

Slowdown proves not so bad for mid-market hotels

The mid-market segment has always had growth potential and is currently faring better than hotels in the luxury sector as business travel is seeing a shift from luxury to the more affordable mid-market hotels.



Anil Madhok

Patu Keswani

Prabhat Pani

With corporates cutting costs and leisure travellers looking at value-for-money options, the mid-market segment is rapidly emerging as the preferred choice for both segments. This is clear from the occupancies at midmarket hotels in the last year. These hotels are filling the wide gap that existed between the exorbitant five star luxury hotels at the top-end and guest houses of dubious standards at the lower-end. However, the biggest advantage that mid-market hotels offer developers is their relative insulation from economic cycles.

"With cost cutting across the corporate sector, the five-star and the luxury segment is possibly the hardest hit. Hotels in the mid-market and economy segments enjoyed immunity to a certain extent because of their rational pricing," says Anil Madhok, MD Sarovar Hotels. According to him, the midmarket segment witnessed a more or less steady demand as well. His argument is well supported by Patu Keswani, CMD, Lemon Tree Hotels. "As mid-market hotels fall under the moderately-priced band, their business has not been as severely impacted because of the slowdown," he avers. The high demand for mid-priced hotels is due to the reduced travel budgets of corporates, he adds. The recent reduction in customer footfall due to the economic slowdown has positioned budget hotels as the preferred choice, says Prabhat Pani, CEO and director, Roots Corporation which operates Ginger Hotels. "We have actually seen an increase in occupancy," he reveals. Typically, mid-market hotels fall in the three-star and four-star category, are run on tight budgets and cost between Rs 3,500 to Rs 7,500 per night, about 40-60 percent cheaper than a five-star hotel.

So, what keeps business going in this segment. Players operating in this segment feel that many companies find guest houses increasingly expensive to maintain and are switching over to midmarket hotels. According to them, large corporates incur a lot of expense having their staff stay in five-stars and these hotels offer them a low-cost option. "This segment benefited from the shift in guest profile with even senior level executives opting to stay at four-star hotels instead of at deluxe and luxury hotels they frequented before," Madhok says. Ginger has also noticed a similar trend. "As corporates manage their costs, a lot of their business is being diverted to us; we have signed

contracts with several companies in the past year," Pani informs.

Another reason for higher occupancy in this segment is the acute shortage of rooms in it. "While five-star hotels in India are at par with their global peers, there is a near absence of internationally acceptable mid-market hotels. There are only a handful of players that are currently addressing the demand for branded/quality hotel rooms in the midmarket segment," Keswani says. According to him, the high demand for this segment is due to the lack of reasonably acceptable hotels and this demand will continue to rise as awareness levels of this model increase. Pani echoes similar sentiments.

Madhok expects an even better business environment for the mid-market and economy segment in the medium term. "With the government sector now taking austerity measures to reduce expenses, we believe the mid-market segment will witness a more formidable change in its favour," he shares.

Due to brighter business prospects in this segment, these players are also going ahead with their expansion plans. While Lemon Tree, which operates 11 hotels in nine cities in India, is aiming to add eight more hotels by 2012, Sarovar is targeting 50 hotels by 2012. Sarovar currently manages and operates 36 hotels across 29 destinations in India and overseas. Ginger currently operates 20 hotels and is planning to add 7-8 in the current financial year.

However, this segment is also facing problems that will hinder its growth. All the players believe that the mid-market and budget segment of the hotel industry is still unstructured. This is evident from the fact that 85 percent of all mid-priced hotels in western countries are affiliated to a chain while this figure stands at 15 percent in the case of India. Keswani sees high land prices as a major stumbling block to growth in the midmarket hotels. "However, comprehensive planning and a targeted strategy is the solution to overcome this deterrent," he says.

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