



Indian Hotel Industry: Past, Present and Future

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Abstract

The Indian Hotel Industry is growing at a fast pace. This is due to the intervention by Government of India to facilitate the business through economic reforms, changes in different taxation policy, allowing foreign direct investment etc. This paper traces the development of the Indian Hotel Industry in India right from colonial times so that readers are familiarized with its different stages of development. This paper also highlights the role the Government of India has played in the development of this Industry at different stages of history and the forces that shaped those decisions. The role played by Indian hotel entrepreneurs in establishing the Hotels and taking those hotels to global markets has been discussed. The challenges posed by entry of foreign hotels in India and what it means for Indian Hotel Industry shall make readers acquainted the dynamics of Globalization. The means and methods they use to enter global methods and the reasons have been extensively discussed. The historical concept of Hotel classification in India and how it has taken the present form and what media has reported about it has been discussed. The paper discusses the literature review from the variety of sources to establish the essence of Hotel Industry in India and its dynamics in twenty first century.

Keywords: Tourism, Environment Laws, Sustainable tourism.

Foundation of Professional Hotel Industry in India

Jamshedji Tata the founder of Tata Empire in Mumbai established the hotel on a grand scale in 1903 and this hotel is the first ever hotel to be built by Indian entrepreneur in India (Allen 2008). In 1934, Rai Bahadur Man Singh, the founder of Oberoi Hotel Chain took over Clarkes Hot el (earlier known as Carlton Hotel) in Shimla and Delhi and in 1938; he took over Grand Hotel of Calcutta. Other important hotels that were built during Indian British period were The Rugby, Matheran (1876), The Grand Calcutta 1930, The Cecil, Mussoorie (1 936).

Post-Independence, Jawaharlal Nehru, the First Prime Minister of India recognized the need to build hotel for the foreign dignitaries and this led to the building of the first Government invested Hotel Ashok in New Delhi. India witnessed a tremendous growth on economic front after independence. The Government of India established Indian Tourism Development Corporation (ITDC) in 1966 with the aim of establishing and operating hotels across India (theashokgroup,

2014). In 1982, India hosted Asian games and to accommodate the visitors many hotels were built. ITDC alone built seven hotels which include Kanishka, Ashok Yatri Niwas, Akbar Hotel, Lodhi Hotel, Hotel Ranjit and Qutab Hotel (Davendra 2011).

The Government of India granted license to Taj Palace, Asian Hotels-Hyatt Regency, Le Meridien, and Surya Sofitel hotels which were built in New Delhi. Another giant leap which led towards the growth of Hotel Industry in India was the transformation that took place. India which was typically a socialist country started the economic reforms in 1990's to become attractive destination for investment. This led to massive growth of the Hotel Industry.

Growth of Indian Hotel Industry

The impressive overall growth resulted in massive investment in the Hotel sector and new Indian and foreign Hotel Chains made their presence on Indian landscape. The growth of Hotels in India is propelled by the increase in the tourism. The continued "Incredible India" *campaign* launched by Government of India has had a strong impact on the tourist arrivals in India (Thadani2005). Crisil research Annual Review 2013 highlighted the following interesting facts about the Indian Hotel Industry. The size of the Hotel Industry is USD 3.8 Billion, and is growing at average rate of 12%. The current supply of hotel rooms is about 110,000 hotels rooms and current demand is about 150,000 hotels rooms.

However, the major reason of the boom in the Hotel Industry is the growth in information technology and related services. The rise of stock indices and new business opportunities are also attracting foreign institutional investors, funds, equity and venture capitalists. The rising BPO industry is also contributing to growth of the Hospitality Industry Nasscom (2013) . However, certain factors pose a severe threat to the Industry like terrorism, diseases like H1N1, travel advisories etc. As per Taj Hotels annual report 2009, the tourist inflow fell by 3.3% in year 2009-10. The successful marketing of Indian Hotels resulted in the growth of these hotels on the global scale. Many of these hotel chains are respected in International Markets. This positive image of Indian hotels helped the hotels chains in achieving the global recognition and many hotel chains like Taj , Oberoi, ISTA Hotels etc have forayed in the International markets.

Taj Hotel has presence in twelve countries (Taj Group 2014) which include UK, USA, Malaysia, Maldives, South Africa, Sri Lanka, UAE and Zambia. Similarly, Oberoi hotels have presence in Indonesia, Mauritius, Egypt and Saudi Arabia. These hotels are respected for world class hospitality service in the host countries. The Indian hotel business leaders like P.R.S. Oberoi received '2010 Corporate.

Hotelier of the World' award in New York in November 2010 by Hotels Magazine on the basis of voting by the readers of the magazine in more than 150 countries. The Hotel chain also received the award for being Worlds Highest Rated Luxury Hotel Brand for being the best in guest satisfaction in service, value and hotels location and cleanliness (Oberoi Hotels, 2014).

Indian hotels are innovating continuously to sustain the competition from domestic and International Chains. The Indian hotel chains have diversified from being exclusive super deluxe chains to serving the middle and lower budget markets as well. Thus, Indian Hotels have

evolved to be competitive, innovative and extremely guest focused and has been successful in establishing their place in global markets. The Indian Hotel chains are using latest marketing tools like on line marketing, social media marketing, Emails, direct marketing, travel agencies etc to compete in market (Sufi 2012).

Indian hotels have established world class brands by superior service and guest satisfaction. Over the years so many awards have been won by Indian hotels on international levels. Hotels like ITC hotels, Taj Hotels, Oberoi Hotels, Ananda In The Himalayas and other hotel chains have not only been awarded consistently by the International agencies for providing superior services and guest satisfaction. ITC Hotels was awarded as World's Premier Brand by the Galileo -Express Travel World Awards 2008 & 2006. ITC Welcome Heritage won the Best Heritage Hotel Brand award in 2006. ITC Sonar, Kolkata has been declared as one of the best hotels in the world by the Association of British Travel Agents (ABTA) in the April 2004 issue of its magazine 'Business & Travel'. ABTA also rated Dublin amongst the top 20 bars and Bukhara the best restaurant in Asia and the finest Indian restaurant in the world (Itcportal.com, 2014).

Indian Hotel Industry has evolved tremendously over the centuries. The initiative taken by private entrepreneurs has resulted in the many Hotel chains achieving highest standards and global recognition worldwide.

These Hotel chains have proved that Indian Hotel chains have tremendous potential and have courage to establish themselves in global markets. However, in spite of aggressive growth of the Hotel Industry in India both by Indian and foreign hotels, the competitiveness in terms of being rated among top rated Hotels on worldwide level doesn't look that impressive. There are few Hotels which have figured among world best Hotels but the number of these Hotels is relatively smaller. The success stories of this small group of hotels discussed above represent small number of Hotel chains. Hotels in India are being awarded as five star and five star deluxe brands by Government ratings agencies but these hotels lack the national and global recognition. This has in fact led to questions being raised on the approval process in general in India. (Nath 2013, Sharma 2013 and Chopra 2006).

In order to remain competitive and address such problems, the Indian Hotels opt for joining the international hotel chain and get slotted into multitier branding system. These International Hotel Chains have an edge over independent hotels because of brand recognition. The International Hotel Chains therefore their levels of services religiously and improve their image by branding and excellent service delivery (Ambwani 2012). The customers of these International Hotel Chains recognize the levels of services where ever they stay and get satisfied by the services offered by the hotel.

Foreign Hotel Chains in India

India is continuously improving the environment for promoting Hospitality and Tourism sector through economic reforms. This has resulted in International Hotel Chains lining up in India because of ample opportunities available in this sector for foreign investors. The amount of inflow in Indian Hospitality sector during 2012-2013 was USD6000 million (Oifc.in, 2014).

The Government of India has taken several initiatives to make this sector more lucrative and attractive. This is mainly because it is the second largest employer in the country and has potential to offer job opportunities to large number of population of varied levels of skills. These initiatives include 100% foreign direct investment, concession on income tax paid by employer on salaries and wages to specific cadre of employees (section 10(5) B), single window system for providing various licenses and grants at Central and state level to reduce the bureaucratic control, Tax Holidays. The result of these initiatives has been the Annual Growth Rate of 14 % for the Hospitality sector- consistently. It is very much clear therefore that Indian Hospitality sector has a tremendous potential of growth.

One of the reasons for growth of Hotel Industry in India has been the globalization which is defined as the “process of economic integration of the entire world through the removal of barriers to free trade and capital mobility as well as through the diffusion of knowledge and information. It is a historic process of moving at a speed in different countries and in different sectors (Joshi 2005). It is widely accepted that the key characteristics of globalization have been the liberation of international trade, the expansion of FDI and the emergence of massive cross border financial flows. This resulted in increased competition in global markets. (Varshney & Bhattacharya 2009).

A number of industries are dominated globally by large corporations known by names such as International Corporation, Multinational Corporation, and transnational corporation. A significant share of the world's industrial investment, production, employment and trade are accounted for by 65,000 MNC's with over 8 lakh affiliates (Cherunilam 2009). In reality the motivation for greater globalization amongst international hotel companies is frequently determined by a combination of 'push' and 'pull' factors (Barker and Aydin, 1994).

The International Hospitality groups are heading towards India using different market entry strategies as discussed earlier.

The host countries into five groups: (1) items readily capitalized (capital, raw material supply, and technology or equipment), (2) human resource needs (general managers and other special function area personnel), (3) market access needs (access to export markets and distribution channels), (4) government/political needs and (5) knowledge needs. Meleka (1985) analyzed the benefits that 'the host countries expect to obtain: developing the national economy; increasing national employment; training and management development; strengthening domestic industries through joint ventures; and establishing national peace and political stability. The needs of the firm parallel these and include such groupings as: access to financing, marketing information, regulatory and taxation relief, stable economic conditions and a good source of human resources.

Keeping in view the dynamics of Indian market which act towards the growth of Indian Hospitality sector, foreign hotel chains are attracted towards Indian market for growth and diversification. However, these Hotel chains have their own marketing philosophy and use different marketing techniques in Indian market. For example Premier Inn Hotels which is a budget Hotel Chain in UK pitches itself as mid market value for money hotel brand Verma (2013) reported that International Hotel Chains pitch themselves at higher equity in India. These

hotels provide restaurants, banquets and in room dining facility in India which these hotel chains do not normally provide in their host countries. Further the costs of the real estate in India is 30-40% higher than in other countries forcing these hotel brands to go for higher level branding so that they can recover the investment faster.

The hotels are operating in unique Indian marketing environment which has its own opportunities to provide to the Industry owing to huge gap in different hotel segments. This opportunity is tapped by the foreign hotel chains which see India as a favorable destination for growth and survival (Varma 2009).

Foreign hotel chains in India are very competitive and use sharp marketing tactics to make a way in the Indian Hospitality Market. These hotels are reaping the full benefit of economic liberalization and reforms in foreign direct investment in this sector. The foreign hotels are reshaping themselves to make them suitable to Indian market. For example, Premier Inn Hotels which is a budget Hotel Chain in UK pitches itself as mid-market value for money hotel brand has pitched itself at higher equity in India. Also these hotels provide restaurants, banquets and in room dining facility in India which these hotel chains do not normally provide in their host countries (Verma 2009).

The Hilton Hotels made a re-entry in Indian market with a bouquet of Hotels from upscale luxury hotels to mid-scale one. The hotel chain has a joint venture with real estate giant DLF. Similarly Intercontinental Hotel Group (IHG) in its annual report (2012) reported that the company is going to reposition itself in India by moving itself from being franchisee to management contracts. The company shall be putting franchise contracts to end and signing new hotels under management contracts in Tier 1 cities of India. The other Hotel chains like Marriott, Hyatt Hotels Corp, InterContinental Hotels Group (IHG), Hilton Worldwide, Accor SA and Starwood Hotels and Resorts Worldwide, which are already present in India, have joined hands with several developers and investors to open scores of properties across the country. The estimate of 65,000 to 80,000 rooms by 850 properties of foreign hotel chains are expected to be added to Indian room inventory as per market research agency ICRA (Ghosh, 2012). Apart from luxury and premium segments of the market, the foreign hotel chains are also targeting upscale, mid scale, budget and upper budget segments. These hotel chains are funding the projects as well-otherwise these chains used to enter through management mode to foreign markets. These hotel chains are pushing for decrease in room rates of premium luxury Indian hotel brands and these Indian Hotel chains are under pressure because of the competition from these foreign hotel chains . It is clear from the discussion that not only are foreign hotel chains increasing in the number, but they are also posing a major threat to Indian Hotel chains within Indian market.

Conclusion

It is clear from the discussion that the Indian Hotel Industry is growing at fast rate. The competition between the Indian and foreign hotel chains has led to the falling room rates. While as some hotel chains have earned name and fame in Global markets many others are being accused of lacking the service quality which does not match their hotel classification star category. The best role the Government can play in such a situation is play a role of facilitator of

growth only by encouraging foreign investment, restructuring the tax schemes to make Hoteliers confident of investing, reduce the luxury and service taxes so that prices of services offered by the hotels are lowered. The Government should handover the Hotel classification process to private players like FHRAI so that more transparency is ensured and only deserving hotels get the higher star ratings.

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