Boom Checks In

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Try getting 10 minutes of face time with Raymond Bickson. Ever since the 48-year-old Hawaii-born American took over as the Managing Director of Indian Hotels in July last year, he's been in a tearing hurry. First, to get a handle on his own Taj chain of hotels and then on a complex country called India (in between the surfing enthusiast has also been trying to find the perfect wave at India's beaches, with little luck). But more importantly, he's been trying to spur growth at the 100-year-old brand, best known for its luxury hotels. Ergo, it's not unusual to see the tall and swarthy Bickson-who speaks accented English and wears a wide smile, besides a sharp suit-leaving his second-floor office at Mumbai's Taj Mahal hotel as late as midnight.

Barely a year ago, a CEO like Bickson may have spent his working hours wringing his hands and possibly waiting anxiously in the lobby of his hotel, with a prayer on his lips. For that was the year when SARS hit the world, America attacked Iraq, and the sub-continent breathed tentatively in the wake of a massive troop build-up on the Indo-Pak border. Result: Occupancy plummeted to almost 40 per cent and with it rates-even at the Taj Mahal, Mumbai, a room in the popular Heritage wing was going for a song. No wonder, PRS "Biki" Oberoi, Chairman of East India Hotels (EIH), describes the summer of 2003 as the "worst in living memory".

A year on, though, 2003 seems like another era. Since busy season starting November last year, occupancy in the industry has shot up to over 70 per cent (almost 90 per cent in Bangalore) and travellers often find it difficult to find a room. What's behind the upturn? A surge in business and holiday travel. According to the latest Department of Tourism figures, 2.75 million foreign travellers-both business and leisure-visited India in 2003, a 15 per cent climb on 2002. However, almost all the growth came towards the second half of the year. Domestic tourism, too, is booming. According to data compiled by NCAER, 550 million Indians travelled within the country in 2002. This figure rose to 610 million in calendar 2003, a jump of 12 per cent. However, most of this travel could be attributed to religious tourism and travel to native places. Says Uttam Kumar Dave, CEO of travel and tourism consultancy, Pannell Kerr Forster: "Prospects for the industry are looking the most positive in a long while."

Rooms With A View

Since the start of the Tenth Five-Year Plan in 2002, the Department of Tourism has had a target of attracting 5.7 million visitors every year. While the number is modest, given the fact that a much smaller country like Malaysia played host to roughly 10 million visitors in 2002, even that seemed like a tall order until recently. After all, just 2.75 million visitors travelled through India in that same year. But with the economy booming, agriculture set to grow by above 10 per cent this year, and (air) travel getting cheaper, the target seems realistic-some say, even conservative. For example, the ranks of domestic air travellers have swelled to above 15 million from 13.95 million in just the last year. Says Ranjit Malkani, CEO, Kuoni India, "There has been a virtual revolution in the Indian skies with these new marketing initiatives. There is now a new urge in people to travel, especially with these discounted fares. Capacity expansion should hit 15 per cent this year." And if the World Travel and Tourism Council's latest India report is anything to go by, the country is set to become the world's second fastest growing travel economy in the coming decade behind Turkey.

Between 1993 and 2002, India added 34,300 hotel rooms, and at present has 85,481 rooms (Bangkok alone has almost as many). But most of them were in the five-star and luxury categories. EIH, for instance, has invested more than Rs 700 crore over the last three years, mainly in developing the super-luxury "Oberoi Vilas" resorts. ITC, too, has spent a large chunk of its Rs 1,000-crore investment over the past three years in super-luxury and mid-market segments. But now there's a distinct shift towards the mid-market, or budget, hotels. Why? "There's a huge wide open space in this segment, it's a market waiting to be exploited," says Patu Keswani, CEO Krizm Hotels, and a former coo of Indian Hotels, who is about to open a 53-room budget hotel in Gurgaon, called Lemon Tree.

On its part, the industry seems convinced by Keswani's assessment.

The Big Three-Indian Hotels, EIH, and ITC Hotels-have drawn up plans to expand, not just in the luxury segment in India (and abroad, other than ITC), but also in the budget segment, where there's virtually no organised player. ITC Hotels, which launched a mid-segment brand, Fortune Park, in 1995, wants to grow the chain from 19 properties currently to 50 by 2010. Three new ones will open in Chennai, Gurgaon, and Vijayawada this year alone. Says Mandeep Lamba, Managing Director, Fortune Park: "Internationally, 80 per cent of this segment is in the organised sector, but in India only now people are venturing into this market."

Indian Hotels, too, is busy finalising plans for what it calls "value" hotels, which will cater to the middle-level executives and other tourists, and be located across the country. The hotels would have 100-200 rooms and be strategically located in technology parks, pilgrimage centres, and transportation hubs, among others (see The Big Three: Say Budget). Says Bickson: "The growth in domestic traffic would not only offset the seasonality aspect (April to September), but also reduce the dependence on (travellers from) overseas, and thereby de-risk the business model."

Low-Cost Expansion

Dave of Pannell Kerr Forster estimates that in another five years, some 30,000 rooms could be added. At a conservative Rs 20 lakh per room, we are talking about Rs 6,000 crore in investment. Luxury hotel rooms cost much more; Oberoi, for example, says that it costs anywhere between Rs 70 lakh and Rs 1 crore. And it can take as much as five years before the venture breaks even. That's another reason why industry majors-vulnerable to unpredictable downturns-find the mid-segment so attractive. Even here, they are hedging their bets. Both ITC Hotels and EIH-Indian Hotels is a notable exception-are taking the management contract route to expand. The former doesn't own even one of the 19 Fortune Parks it currently operates, and the latter has broken with tradition and recently inaugurated its first hotel under management contract, the Trident-Hilton in Gurgaon. "It's part of our medium- and long-term strategy to manage hotels for both brands (Oberoi and Trident-Hilton)," notes Oberoi.

Then, there are other issues pushing the hospitality chains towards a franchisee model. Prime among them is lack of land. "Availability of quality land is the single-biggest problem facing the industry," laments Nakul Anand, Managing Director, ITC Hotels. At least in the major metros, there is no land of the required size available at a viable price. Besides, hotels in India end up investing far more than their peers elsewhere in the world, in building full power back up, water treatment plants, and sewerage systems, all of which add to their costs.

Perhaps the bigger issue is of encouraging tourism within the country and luring more international travellers. That will happen, say the hoteliers, when infrastructure such as roads, airports, and key tourist facilities are improved. "This is a bellwether sector for the economy," says Anand. "If we are doing well, it usually means the economy is doing well." If the industry's budget hotel strategy pans out the way it is expected to, then next time round when boom checks out, bust may not necessarily check in.

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