

HOTEL INDUSTRY IN INDIA: ISSUES AND CHALLENGES

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ABSTRACT

Hospitality industry in India is playing a key role in the development of Indian economy in terms of job opportunities, tax revenue and promotion of Indian culture and tourism. Indian hotels can be classified into star hotels and budget hotels. In the wake of globalization global famous hotel chains have come to India to meet the growing demand for accommodation. However, Indian hotel industry is facing several problems and challenges. This paper addresses concerns and offers suggestions to overcome the challenges of hotel industry.

1.1. INTRODUCTION

Hospitality is about serving the guests to provide them with “feel-good-effect”. “Athithi devo bhavha” (Guest is God) has been one of central tenets of Indian culture since times immemorial. In India, the guest is treated with utmost warmth and respect and is provided the best services. The Tourism and Hospitality is one of the key industries in India, accounting for about 8.78% of its workforce and around 6.20% of its Gross Domestic Product (GDP). Touted as one of the most profitable industries of India, Tourism and Hospitality is one of the major earners of the country’s foreign exchange. The key money spinner of the hospitality industry is accommodation and as it is directly related to tourism- travel operators, attractions, and transportation also play a major role.

The industry has a very good scope owing to the government initiatives for the tourism sector, and positive influence of the demand supply scenario etc. The ratings attributed to each of the hotels by the government are reviewed every five year. This measure instills the urge to maintain and improve on the existing standards among hotel authorities. Lower tax constraints for medium sized hotels are a positive measure for the hotel business while reforms introduced for the aviation sector have resulted in better connectivity among nations.

Every economy in the world today, continues to depend on the service sector unlike earlier when the agriculture, manufacturing and trade sectors ruled the roost. The service sector is now recognized as a vital sector of the economy. This sector contributes a major share to the GDP. Within a short span of 70 years since independence, the contribution of the service sector in India to the country’s GDP is a lion’s share of over 60%.

1.2. SIGNIFICANCE OF HOTELS

Historically, the concept of hospitality is about receiving guests in a spirit of goodwill—especially strangers from other lands. Hospitality implies warmth, respect and even protection; it builds understanding and appreciation

among cultures. The Latin root hospes is formed from hostis, which means “stranger” or “enemy.” Related words are host, hospital, hostel and hotel.

Today, hospitality also refers to a segment of the service industry that includes hotels, restaurants, entertainment, sporting events, cruises and other tourism-related services. As such, the hospitality industry is important not only to societies but to economies, customers and employees.

Importance to Economies

The travel and tourism sector currently accounts for 10.4% of global GDP. Projections say that 72 million jobs will be added to the tourism and hospitality sector over the next 10 years, and the industry itself will grow 10%.

Hospitality generates revenue for local economies directly when tourists spend money in hotels, restaurants and entertainment venues. It also helps economies indirectly because tourists purchase retail goods, pharmacy items and locally made souvenirs and crafts. In addition, tourism can stimulate the building of infrastructure such as roads and public transportation.

Also important economically are the jobs created by the industry. The hospitality industry accounted for 313 million jobs worldwide, which translates to 9.9% of total employment and 20% of all global net jobs created in the past decade. Hospitality also supports jobs in arts and culture industries, keeping theaters and arts festivals thriving.

Importance to Customers

Hospitality provides essential services (i.e., lodging and food) for travelers, whether they are on the move for reasons of necessity, leisure or luxury. Hospitality is a major factor in every vacation and business trip, and is thus important to individual customers and to businesses.

Some hospitality companies, such as entertainment venues and restaurants, serve locals as well as tourists. The restaurant industry has seen a tremendous boom in recent years; American Millennials spend 44 percent of their food budgets eating out instead of cooking in.

Serving customers well is the primary aim of hospitality businesses, which should focus on creating high-quality environments and services and on hiring excellent employees who treat customers with warmth, empathy and professionalism.

Importance to Employees

Besides being a huge job creator, this sector provides a rewarding career track for professionals. It offers a huge range of job opportunities, from event planner to hotel general manager to facilities asset manager and beyond. Entrepreneurs start their own restaurants and boutique hotels. Professionals have the chance to work in glamorous settings around the world.

1.3. CATEGORIZATION OF HOTELS IN INDIA

Hotels in India provide detailed overview of the various categories of hotels, and the important groups of hotels that play a major role in the field of tourism. Located in all major tourist and commercial destinations of India, the hotels are known for their warm hospitality and comfortable accommodation.

A number of hotels in India are counted among some of the best hotels in the world.

The hotels in India can be divided into various classes on the basis of room types, amenities and location. Some of the prominent categories of hotels in India include:

Heritage Hotels

Reflecting the old glory and grandeur of India, most of the havelis and mansions of ancient times have been turned into Heritage Hotels, that provide the tourists with an opportunity to experience royal pleasure in traditional ambiance. Most of the Heritage Hotels in India are concentrated in the princely states of Rajasthan, Delhi, and Madhya Pradesh

Luxury Hotels

Equipped with world class infrastructural amenities, the Luxury Hotels in India offer the tourists with a fine lodging and dining experience. Catering primarily to the upper class executives, the luxury hotels extend a warm welcome to all the customers

Budget Hotels

A home away from home, the budget hotels accommodate customers from upper middle and middle class. Also referred to as Economy Class Hotel, Business Hotels and Discount Hotels, the Budget Hotels support all the modern infrastructural facilities for a comfortable and pleasant stay

Resorts

Resorts are mostly found in hill stations and sea side tourist destinations of India. Located amidst natural scenic beauty, the Resorts are the ideal place to enjoy some valuable time with family and friends or in solitude

1.4. IMPORTANT HOTEL GROUPS IN INDIA

Hotel Industry is a booming business sector of India that has given a boost to tourism in the country. Taj Group of Hotels, Park Group of Hotels, Radisson Hotels India and ITC Hotels are some of the luminaries in the field of hotel industry that are famous for unique amenities and superb accommodation arrangements. Some of the important Luxury Hotels that come under the top players in hospitality sector include the following:

ITC Hotels

ITC Hotels is India's third largest hotel chain with over 100 hotels. It is based in the Hotels Division Headquarters at Kolkata, West Bengal. It is part of the ITC Limited group of companies. ITC Hotels is regularly voted amongst the best employers in Asia in the hospitality sector. ITC Limited entered the hotel business on 18 October 1975 with the opening of a hotel in Chennai, which was renamed Hotel Chola. ITC Hotels has a reputation of playing host to visiting royalty and world leaders time and again.

The group today operates under several distinct brands:

- Fortune Hotels, which has 54 hotels with 4,446 rooms in 41 cities across India
- Welcom Heritage Hotels

The Taj Hotels Resorts & Palaces

Taj Hotels is a chain of luxury hotels and a subsidiary of the Indian Hotels Company Limited; headquartered at Express Towers, Nariman Point in Mumbai. Incorporated by the founder of the Tata Group, Jamsetji Tata, in 1903, the company is a part of the Tata Group, one of India's largest business conglomerates.

As of 2018, the company operates a total of 100 hotels and hotel-resorts, with 84 across India and 16 in other countries, including Bhutan, Malaysia, Maldives, Nepal, South Africa, Sri Lanka, UAE, UK, USA and Zambia.

Oberoi Hotels

The Oberoi Group is a hotel group with its head office in Delhi. Founded in 1934, the company owns and/or operates 31 luxury hotels and two river cruise ships in six countries, primarily under its Oberoi Hotels & Resorts and Trident Hotels brands. The foundations of the Oberoi Group date back to 1934 when Rai Bahadur Mohan Singh Oberoi, the founder of the group, bought two properties: the Maidens in Delhi and the Clarke's in Shimla. In the following years Oberoi, assisted by his two sons, Tilak Raj Singh Oberoi and Prithvi Raj Singh Oberoi (P.R.S. Oberoi), continued the expansion of their group with properties both in India and abroad.

Hotel Leela Venture

The Leela Palaces, Hotels and Resorts, commonly known as The Leela, is an Indian luxury hotel chain, founded in 1986 by C. P. Krishnan Nair, and owned by The Leela Group. Currently, The Leela is a group of nine luxury palaces and hotels. The Leela Hotels were founded by C P Krishnan Nair, owner of The Leela Group, which he named after his wife. Nair bought 11 acres of land near his house in Sahar Village, Mumbai to build his first hotel, The Leela Mumbai, in 1986. It was the first luxury hotel near the current Chhatrapati Shivaji International Airport. In 1991 a second hotel was opened in Goa. The Leela Goa was designed keeping the overall architecture of the state in mind. The luxury seaside resort has taken its inspiration from Portuguese heritage and is spread over 75 acres of land in South Goa near by Cavelossim Beach.

Indian Hotels Company Limited

The Indian Hotels Company Limited (IHCL) is an Indian hospitality company that manages a portfolio of hotels, resorts, jungle safaris, palaces, spas and in-flight catering services. It is a subsidiary of the Tata Group conglomerate.

IHCL was founded in 1899 by Jamsetji Tata and is headquartered in Mumbai, Maharashtra. It has more than 160 hotels in 80 locations and 17 countries, with over 20,000 rooms and 25,000 employees.

Hotel corporation of India

The Hotel Corporation of India Limited (HCI) is a public limited company wholly owned by Air India Limited and was incorporated on July 8, 1971 under the Companies Act, 1956 when Air India decided to enter the Hotel Industry in keeping with the then prevalent trend among world airlines. The objective was to offer to the passengers a better product, both at the International Airports and at other places of tourist interest, thereby also increasing tourism of India.

ITDC Hotels

The India Tourism Development Corporation (ITDC) is a hospitality, retail and education company owned by Government of India, under Ministry of Tourism. Established in 1966, it owns over 17 properties under the Ashok Group of Hotels brand, across India.

The Corporation is running hotels, restaurants at various places for tourists, besides providing transport facilities. In addition, the Corporation is engaged in production, distribution and sale of tourist publicity literature and providing entertainment and duty free shopping facilities to the tourists. The Corporation has diversified into new avenues/innovative services like Full-Fledged Money Changer (FFMC) services, engineering related consultancy services etc. The Ashok Institute of Hospitality & Tourism Management of the Corporation imparts training and education in the field of tourism and hospitality.

1.5. CITY-WISE PREMIUM HOTELS PERFORMANCE

Mumbai

- Business travellers account for about 80 per cent of the total room demand in the city.
- Mumbai's hotel market achieved the highest occupancy recorded over the past few years amongst all major markets across the country and also recorded the second highest average room rate (Rs 7,740), further consolidating its position as the best performing hotel market. This was primarily backed by strong growth in corporate travel from industries such as BFSI, pharmaceuticals, FMCG, etc along with an upswing in meetings, incentives, conferences and exhibitions demand in major commercial hubs such as BKC, Powai, Goregaon and Airoli, CBD Belapur in Navi Mumbai and the promising growth in the Extended-Stay segment – have favourably impacted Mumbai's hotel market.
- In terms of future supply, Mumbai is expecting an addition of about 4,000 rooms by FY23.

Bengaluru

- Business travellers constitute about 85-90 per cent of the premium segment room demand in Bengaluru. BFSI and PSU companies mainly account for room demand in CBD area while Whitefield and Electronic city areas have demand from IT/ITeS companies.
- Driven mainly by robust growth in occupancies, the city's hotels also exhibited an increase of about 3.7 per cent y-o-y in average rates. The fact that the resilient market performance was accompanied by a 5.6 per cent growth in supply bodes well for the city that is expected to add approximately 5,700 rooms in a phased manner over the next five years.

NCR (National Capital Region)

- Business travellers account for about 70 per cent of the demand while the balance comes from the leisure travel demand. Demand mainly comes from the BFSI and PSU segments in Delhi while in Gurugram, IT/ITeS, BPO and telecom sector drive demand. Hotels in Noida region majorly cater to demand from IT, BPO and consumer durables companies. Aerocity district caters to demand from corporates, transient clients. Social events—marriages also contribute to the room demand in NCR. The demand previously catered to by the unorganised sector in the area has been absorbed by the branded mid-market and budget hotels located within the district.
- NCR is home to the largest branded hotel market in the country.
- NCR is expected to witness an addition of about 4,400 rooms in the next five years, with maximum rooms (1,800) expected in Gurugram alone.

Chennai

- 85 per cent of the room demand in Chennai comes from business travellers.
- Demand in CBD area comes mainly from BFSI and PSU companies, IT/ITeS companies drive demand in the OMR region. Proximity to electronics and the auto industry players in and around the Sriperumbudur area, makes hotels near airport area attractive for business travellers.
- It also enjoys demand from other major business sectors including manufacturing, port and port-related activities, the government and embassies, etc
- Despite an increase of about 10.6 per cent in supply in FY18, the market continued on its path to recovery with room rates registering a y-o-y growth of about 2.2 per cent during the year. The city witnessed the opening of new hotels, including the Novotel & Ibis Chennai OMR. All the micro-markets in Chennai recorded a marginal decline in occupancy in FY18, while average rates marginally increased during the year.
- Going forward, only about 1,000 rooms are expected to be added to Chennai market in the next five years.

Pune

- Demand from business travellers account for about 90-95 per cent of overall demand in the city for premium hotels.
- In addition to serving as a manufacturing hub in Western India, the city has developed into an important IT/ITeS centre. Availability of large commercial floor plates along with a young and educated workforce has driven the rapid development of the city. Proximity and ease of connectivity to Mumbai, the country's financial capital, has also helped the city.
- In the past few years, a staggering increase in room supply resulted in a downward spiral in both occupancy and average rate performance which overshadowed the y-o-y double-digit growth in demand, and questioned the strength of the market.
- However, the silver lining is that the slowdown in new supply coupled with the robust and continuous increase in demand has helped the city's hotels perform well in occupancy.

Ahmedabad

- Despite an 8.9 per cent increase in room supply, Ahmedabad market witnessed healthy occupancy with over 300 basis points expansion during FY18. Also, room rates increased by over 6 per cent y-o-y on back of number of developments taking place both within the city and on the outskirts including places like SEZs in Sanand and Becharaji. A proposed logistics park in Godhavi, Smart City project in Dholera and the completion of third terminal of the Ahmedabad Airport have attracted major automobile, pharma and engineering companies to the city.
- Around 1,350 rooms are expected to be added to the Ahmedabad market by FY23.

Hyderabad

- About 85-90 per cent of premium segment hotel demand comes from business travellers.
- CBD area room demand is primarily dominated by business travel segment from sectors such as BFSI and PSU companies while the Hitech city caters to demand from IT/ITes.
- Corresponding to the rebound in commercial activity, the Hyderabad hotel market witnessed an expansion of about 270 basis points in occupancy rates while the average rates increased only marginally by about 1 per cent y-o-y in FY18. With opening of Grade-A commercial spaces and major global conglomerates setting up office in HITEC city, demand has been on the upward trajectory.
- 1,150 rooms are expected to be added to the existing supply between FY18 and FY23.

Kolkata

- About 75 per cent of room demand for premium segment comes from business travellers.
- Kolkata is driven primarily by commercial activity emanating from PSUs, PSBs, manufacturing, IT/ITeS, engineering, medical activity and the telecom industry.

- In FY18, Kolkata witnessed the highest increase of about 20.7 per cent in room supply. However, despite the increase in supply, the city ORs reached 71.9 per cent (y-o-y 100 bps expansion) and the average room rates witnessed about 4 per cent y-o-y increase to reach Rs 6,050 per night.
- The city demand was supported by events such as Under-17 FIFA World Cup, IPL, Global Bengal Business Summit and some national medical conferences during the year. Also, as per Airports Authority of India (AAI) data, the highest increase of about 25.7 per cent in passenger traffic was witnessed by Kolkata amongst the top airports in India during FY18.
- Kolkata market is expected to add about 1,800 rooms between FY18 and FY23.

Jaipur

- Popularly known as the ‘Pink City’ and an integral part of the Golden triangle itinerary, Jaipur’s rich culture and its spectacular forts, palaces, and havelis continue to attract tourists from all over the world, making it one of the top leisure destinations in the country.
- In FY18, the city witnessed about 7.3 per cent growth in room supply. Despite the increase in supply, the city ORs reached 67.3 per cent (an expansion of close to 300 bps) and witnessed about 6 per cent growth in average room rates
- Going forward, about 1,100 rooms are expected to be added to Jaipur hotel market.

Goa

- Goa continued to exhibit growth witnessing the highest average room rates of Rs 7,844 per night during FY18, 4.1 per cent higher than the previous fiscal, surpassing the rate leader of India for the past 5 years – Mumbai. Occupancy rates reached 72.1 per cent during the year leading the RevPARs to witness an increase of about 5.1 per cent y-o-y.
- However, Goa continues to face competition from beach destinations in South and Southeast Asia.
- The up-tick in the occupancy can be attributed to the increased domestic travel and the booming MICE and wedding business. Also, room demand was further supported by large-scale annual events such as the International Film Festival of India (IFFI) and the Serendipity Arts Festival.
- Going forward, about 3,000 rooms are expected to be added to Goa market by FY23.

Kerala

- Room demand in Kerala is driven by both leisure and business travellers, each accounting for 50 per cent share.
- Kochi is known as the commercial capital of Kerala comprising of shipbuilding and port operations, chemicals, spices, construction, fertilizers and IT industries. Also, large oil corporations such as Indian Oil Corporation, Bharat Petroleum and Hindustan Petroleum have plants located at Irumpanam, a suburb of Kochi.
- Trivandrum comprises of industries such as IT and medical.
- Apart from this, leisure travellers also drive room demand in Kerala.

- In H1 FY19, demand in the state was affected on account of floods (August 2018) that impacted the tourism industry. Also, the ripple effects were felt for a few months post that and demand moved to neighbouring destinations such as Sri Lanka, Thailand, etc.

Agra

- Room demand is usually driven by leisure travellers.
- Any macroeconomic conditions have an impact on demand in tourist destinations such as Agra where FTAs constitute majority.
- In FY18, OR registered an expansion of over 600 bps to reach 65.8 per cent, city's highest in over 20 years. However, on account of intense competition from the branded mid-market segment, the room rates remained under pressure and declined by about 3 per cent to average at Rs 5,340 per night.

1.6. ISSUES OF HOTEL INDUSTRY IN INDIA

When compared with international standards, the Indian hotel industry is not doing well. India has a world image of a country plagued by poverty, safety issues, political instability and diseases. This creates a very negative image of both the hotel and tourism industry. However, as a travel destination, India's name is still very prominent. This creates major expectations in the eyes of travellers and hotel guests.

To change the scenario, the country needs to put special focus on how students are being trained in hotel management institutes along with taking care that the standards of the hotels are improved to meet international needs and expectations. The major problems crippling the hotel industry in India is the lack of skilled professionals and retaining the same. This is because the wages are not at par with international industry standards and more and more employees prefer to shift to aviation or retail management when they are not satisfied with their job.

1.7. CHALLENGES OF HOTEL INDUSTRY IN INDIA

For every opportunity exists a challenge in this burgeoning hotel industry, the following are the challenges faced by the hotel industry in India.

Government approvals and licenses

Major issues for most of the industries in India are related to multiple windows of clearances, even for the hotel industry. Hoteliers face regulatory constraint at every step in the process of development of hotels beginning from land acquisition stage (for which laws differ from state-to state) to approval by various ministries & association on various matters.

A company requires approximately 100 clearances for setting up an upscale category hotel in India. The clearances have to be taken from multiple government bodies. It is tedious and a time-consuming process.

Land availability and cost issues

The process of identifying new land as per the requirement for hotels is a tedious task in India. Compared to international standards, where land costs accounts for 15-20 percent of the total project cost, in India this is often in the range of 40-50 percent. This is also one of the reasons for low development of budget & mid-market hotels in comparison to upscale luxury hotels as budget hotels with lower average rates are unlikely to become viable with such high land cost. As a remedy to the problem, hoteliers have started mixed-use development projects comprising hospitality, commercial, residential and retail components.

Human capital

Indian hotels face the continued challenge of shortage of trained employees, especially at the manager and supervisor levels. Most of the companies are falling short of skilled employees for their hotels. Major reason for this shortage is absence of organized training and educational institutes for development of skilled employees like in aviation and other service sectors. Only few major Indian players like Taj, Oberoi and ITC have set up their training institutes with a few international brands like IHG, Carlson etc. Also, hotel and catering management institutes approved by All India Council of Technical Education (AICTE) is less than adequate and much of the talent graduating each year is unsuited for direct employment in the industry due to lack of required skills.

Retaining the workforce even through training and development in the hotel industry is a tedious task as attrition levels are too high. One of the reasons for this is unattractive wage packages. Though the industry has been growing at a fast pace, hotel management graduates opt to join other sectors like aviation and catering services where they are paid higher.

Management contract related issues

Performance clause in management contracts is one of the most debated clauses between owners and operators of the hotel. It is most often the only clause that provides a window for an owner to terminate the management contract with the brand. However, unlike in other industries where a client has the choice to reject/ discontinue a product/ service if he/she is dissatisfied with the performance, hotel owners do not enjoy such a privilege and in turn have to pay a hefty termination fee to disengage with the operator.

Moreover, owners are seldom informed/ involved in the hotel operations. Non-involvement of owners in hotel operations and lack of transparency can result in a gap for desired objectives. Such non coordination between owners and operators pose a threat to the industry.

1.8. CONCLUSION

The outlook for the hospitality market in India is optimistic and will continue to remain so. The economy's buoyancy, initiatives to improve infrastructure, growth in the aviation and real estate sectors and easing of restrictions on foreign investment will fuel demand for hotels across star categories in the majority of markets. India's hotel industry is increasingly being viewed as investment-worthy, both within the country and outside, and several international chains are keen to establish or enhance their presence in India. Hotel industry is providing a great deal of employment to Indian youth besides providing tax revenue to the government. Hospitality industry is playing a key role in Indian economy through its contribution to GDP. However, it has been facing several problems and challenges which need to be addressed for its growth and development.

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