

Success story of budget hotels: a balancing act

The shift in focus from luxury hotels to mid-market budget hotels in the last few years for delivering quality service, establishing themselves as a key market player, maintaining a loyal customer base has opened avenues for the hospitality industry. The 10th annual HICSA opened its discussion doors for budget hotels to understand their “formula for success.” **Neha Pradhan** explores their scope and feasibility, guest expectations, policy level entrapments and more in Indian market

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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.

The Indian domestic players were the first lot to recognise the potential in this category initially. Indian Hotel Company launched a wholly owned subsidiary company Roots Corporation to set up ‘Smart Basic’ Ginger brand of economy hotels, followed by ITC by setting up Fortune Hotels for taking up budget hotels under management contracts and Sarovar Hotels.



Viability on home grounds

While the emergence of budget and economy hotels have opened up choices in terms of accommodation for customers at every price point, land cost which is viable for budget hotels, is still a challenge in the country. The answer to which is to invest wisely and give the property an infrastructure status. In India, “the difference between property rental rates for infrastructure sector and other general sectors is normally 1.50 per cent to 2.50 per cent. Thus, there are visible benefits if the sector earns an infrastructure status,” opined Harjeet Wasan, Vice President, Tux Hospitality. With planned massive room capacities available in the tier-one and tier-two cities, making hotel properties as a part of infrastructural growth is completely viable.



VILAS PAWAR
CEO,
Choice Hotels India

“One way to make a good return on investment (ROI) would be to look at the hotel business in a different light. This can be done by taking a multi use development approach. This way, the hotel becomes a part of a larger development and costs such as real estate cost, construction costs and others are can be shared by other investors and make the hotel project more viable,” expressed Vilas Pawar, CEO, Choice Hotels. Asserting on the fact that the mid-market and budget hotels have good potential across the country, Wasan said, “It is important to have a USP to survive any potential excess supply or a downturn in the market. So, when it comes to developing a budget hotel, there is a ‘huge market’ available thanks to the booming middle-class travellers who have extra income available for disposal.”

“Also, the cost of construction for budget hotels is much less as compared to luxury hotels. Therefore, a wise strategy would be there to observe the progress of projects under development, as well as demand trends, before an investment decision is taken,” he concluded.

Changing face of traveller’s expectation

Be it a luxury hotel or a mid-market segment or a budget hotel, financial strategising and profit management determines whether a hotel has crossed the rubicon of charming the guest. With the hospitality market heading towards safe and sound shores, the financial structure of this industry is beginning to strengthen again in the country, all credits to the domestic traveller who is aware of what to expect in a stipulated amount.

Pawar explained, “The expectation of a traveller from hotels is quite high. That being said, this is fast changing now, as the Indian consumer is well travelled and is fast being educated on the mid scale hotel concept, vis-à-vis the price point versus the services that can be expected of them.” So, going an extra mile to charm the guest and win them over as a loyal customer base, doesn't play the trick everytime. Wasan explained that for some travellers the hotel's location plays an important role in determining their choice for a property while for a select few it might be the facilities provided. Hence, striking the right balance between the two is the key. “Different visitors have different needs from the hotel and its facilities. We have segregated the facilities according to the type of room a visitor chooses, but we guarantee 24 hours efficient service to our guests. The main challenge is to satisfy our guests with the budget that we have and to make profit out of it,” opined Wasan.



P K MOHANKUMAR
MD & CEO,
Roots Corporation

Broadening bottleneck of policies

In order to facilitate budget hotels, policy makers should be vigilant in terms of ‘transparency in land records and transaction data, licences and approvals and availability of financial options’. The industry is believed to stand in the murky waters of policies, thus causing a hindrance in property development, leading to rise in incurred costs and labour. “Availability of low-cost land in prime space for development of hotels is a major challenge. India is considered to be an ideal market for development of budget and mid-market hotels given the volumes and price sensitivity. In this context, I would even advocate that the budget hotels must be accorded special status as India needs more than 50,000 rooms in this segment to cater to their growing middle class,” expressed P K Mohankumar, Managing Director and Chief Executive Officer, Roots Corporation.

Another factor hampering the process of hotel development, is the time duration. Most of the times, the stipulated time during which a property is inaugurated get extended, piling up the incurred capital costs, labour costs and more. “The entire process of opening a hotel is very long. It takes a minimum of 24 months to open a boutique hotel. In my opinion, the approval process should happen within three months window period,” replied Wasan.



ALY SHARIFF
MD & Sr VP,
Operations (South Asia &
Asia Pacific),
Premiere Inn

Aly Shariff, Managing Director and Senior Vice President, Operations (South Asia & Asia Pacific), Premiere Inn, explained, “The finance options available for developing hotels in India are restricted to high cost debt or in some cases very high return expectation equity. Both of these have a potential to harm an operating hotel especially in a down cycle such as is being experienced now.”

Age-old formula or creative strategy

Whether profits are managed through the traditional, age-old method of cost-cutting or by creative, out-of-the-box strategies, hoteliers need to make sure that the costs are ‘contained’ and expenses are ‘well-thought’ right from the beginning. According to Pawar, for efficient strategy making traditionally, one needs to ensure that the cost of project during the initial stages of construction do not cross the allocated budget. This holds true especially for hotels in the mid scale segment. The hotel project / construction should be based on the

business potential of the market.

A nouveau method for maintaining the costs is to let the experts handle the situation. “It is always advisable to engage professional companies to do market survey, plan and execute projects,” he added. Also, on one hand where budget hotels strive to provide the basic amenities in the given costs, system maintenance and food and beverage is a section that just cannot be neglected. Reflecting on the same, Wasan said, “I firmly believe that in the hospitality industry the maintenance of the system is important despite its complex processes as its effectiveness affects the quality of hotel service. Food and beverage also has a significant effect on guest’s impression of the hotel.”

Another upcoming trend seen among hoteliers is to continue to bring in investments on the property. Since budget and economy hotels have a great potential for expansion and business in India, finding business partners who are ready to invest can provide great capital returns. Commenting on this trend, Premiere Inn drew the focus on their plans to follow the asset-light route, where 80-90 per cent of growth takes place through management contracts. “We aim to have 8-10 management contract deals per year,” said Shariff

Future features

The growing awareness among travellers for well-maintained budget hotels and the industry insiders foretell a positive graph. “The next 10 years will see an exponential growth in the mid scale segment of hotels across the country. From the guest perspective, it is going to be a buyers market over a sellers market. All in all, a good time for the consumer,” said Pawar.

According to a report by HVS and The World Travel and Tourism Council, the travel industry in India is expected to reach 1,747 million travellers by 2021, which will require 1,88,500 additional hotel rooms. Mid-market hotels will be the driving force because they usually have more rooms per hotel than a five star or luxury hotel and can be built faster and more cost-effectively in multiple micro-markets as well as in most tier I, II and III cities, the report said. “With India’s rich demographic dividend, the generation X and Y accustomed to digital and electronic medium, fulfilling the exposure would raise expectations that are in line with international trends,” stated Mohankumar.

Hence, emphasising on the fact that both domestic and international hotel chains are looking forward for a fruitful experience in this segment Shariff exclaimed, “Budget-economy hotels is a segment which is showing a significant increase in spending on travel and vacations. Both home grown and international players are drawing up plans to add more rooms in this segment across the country. This is leading towards a growing need for affordable yet quality hotel rooms, as five star hotels may not always be the most viable option. Thus, a mid-market hotel will provide an environment conducive to this segment of travellers.”