

PATU KESWANI deconstructed

**H&FS Magazine
November 2007, Vol. 20**

He sowed the seed of Lemon Tree brand in 2004. Three years down the line, the Tree is firmly rooted in the mid-market space and its branches are growing. With investors showering funds, it is the fastest growing hotel chain with properties coming up in 12 major cities.

H&FS correspondent Anindita Chattopadhyay meets hotelier Patu Keswani and tries to get under the skin of the entrepreneur and the person that he is.

Walk into the office of Patu Keswani, the man behind the Lemon Tree phenomenon, and a few things are sure to catch your notice. For one, a dog curled up on the sofa at the reception...he opens an eye, gives a lazy 'oh-it's-you look' and remains curled up. No, it doesn't bark or lick. Secondly, all men, balding and otherwise, are sporting a ponytail tied with a Lemon butterfly-shaped bow. And thirdly, a wall decked with framed cuttings of write-ups on Lemon Tree.

When you first meet him, it is his flamboyance that strikes you. Clad in blue jeans and a grey Tee, sporting a pony and puffing away cigarillos, Patu Keswani looks cool. Once he starts talking, his passion and conviction impress you. As he opens up, you admire his plain speaking, sense of humour and values...

Q

Let's get the obvious question out of the way... what drove you to take the entrepreneurial plunge?

A

In 2000, I joined A.T. Kearney a top management consultancy firm, as director. For the next couple of years, I was into management consultancy... that is where I saw the great interest international hotel chains have about coming to India in the mid-market segment. They saw it a huge white space. That's when the entrepreneurial bug hit me. I asked myself 'why can't I build a small hotel'? I realised whatever I put up would do well if it is priced right because there was a vacuum in Delhi's mid-market space. I took the plunge and founded the company Lemon Tree in September 2002.

Q

Of course, you had your years of experience with the Taj...

A

Right. I joined the Taj group in 1984 as an employee of the Tata Administrative Services after completing my engineering and MBA at IIM.

Q

And how long were you there?

A

To be precise, I got into the hotel business in 1990 and was out by 1999. But I was with the Tata's for 15 years. After working with Tata Tea, Tata Steel and Tata Services for a year and a half, I was posted to Indian Hotels. For the first four years, I was running the Taj Flight Kitchen-a great fun job, large scale production of food; 10-15,000 meals a day being produced on an assembly line-and Taj Cake shop. I got transferred to Taj Mansingh as resident Manager in 1990. In the next seven odd years, I had Taj Mansingh, Taj Palace and Taj Bombay. In the last years, I was the chief operating officer of Taj Business Hotels running 22 medium-size non-luxury properties like Taj Visakahapatnam, Taj Connemara, Taj President etc.

Q

Is that the reason you roped in lot of Taj people on board?

A

Well...er...I shared a comfort level with them, but people from Oberoi, ITC and InterConti also joined me. The first person who came on board was JK Chawla, our senior vice president, projects. He was with Taj Palace as chief engineer and was the one who built Taj Lucknow. Another Key person was Rahul Pandit, our VP, operations When they came on board thing started moving fast. We built a 50-room hotel by May 2004 on a quarter acre land that I had bought in Udyog Vihar.

Q

Arranging finances must not have been easy. How did you go about it?

A

Well, the initial funding was generated from my internal resources and help from friends who had put in some money. The land had cost me Rs 1.35 crore and building the hotel another Rs 9

crore. I had put in some two-and-a-half crore, my family and friends together had put in another three crore. By the time we had put up the hotel some more investors came in at a higher premium. A friend of mine, a NRI, had put in a million dollars-Rs 4.5 crore. With that money I finished the first hotel and bought another plot in Gurgaon City Centre. We got loan for this second property, so we did not need any more equity.

Q

So by May 2005, you had two hotels...right?

A

Yeah. We built the second hotel in flat one year. And by this time, we have been making money like mad from the first hotel, so...

Q

Sorry for interrupting...at Rs 1600 you were making like mad. What was your pricing policy?

A

Well, our basic pricing model was simple. 'Transparent Pricing'. In 5-star hotels, the pricing is opaque. You only know the room tariff, while they kill you on the extras. Our strategy was we would make profit on room rent, while other services like phone call, fax, laundry etc. will be actual plus 10-15% surcharge. We didn't see these services as a revenue stream, but as a cost centre to support room sale.

We kept our tariff at 40% of the market price. Initially we priced our rooms at Rs 1600 because the market rate was Rs 4000-5000. But within six months when the market jumped to Rs. 6,000, we increased our price to Rs 2,500. However, if a phone call cost Rs 1.50 we charged Rs 1.65; if a photocopy cost Rs 1.20, we charged Rs 1.35; or say, laundering a shirt would cost Rs 30, while in a 5-star it might cost Rs 300.

Q

So what do you think worked right-your timing or pricing?

A

See, there was a huge market opportunity. If I may draw a parallel with cars, Lemon Tree in 2004 was like Maruti 800. There were the deluxe cars- The Taj, Oberoi and ITC-and there were the scooters, the guesthouse. So, it was a huge success the moment it hit the market. The property was a real value for money at Rs 1600 per night. It was a smashing hit with Indian

businessman who wanted value for money, not to be located, and were ready to write off the luxury ambience and some extra frills.

Q

So how did you position the brand? Who were your target audience?

A

We had positioned the property as a basic 3-star and we target both top-end and bottom-end users. The client mix we got was one-third 5-star users and two third guesthouse users. While the guesthouse users were very happy with the services we offered, the five-star users did not find it impressive. Actually, they wanted a cheaper hotel, but a four-star product. So, taking a cue from the client feedback, we designed two hotel brands-Lemon Tree became a basic four-star and we launched Red Fox, a basic two star brand.

Q

So, the genesis of Red Fox brand was client feedback?

A

That's right. The whole funda was that original Lemon Tree was too little for 5-star users and too expensive for guesthouse users. So, the Lemon Tree City Centre was upgraded to a top-end 3-star and I built two Red Fox rooms in that hotel, which nobody knew, to check the market. I tried it on our customers. The response we received held proof for our concept.

Q

With two brands in the same space, how did you position and price Lemon Tree and Red Fox?

A

We positioned Lemon Tree as a full service, upscale 4-star, while Red Fox as a limited service 2-star. Now, a Lemon Tree is priced at 60% and a Red Fox room is priced at 30% of the market price of a basic 5-star hotel like say, Fortune or Bristol. Not the 5-star deluxe like Taj or ITC, mind you. Thus, we covered the whole spectrum of the market. Our pricing policy remains same. No extra mark up on other services-only 20% surcharge. For instance, if a black-n-yellow taxi costs Rs 1, we will charge you Rs 1.20, but give a car.

Q

Who developed the brand concept of Lemon Tree? Shunu Sen of Quadra, I believe, had helped with the evolution of the brand.

A

No. Shunu was dead by the time I launched my company. He was a great buddy...and an incredible human being, but he has got nothing to do with Lemon Tree brand concept. May be his name struck you because my wife was COO of Quadra and Shunu was her boss. My wife was heart broken when he died....I joked with her...I said you loved him (laughs heartily). Anyway, my wife, Sharanita, developed the brand brief, when we launched Lemon Tree, in literally one day. But we went for a total re-branding when she came on board in 2006 January as marketing advisor.

Q

Establishing a brand in the market is tough. What was your strategy in marketing the brand?

A

We applied a unique marketing strategy since our brand had no image in the market. I planned to go for direct marketing, as clients had no idea of what Lemon Tree was all about. Aradhana Lal, an IIM Ahmedabad graduate-she had worked with me in Taj Mansingh as Sales Manager and later was running direct marketing for Aviance-joined us as VP, marketing. She applied the FMCG principles of sales in selling our hotels. She had a small team of three people directly calling on every account in and around the area-our principle of building a hotel is that there should be enough customers within one kilometer to fill the rooms-with a presentation kit and convincing the person to visit the property. Since the first two properties were in Gurgaon, our strategy worked well and we started making huge profits. Our sales call today is first rate.

Q

When you say huge profits...er...would you like to speck out the number?

A

I invested Rs 9 crore and Rs 13 crore for the first two properties and they have earned last year a profit of Rs 15 crore. The earnings from these two hotels can now build two more hotels of that size every year.

Q

So, when you were making money from the business hotels, what prompted you to enter the leisure segments?

A

For two reasons-one, because the property was a cheap buy and secondly, a resort would add brand value to the chain. I was vacationing in Goa when a friend told me about this property on Candolim Beach. I went with my wife to see the property, liked it and finalised it immediately because the price was lucrative. It was totally my own investment. After renovation, we merged it with Lemon Tree and branded it as Lemon Tree Amarante.

Q

How did you position it and what has been the market response...after all, Goa has all the top brands like Hyatt, Leela,Taj present?

A

We positioned it as an upscale, moderately priced resort. The resort is a beautiful heritage property, but the price is half of Taj. So, the response is great. Our occupancy is close to Taj, though we have opened just a year back. We get top corporate executives for vacationing.

Q

So how would you describe the Lemon Tree brand now after product addition?

A

Lemon Tree is an upscale, full service, moderately priced hotel chain that operates in both business and leisure segments in the mid-price space of Rs. 3000-5000 per room night.

Q

And what is the brand value?

A

Rs. 1500 crore.

Q

What are your expansions plans? You have already opened a Lemon Tree in Pune this year, are there any more lined up?

A

We are looking at the market very aggressively. We are investing Rs. 800 crore now and plan to invest another Rs. 700 crore in the next two-and-a-half years. The money is coming from internal accruals, equity and debt. Currently, we are building some 1500 rooms under the Lemon Tree brand in all major cities including Chennai, Delhi, Jaipur, Pune, Ahmedabad, Bangalore, Hyderabad and Mumbai. The next Lemon Tree property will open in East Delhi Mall (EDM) in Kaushambi Ghaziabad. It will have a huge banqueting space of 40,000 sq. feet. We will be entering the banquet space with the opening of the EDM Banquet Hall on October 1, while the hotel will open in January 2008. We are also building 40 rooms in Jaipur, Hyderabad, Chandigarh and Delhi in the Red Fox category. The Delhi Red Fox to be built in Mayur Vihar will be a joint venture. I am at present reviewing a proposition in Calcutta's Salt Lake area.

Q

That is what I say going all out. Wasn't acquiring land a problem since land prices are so steep?

A

I had invested the profit of the first two hotels in buying land wherever it was available cheap. So, by mid-2006, we had bought 9 plots of land. Interestingly, the plot for the Pune hotel was bought and the property was built from the profits of the first two Gurgaon hotels. In the meantime, the private equity players like ICICI Ventures, Warburg Pincus and Kotak Mahindra-who suddenly realized the investment opportunities in this white space-started contacting me. In July 2006, I sold Warburg Pincus 26% of lemon Tree and 26% of Red Fox for Rs. 300 crore and sold 4% of Lemon Tree to Kotak for Rs. 35 crore. So suddenly the company was cash-rich. And though it was expensive, we could acquire plots in Bangalore, Hyderabad, Delhi, Mumbai, Jaipur and another plot in Pune. Now, we have some 15 plots of land. But we were lucky in the sense that we bought the lands before the prices went up. Like we got the land in Mumbai for Rs. 15 crore and in Delhi for Rs. 20 crore.

Q

The hotel stocks are doing well-any plans to go public?

A

Yes, in the next three years. By 2010, we will go public.

Q

What is your strategy to beat the big bands? Ginger is coming in every major city, then Accor group, Choice, Fortune all have aggressive plans?

A

How will we beat competition? We will be better priced and offer better services. That Warburg is our strategic partner shows that they have confidence in our business model. We have 100 percent return-and-recommend ratio. Our recommend ratio is cent per cent means our products are selling by word of mouth.

Q

You are also selling your hotels in the international market. What is your marketing strategy there?

A

For international markets, we use a multiple channel strategy. We use the electronic media, we are on the GDS like Galileo, Sabre; we are on the major travel sites and the relevant sites for hotel booking; we have tied up with charter companies; we have tied up with charter companies; we have travel agents booking for us. But most importantly, we get reference from the local companies because lots of them have foreign clients coming in-we get 75% foreigners in Pune, 60% in City Centre and 45% in Udyog Vihar.

Partners In Service

Q

The people who came on board from Taj when you started off, are they still there?

A

Oh yes, everybody is there. We have people on board from Taj, Oberoi, ITC.

Q

What is the attrition rate in your company?

A

Less than 10 per cent.

Q

When most companies struggle to contain their manpower turnover, how do you manage to retain your employees?

A

I follow a simple formula-I keep my employees happy. Because they give me the biggest gift - 'time', the only resource that is limited. If my employees are happy, they will keep the guests happy; happy guest mean happy shareholders; since I am the major shareholder, it makes good business sense for me to keep my employees happy. I am grateful to people who took a career risk when they joined me leaving 5-star hotels, so it is my duty to pay them the reward. Hence, I make sure they are motivated, contented, get enough wealth creation opportunities and career growth prospects and I support them in learning and development.

Q

Career growth and wealth creation seems to be the two key words in your HR policy, can you explain?

A

See, our policy is we promise internally. I bet on a 90% internal candidate, rather than go for a 100% candidate from outside because we want the right culture, the right attitude, and the knowledge of our systems and processes. In the space of next three years, that is by 2010, four hotels will become 20 hotels. It means there would be five times the number of vacancies at each level. So, the 700 people who are working in the company now will have crazy growth opportunities. We now have 27-year-old GMs and the average age of our company is 26. Can you imagine the growth prospect for this young crop?

Q

And what is the wealth creation opportunity?

A

We give our executives a guaranteed number of shares at very discounted prices with the condition that they stay with us till IPO. Since the price of our shares are going up fast, a guy who is working at the junior or middle level in our company will make five-seven times his annual salary package tax free within four years with the shares. I will give you an example. When Warburg invested in our company, the first 10 people who came on board, all became dollar millionaires; they sold 15% of their shares for close to a crore of rupees. There are 21 people in our company whose shares are worth Rs 4 crore net.

Q

Will you continue with this policy when you grow into a big chain?

A

Oh yes. Since I worked as an employee before becoming an entrepreneur, I understand that employees get very little incentive for all the hard work they put in. so I want to make the whole company entrepreneurial so that we all benefit as the company grows. Our share value grew by Rs 30 each after we opened the Pune property, which means an employee who has one lakh shares became rich by Rs 30 lakh. My policy now is to give 71/2 percent of the total shares to all employees. When the company will grow, I will go back and ask shareholders for more shares.

Q

You made a mention about supporting development and learning...

A

Right. In our company we have a fund kept aside for training. We send our executives to prestigious institutes in India like Fore School of Management, IIMs and abroad to Singapore, Hong Kong, the US for training. We identify the people from associate level and junior executive level who have the potential. Then besides our routine training, we particularly focus on grooming them so that we can promote them at the next best opportunity. Since we promote internally, we need good people.

Q

From where do you recruit?

A We go to atleast 60 catering colleges and Hotel Management Institutes to recruit.

Q

Anything special for women?

A

They can't have ponytails (laughs)....no nothing special for women...we believe in equality. But we have special dog employees.

Q

What? You are employing dogs?

A

Yes....it is called K9 squad. Our management team has already 3 dogs and we are going to hire 11 more....each hotel is going to have a dog...it is fun to have a dog. Plus, we have just hired eight deaf and dumb people for housekeeping.

Q

What promoted you to take the decision-any particular reason?

A

I believe the society should be more inclusive. As a HR policy, Lemon Tree will hire socially and physically disadvantaged people. We will need some 4000 employees in the next three years, out of which 1000 will be from this category. If the country has 600 million people under the age of 30, then why is there such a shortage of manpower? It is because everybody is chasing the 5% English speaking people, so the 570 million are unemployed. I have asked the HR department to hire 100 more deaf and dumb people and we will train them for the backend areas of hotels like maintenance, housekeeping, stewarding, gardening, where guest interaction is rare. Plus, the company is also supporting anybody who helps these disadvantaged people. Like we have given cash rewards to the students of Super 30 (a NGO in Bihar run by Ananth Kumar), who have made it to the IIT.

Man Behind The Mask

Q

What is your take on life?

A

God has given me a certain amount of time on earth and I cannot increase that time. So, as long as I am here I would like to spread happiness and not hurt anybody. My worldview is simple- have integrity, be truthful, and don't be malicious.

Q

What is the genesis of this world view? Were you influenced by somebody or by some incident?

A

I think my dad, a government official, instilled integrity in me. He never allowed me to use the staff car. My parents inculcated in me a basic value system like being kind, not to expect anything for free, not to be dishonest. Later, Tatas reinforced values like integrity and social

obligation. Tatas believe if God has been kind to give you money, the purpose of life is to reinvest that money in society. I think these influences has left an imprint in me.

Q

You keeping joking every now and then...what role does humour play in your life.

A

A very important role as its keeps me happy and relaxed. It works for me as a stress buster. Humour is also reflected in our brand philosophy. We work to live, not live to work, so a fun atmosphere in office makes work enjoyable. We have jokes all over our company-on the wall hangings, tablemats, paintings, coasters because I want our guests, employees and partners to be in a happy and refreshed mood.

Q

You both are so busy..how does your marriage work?

A

My wifes makes my marriage work. I travel like mad, I am crazy, but she still adjust with me. And she manages both home and her work with such ease. All credit goes to her.

Q

What is it you can't live without?

A

Books. I read like mad. I read almost one book a day. At night I read from 11 to 2. I also love hanging out with buddies....at least once a week.

Q

How have you changed from your Taj days?

A

Well, I feel liberated. I don't have to wear that formal suit-tie attire. I can dress as I want to, sport a pony, be funny and feel happy that I am my own master.

November 01, 2007