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THE HOTEL INDUSTRY IN INDIA—THE PAST AND THE PRESENT

Amitabh Devendra

A Brief History of India's Hotel Industry

Before World War II, most hotels in India were developed in locations that were frequented by the British and Indian aristocracy. This period saw the development of hotels being undertaken by individual British and Indian entrepreneurs, with only a few companies owning hotels in India, such as The Taj Group—Indian Hotel Company (owned by J. R. D. Tata) and Faletti's Hotel, East India Hotels—Oberoi Group.

The important hotels that were built during India's British period were:

- The Rugby, Matheran (1876)
- The Taj Mahal Hotel, Mumbai (1900)
- The Grand, Calcutta (1930)
- The Cecil Hotels, Shimla and Muree (1935)
- The Savoy, Mussoorie (1936)

India gained independence in 1947, and the hotel industry had a period in which no hotel development took place. Upon his return from the Non-Aligned Movement Conference in 1956, Late Pundit Jawaharlal Nehru, then Prime Minister of India, recognized that tourism could be an engine for the country's economic growth and was inspired to build quality hotels in India for visiting foreign dignitaries. This led to the first-ever government investment in the hotel industry with the building of the Ashoka Hotel in New Delhi.

The India Tourism Development Corporation (ITDC) was set up in 1966 as a corporation under the Indian Companies Act of 1956, with the merger of Janpath Hotel India Ltd. and India Tourism Transport Undertaking Ltd. Today, ITDC provides a complete range of tourism services, including accommodation, catering, entertainment and shopping, hotel consultancy, duty free shops, and an in-house travel agency.

The government gave the tourism industry another boost when it created the Ministry of Tourism and Civil Aviation in 1967, separating it from the Ministry of Transport and Shipping, thereby recognizing that tourism was not simply about transporting people from point A to point B but had a much wider role to play in the nation's economy. Concurrently, Rai Bahadur M. S. Oberoi, Chairman of East India Hotels Ltd., was expanding his empire by constructing New Delhi's first modern multi-story hotel, which was franchised to U.S.-based Inter-Continental Hotels. The portfolio of Oberoi hotels consisted of The Cecil, Shimla; The Oberoi Grand, Calcutta; The Oberoi Clarks, Shimla; The Oberoi Palm Beach; and Gopalpur on the Sea.

The Taj Mahal Hotel in Bombay was the next to follow this franchising trend in 1970 when it adopted an Inter-Continental hotel franchise for its new hotel in Bombay. Simultaneously, the Oberoi Tower Hotel under construction in Bombay entered into a franchise

and management agreement with Sheraton. Holiday Inn also made its entry into India through franchising its hotel project in Bombay.

This was the beginning of the methodical planning, designing, decorating, and furnishing of hotels in India, along with the installation of systems for operating various departments in a hotel. The training of managerial and other personnel was an important franchise benefit, and the first few batches of managers trained by the Inter-Continental Hotel Company set a new trend of competent professional hotel management for India's hotels that continues to influence and guide India's hotel industry today. Before the marketing impact of hotel franchising and hotel management by expatriate managers could be assessed and could proliferate, however, there was a surge of nationalism in India, resulting in the elimination of management service as an integral part of franchise agreements.

In 1975 ITDC launched its hotel business with the acquisition of a hotel in Chennai, which was rechristened "Hotel Chola." The objective of ITDC's entry into the hotel industry was rooted in the concept of creating value for the nation. ITDC chose the hotel industry because of its potential to earn high levels of foreign exchange, create a tourism infrastructure, and generate large-scale direct and indirect employment. Three Welcome Group Hotels were commissioned between 1975 and 1977; these were non-franchised hotels, inspired by the slogan "Be Indian, Buy Indian" and using Indian expertise. Ultimately, however, these hotels adopted the Sheraton system in 1978 and used the services of expatriates for the purposes of upgrading staff training and installing Sheraton operating systems—all without a management contract. This gave the Welcome Group a good start. It must be noted, though, that it took time for these hotels to achieve substantial foreign occupancies. The tacit discouragement of foreign franchising by the government led the leading Indian hotel companies—namely The Taj, the Oberoi hotels, and the Welcome Group—to launch their own franchising and management programs, giving rise to indigenous franchise operations. Their focus, however, was the 5-star and 5-star-deluxe categories of hotels. Such hotels were located in the prominent metropolitan cities and a few select resorts, leading to a concentration of franchised hotels in these areas.

Motivated by the success stories of the hotels in the metro cities, individual entrepreneurs began constructing hotels in secondary cities/resorts during the late 1970s.

When India agreed to host the 1982 Asian Games, a boost was given to the country's hotel industry. The government announced a national policy on tourism and outlined the country's tourism development objectives. This policy was timed to help the country meet the huge need for hotel rooms in New Delhi, the venue of the Asian Games. The government granted licenses for building hotels to the Taj—Taj Palace, Asian Hotels—Hyatt Regency, India Tourism Development Corporation—Lodhi Hotel, Samrat Hotel, Kanishka, Le Méridien, and Surya Sofitel, with the stipulation that their new hotels had to be completed in time for the games. With the opening of these hotels, hotel franchising in the first-class/5-star hotel segment within the metro cities got further strengthened. It also gave rise to the fallacy that tourism was an elitist activity that lacked mass appeal.

The government officially recognized tourism as an "industry" in 1986. This made the industry eligible for several government incentives, including tax incentives, subsidies, priorities in the sanctioning of loans by state and financial institutions, and preferences in acquiring water and electricity connections. Though these incentives were a primary reason for a subsequent boom in hotel development, there were a variety of other reasons as well:

- Land was available at reasonable prices.
- The hotel industry was perceived as a profitable industry, promising a quick return on investment.
- Hotels were the best option for businesspeople to invest surplus funds generated from other businesses.
- Many Indian businesspeople believed in the fallacy that hotels are easy to operate.
- Owning a hotel gave the owners recognition and greater visibility.

However, many of the hotels built during this period were not well planned to facilitate operations. They lacked character and standardization and were run as "mom and pop" operations. Alarmed by this sudden proliferation of hotels in secondary locations, India's Department of Tourism made it obligatory for new hotel projects having ten or more sellable rooms, or having a minimum carpet area of 120 square feet per room, to seek prior approvals from the government's Hotel and Restaurant Approval and Classification Committee (HRACC). Hotels that were approved by the committee became eligible for various fiscal relief and benefits that the government announced from time to time. This carrot-and-stick policy was aimed at controlling the mushrooming development of hotels.

It was only in 1987 that the government, after a critical evaluation, permitted an Indian firm to franchise 3- and 4-star hotels in India. This was intended to help the emerging group of individual entrepreneurs whose means were just sufficient to build and run small and medium-size 3- and 4-star hotels. The goal was to extend to these hotels the benefits of proper technical planning, international standards of comfort, assured hygienic services, and a focus on customer satisfaction.

It was also recognized that, by franchising a number of hotels in the second-tier cities and resorts, the availability in these areas of hotel facilities that met international standards would be made known to travel agents and tourists worldwide. The dissemination of such information would help disperse tourists to new areas within India, benefiting the economies of these areas by generating more employment and more support for arts and crafts.

Tourism was made a priority sector for foreign direct investment in 1991, making the industry eligible for automatic approvals of hotels in which up to 51 percent of the equity was provided by a foreign partner.

A National Strategy for the Development of Tourism was announced in 1996, which advocated the strengthening of human resource development, the creation of an

Advisory Board of Tourism Industry and Trade, the integrated development of tourist destinations, and the promotion of the private sector in tourism development.

Tourism was granted "Export House" status in 1998, making hotel owners, travel agents, tour operators, and tourist transport operators eligible for various government incentives. This encouraged the entry of several major international hotel chains into India.

In order to take advantage of India's liberalized economic regime and economic developments taking place around the world, a new national tourism policy is currently under consideration by the government.

Investment trends since 1996 reveal that the bulk of infrastructure investments in India are being made in the hotel industry, as compared to other infrastructure industries (see Table 1). Some experts believe that an economic recession is the best time for buying hotel properties and starting work on new hotel construction. Chain hotel companies are currently building in important secondary markets to increase their spread of hotels. It is estimated that there will be an average growth of five percent in hotel development activities in most cities.

Table 1
Infrastructure investment trends in India since 1996

Major Hotel Industry Players

The major players in the Indian hotel industry include a group of Indian-owned hotel chains and a few international chains as well. Table 2 lists the top 10 hotel chains in India, based on room supply. Of India's top five hotel chains, four are Indian-owned. ITDC Hotels is the only government-owned chain in the top five. It is interesting to note that most international hotel chains in India have adopted a strategy of entering the Indian market through franchises/management contracts.

Table 2
Top 10 hotel chains in India*

Rank	Hotel Chain	Properties	Rooms
1	Indian Hotel Company	51	5,832
2	India Tourism Development Corporation	33	3,903
3	East India Hotels	18	2,860
4	ITDC Hotels	31	2,738
5	Six Continents	14	2,108
6	Hotel Corporation of India	5	1,310
7	Choice Hotels	19	1,019
8	Hyatt International	2	920
9	Le Méridien	4	909
10	Clarks Hotels	4	677

*Note: Table 2 includes properties owned and managed through franchises / management contracts.
(Source: Lazard India)

Over the years, the Indian hotel industry has achieved a significant level of maturity, and most of the major hotel chains have effectively established specific brands to target different segments of the market. For example, East India Hotels (The Oberoi Group) has the Trident brand of hotels targeting the business segment and the Oberoi brand in the 5-star-deluxe segment. International chains such as Six Continents, Carlson Group, and Choice Hotels have adopted the strategy in India that they follow globally for entering the budget/business segment with their Holiday Inn, Country Inns and Suites, and Quality Inn Brands, respectively. Table 3 highlights the established brands of the large hotel chains in India.

Table 3
Hotel chains and brands in India

Hotel Chain	Key Brands
Indian Hotel Company	Taj (including Taj Residency, Taj Gateway, Taj Palace)
India Tourism Development Corporation	Ashok
East India Hotels	Oberoi, Trident
ITDC Hotels	Welcome Group, Sheraton, Fortune
Six Continents	Inter-Continental, Crowne Plaza, Holiday Inn
Hotel Corporation of India	Centaur
Hyatt International	Hyatt Regency, Grand Hyatt
Le Méridien	Le Méridien, Le Royal Méridien
Choice Hotels	Quality Inn, Comfort Inn
Clarks Hotels	Clarks

(Source: Lazard India)

Tables 4 through 7 show Indian hotel statistics illustrating the status of the Indian hotel industry in recent years.

Table 4
FHRAI—member hotels & rooms, 2000

Category	Hotels	Rooms
5-Star-Deluxe	41	10,574
5-Star	59	8,028
4-Star	77	5,586
3-Star	256	13,231
2-Star	208	8,023
1-Star	49	2,472
Heritage	34	965
Approved Unclassified	112	6,009
Subtotal	836	54,888
Unapproved	836	31,486
Total	1672	86,374

(Source: FHRAI—Federation of Hotel & Restaurant Associations of India)

Table 5
Growth in hotel rooms among FHRAI members, 1996–2000

Year	No. of Hotels	No. of Rooms	Growth %
2000	1,672	86,374	6.14%
1999	1,567	81,373	11.72%
1998	1,392	72,839	5.45%
1997	1,299	69,076	8.49%
1996	1,158	63,671	—

(Source: FHRAI)

Table 6
Growth in average hotel occupancy, 1996–2000

Year	Occupancy %	Growth %
2000	56.0	– 5.72
1999	59.4	– 5.56
1998	62.9	– 11.53
1997	71.1	– 3.53
1996	73.7	—

(Source: Ministry of Tourism)

Table 7
Growth in domestic/foreign tourist & foreign exchange earnings, 1996–2000

Year	Domestic Tourists	Growth %	Foreign Tourists	Growth %	Foreign Exchange Earnings (Rs. In Crores)	Growth %
2000	33.30	67.33	2.47	2.47	12,496	2.95
1999	19.90	19.23	2.35	−0.7	12,011	10.4
1998	16.69	4.44	2.37	3.8	10,879	6.3
1997	15.98	14.06	2.28	7.7	10,232	11.8
1996	14.01	—	2.12	—	9,150	—

(Source: Ministry of Tourism)

Though hotel occupancy in India has declined over the last five years, there has been a sustained growth in the number of hotel rooms being added during the same period. Even though there is stagnation in the number of foreign tourist arrivals into the country, domestic tourism has shown a steady growth, and tourism receipts have increased on account of the devaluation of the Indian rupee against the U.S. dollar.

Franchising Takes Hold

Initially, most individual hotel promoters were investors in properties, and they ran their hotels without franchise support from either the Indian or international hotel chains. Increasing competition, a greater awareness of hygiene standards, a greater emphasis on life-safety systems, a lack of funding from financial institutions, the proliferation of credit cards, obsolete operating systems, and the prohibitive costs of maintaining sales offices countrywide all have spurred hotel promoters/owners in recent years to opt for franchising. Franchising gives hotel owners the following immediate benefits:

- *Identity.* A franchise provides instant identity and credibility for the hotel through a generally recognized brand, and is perhaps the principal reason hotel owners consider a chain affiliation. A franchise agreement immediately makes their hotels part of a chain of similarly named hotels, with all the advantages of a large organization. It also signifies that the hotels comply with certain standards and methods of operation established by the hotel chain, as set out in its operating system. This leads travelers to expect facilities and services that are consistent with other like-name hotels elsewhere. This results in greater market appeal and better financial performance through improved name recognition.
- *Central reservation systems.* An important feature of all major hotel franchise organizations is provision of a central reservation system. Travelers and travel agents may make reservations at any of the chain's hotels by calling a single telephone number, typically a toll-free number, as opposed to calling each hotel individually. While convenient for travelers, central reservation systems are also expected to reduce the reservation function at individual properties.

- *Financing.* The advantage of a brand affiliation has led some lenders to insist on a franchise agreement before considering a loan for a hotel property. This lending pre-qualifier is seemingly based on the view that chain affiliation is likely to support the performance of a property and thus strengthen the lender's security.
- *Services.* While all hotel franchise companies provide the use of a brand name and operating system, many also supplement these with a range of other services designed to assist the hotel owner/operator. These services typically include several consulting or advisory services such as: management training, turnkey hotel development services, volume discounts through national purchase programs, and regional and national advertising promotions.
- *Property sale.* Just as a name brand influences travelers in selecting a specific hotel, it also has an influence in the minds of potential investors if or when the property is placed on the market. The franchise can therefore facilitate the sale of the property.
- *Marketing advantage.* A further attractive feature of a franchise is access to major marketing programs operated by the hotel chain. These programs are primarily intended to promote awareness of the hotel brand, which, in turn, is expected to improve brand recognition and stimulate the use of affiliated hotels.

Industry Outlook

The year 2000 saw a positive performance for the Indian hotel industry vis-à-vis its lackluster performance over the previous five years. The impact of an improved micro-environment and a relatively stable political climate enabled the industry to recover from consistently declining average room rates and occupancy rates. This improvement in the overall macro-economic scenario in 2000 led to an increase in business confidence.

The current Indian hotel market reflects the fact that hotel demand has improved after a period of two or three years. However, hoteliers are concerned about the new supply of hotels, which, at an estimated room size of 100 rooms per hotel, reflects an increase of 9,900 additional hotel rooms in India, or approximately 11 percent of India's current hotel-room supply.

Opportunities still exist for the budget-hotel category and, in a few instances, for the mid-market hotel segment. Hotel owners must use this time to consolidate and carry out improvements to their properties to prepare for better times ahead. Many of the new hotels currently under development should find when they open that the demand for hotel rooms is stronger than the demand that exists today.

There will be further development also of heritage and boutique hotels in the future. Already, numerous palaces in Rajasthan and other areas close to Delhi are being converted for this purpose. Weekend destinations are becoming popular spots with members of the younger generation who want to escape the bustling life in the metros.

On the tourism front, the central and state governments are aggressively pursuing the tourism agenda, marketing the beaches of Goa and Kerala, along with other noteworthy

heritage destinations such as Jaipur, Udaipur, and Jodhpur. Rising income levels in India have enabled the industry to attract a higher number of domestic tourists to such destinations.

The depreciation of India's currency will have a two-fold positive impact on the industry in the short run. With 70 percent of the revenues of the major hotels coming from foreign tourists, foreign exchange earnings should improve operating margins. In addition, depreciation should also result in India's becoming a more attractive (less expensive) tourist destination for foreigners.

Because of the terrorist attack on New York City in September, 2001, and the resulting war on terrorism, there has been a shift in focus in marketing activities in India, with an emphasis being placed on domestic tourism and on tourists from the Far East and Japan. Domestic corporate travel is likely to go down, and foreign travel is 100 percent restricted to essential travel only. Inbound reservations to India dropped by 19 percent immediately after the September 11 terrorist attack and are expected to further go down by 40 percent. Domestic travel is expected to fall by 15 percent.

To immediately counter the drop in hotel occupancy after 9/11, India's hotels jointly formed a crisis management group; some of its suggestions are as follows:

- All hotels will support travel agents by giving competitive rates for the domestic market.
- Group rates will be offered in the domestic market for people traveling in groups of eight or more (before, group rates did not kick in until a group reached 15+).
- Hotel sales teams will aggressively market to corporate clients via additional complimentary facilities and merchandise.
- Travel agents will include transfers for foreign and domestic travelers at cost.
- Hotels/airlines will promote all-inclusive packages for all airline passengers to select destinations.
- Hotels will explore the possibility of entering into barter arrangements with vendors to improve cash flow.
- Hotels should try to rework credit limits with their bankers/financial institutions.

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