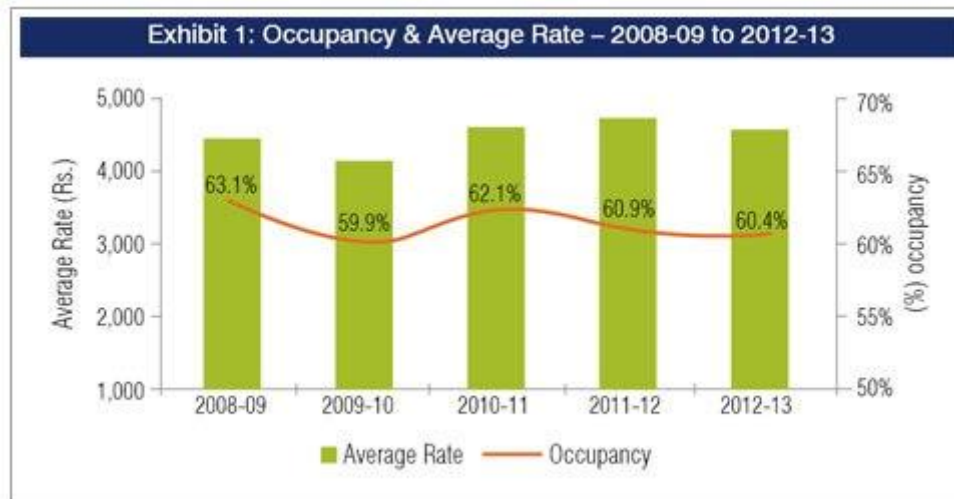
In Carlson Rezidor Hotel of Guwahati, Dharmpal Satyapal has invested close to Rs 300 crore (US\$ 47.51 million) in the hotel for which they will get Rs 30 crore (US\$ 4.75 million) annually.

ITC is planning to invest about Rs 9,000 crore (US\$ 1.42 billion) in the next three to four years to expand its hotel portfolio to 150 hotels. ITC will launch five other hotels – in Mahabalipuram, Kolkata, Ahmedabad, Hyderabad and Colombo - by 2018. Goldman Sachs, New-York based multinational investment banking fund, has invested Rs 255 crore (US\$ 40.37 million) in Vatika Hotels.

DEMAND-SUPPLY CHANGE

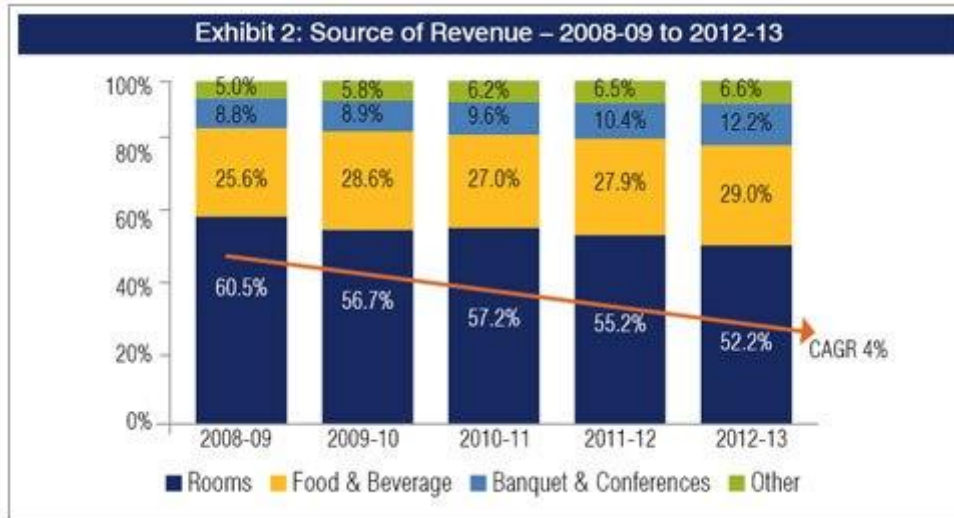
An interesting trend is the correlation between the supply and demand growth, with the supply growing at 17.8% CAGR and demand at 17.3% from 2008-09 to 2012-13. The occupancy levels remained generally stable during this period despite strong increases in supply is indicative of the healthy growth in demand.

In 2012-13, the country experienced a slowdown in growth across sectors, as reflected in GDP growth of 5%. Despite this slowdown, the year saw hotels maintain occupancy levels at a steady 60.4% (60.9% in 2011-12). HVS estimated that major cities across the country witnessed a growth of 11% in hotel room supply in 2012-13, while demand exhibited a strong increase of 9.2% during the same period.

**INCREASING F&B AND BANQUET REVENUES**

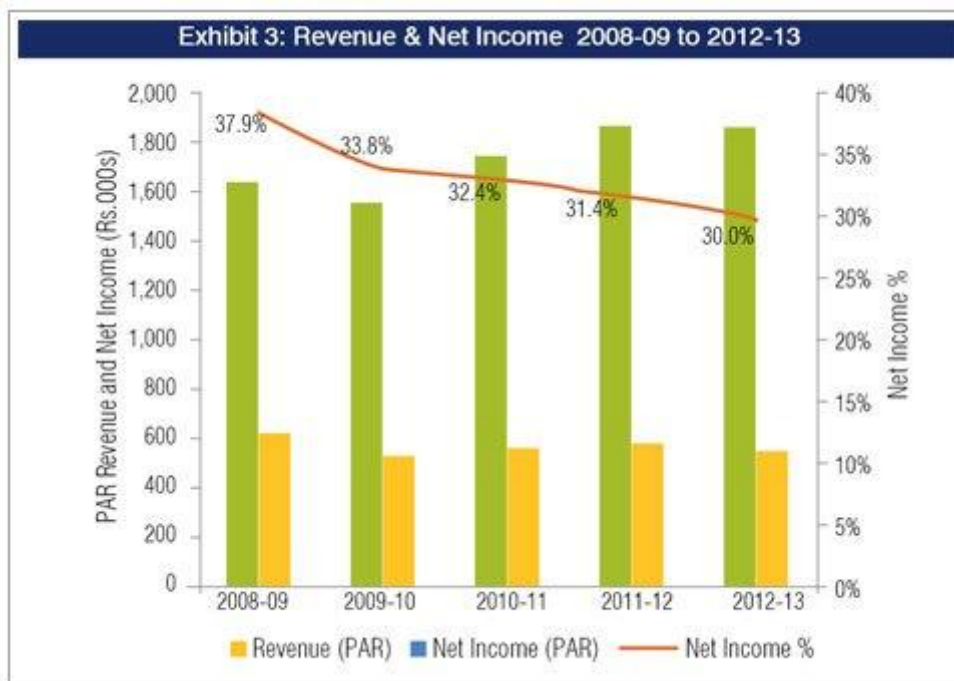
Hotels in India continue to receive a greater contribution from both F&B and the Banquets & Conference department, as per the survey. The Banquets & Conference segment also recorded a year-on-year increase of 17% in PAR revenue in 2012-13 (Rs 2,26,793) over that in 2011-12, while F&B recorded an increase of 4.2% in the PAR revenue (Rs 5,41,494) for the same period. However, revenue contribution from

Rooms has seen a steady decline over the last five years, recording a negative CAGR of 4% between 2008-09 and 2012-13.



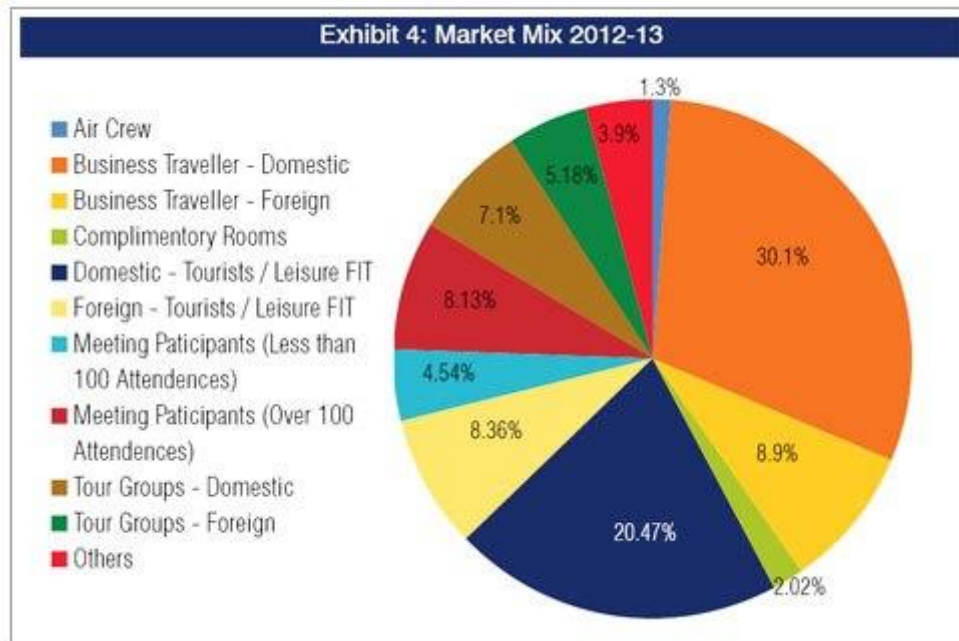
DECLINING NET INCOME

The survey noted that in the last five years net income as a percentage of total revenue has consistently declined year-on-year, as witnessed by a CAGR of 5.7%. The year 2012-13 has seen a decline of 4.7% in Net Income as a percentage of revenue over the previous year. The reason is attributed to rising department costs, which are a result of rising inflation coupled with an increase in Energy costs.



MARKET MIX

The Indian hotel industry continues to cater to the Business Traveller, who contributes the largest share to the market mix at 39%. The survey also reveals an increase in the growth of Meeting Participants segment. Additionally, both the domestic Business and Domestic Leisure traveler have continued to show resilience. While the real growth in 2012-13 came from the Domestic travellers, it was noted that India also experienced an increase of 5.4% in foreign tourist arrivals.



INCREASING UTILITY & MANPOWER COSTS

Energy cost continues to rise and pose a challenge to the hotel industry. The survey this year has revealed a rise of 13% in PAR energy cost (Rs 1,82,067) over the previous year (Rs 1,61,479). Similarly, employee to room ratios in India continue to be on the higher side when compared with global benchmarks, almost twice as much. The all India average of employee to room ratio stands at 1.6. Hotels in India, the survey notes, provide services and facilities beyond their positioning.

CHANGING SOURCE MARKETS

There has been almost 4.3% drop in visitations from two major source markets – the US and the UK. Although these two markets still contributes major chunk of Indian inbound (23%), there is an increasing inbound from new markets like Middle East, Russia, and the SAARC. The rise in visitations from Asia and the Middle East is attributed to improved connectivity, easier Visa norms and infrastructure development, etc.

CONCLUSION

Government's measures to increase the tourism have also motivated hotel companies to invest in the country. Today, apart from casino hotels, India hosts almost all type of hotels; serving to all kind of customers. Recent rupee depreciation is also expected to benefit the Indian hotels as many of the people are cancelling their international tours & opting for domestic tourism. It is also attracting many foreign tourists to India as it has become a cheaper tourist destination now.

In order to fight from current crisis and in their struggle to survive in the market, hotels have increased their room rates to get better revenue. But as premier hotels have become more expensive, many travelers now prefer for budget hotels. Even the corporate companies which have suffered because of economic downturn also prefer budget hotels for their tie-ups. This situation is encouraging big hotel chains to focus on their budget hotel brands. French hotel group Accor is a good example of this as it is mainly focusing on its budget hotel brand Ibis instead of its other luxury brands. Marriots has also introduced their budget hotel brand Fairfield inn to the Indian market.

This industry needs a large number of skilled and semi-skilled employees but here again it is facing a huge gap between supply and demand. Demand is much more than the actual supply. Numbers of entrants for hospitality courses are sharply decreasing each year. There are many drop outs & many hospitality graduates

are opting for other industries over hospitality. There are many reasons; but long working hours, small initial pay packages for opening level positions and the fact that many societies are still struggling to accept hospitality as a respected career are the major ones. As a consequence, hospitality Industry is all set to face a huge shortage of skilled workforce, which is the next biggest challenge that it will be facing in the upcoming years. But for those who are interested to join this industry, this is the best time to join it as it is offering a wide number of career choices with the fastest growth which can really offer a dream career.

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