Indian hoteliers exchange swimming pools for price

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Famed for the opulence - and lofty prices - of its luxury hotels, India has tended to disappoint that seeking budget accommodation.

With Indian hotel companies traditionally focusing on the lucrative high-end market, affordable rooms were found in dilapidated, socialist-era state tourist bungalows or guesthouses run by local entrepreneurs. Cost-conscious travellers all too often found themselves in grim rooms with clattering air-conditioners, sagging mattresses and dirty bathrooms.

But now budget travellers, including Indian holidaymakers, junior company managers on assignment and foreign backpackers, are being offered comfort by India's Tata Group . Two years ago, Tata's Indian Hotels Company - best known for its luxurious Taj Hotels - launched Ginger, a no-frills hotel chain that aims to deliver cleanliness and essential services at budget prices.

"Given the history of this company - the fact that it has always been at the high end of the market - it took a fair amount of courage to take a look at a completely different segment," says Prabhat Pani, the chief executive of Roots, the wholly owned Indian Hotels subsidiary, running Ginger. Absent are the solicitous doormen, concierges and valets, multi-cuisine restaurants and the landscaped swimming pool areas that characterise Taj and other Indian luxury hotels. Ginger's hotels are spartan but functional - somewhat evocative of a modern university dormitory - providing guests with comfortable beds in simple but bright rooms, with bathrooms, LCD TVs, and a desk and chair. Snacks are the only room service, while meals are outsourced to local restaurants.
Such slimmed-down offerings, which Ginger has dubbed "smart basic", mean the company has pared down its staff-to-room ratio to about 0.5 employees per room compared to an industry average of 1.8 employees per room for the mid-range hotels in India.

"If people are travelling to spend time at the hotels, it is not a great offering," Mr Pani concedes. "If they are people who want to use the hotel while they are working, or go off and see monuments or a game reserve, this fits in beautifully for them."

Indian hotels: land costs and bureaucrats

With just 130,000 rooms - less than in just New York City - India's hotel industry is still at the nascent stages. There is huge potential to grow, yet the country's regulatory environment makes it tough to develop new, affordable hotels.

High land prices and tight building restrictions create big barriers to India's burgeoning hotel sector.

Most Indian cities cap the ratio of floor space to land at 1.3 to 3.75 - compared to 10 in cities like Shanghai. The low floor space to land ratio forces developers to build upmarket hotels so they can charge higher prices to recover their land costs.

Obtaining permission is also a protracted, opaque process. Sometimes, up to 40 state agencies must be approached in order to obtain between 70 and 110 licences.

Patu Keswani, founder of Lemon Tree Hotels, says it often takes less time to build the hotel than to get the necessary permission beforehand.

These factors - and the resulting shortages of affordable rooms - have led to some strange anomalies in India's hotel market. It has, for example, prompted software companies Infosys and Wipro to set up their own large corporate guesthouses for internal use, making them among the largest providers of rooms in India.

With 18 hotels already operating, Ginger expects to have 30 properties by the end of next year, and up to 70 in 55 cities across India within four years. The company's main focus is the smaller but fast-growing cities or the industrial towns, many of which have never had any corporate hotel chains.

"Finding a decent neat safe place to stay in some of these smaller cities was a huge challenge," says Mr Pani, who previously spent years travelling across India as a sales manager in the telecom and consumer goods industries.

"There were locations in this country where people never went and stayed overnight- they just finished their day's work and got back in the evening," he says. "Now, because we have a hotel there, they do decide to stay."

The Ginger business model was developed with guidance from CK Prahlad, the Indian-born business guru and author of The Fortune at the Bottom of the Pyramid, a book about the transformative impact of profit-oriented businesses catering to the needs of poor consumers. Ginger's positioning reflects the Tata Group's broader push to develop products to cater to India's emerging mass market, most famously with the Tata Nano, which is the world's cheapest car.
"There were no organised players in this particular space - the bottom of the pyramid in terms of the hospitality space," Mr Pani says.

Yet Ginger has struggled to get its pricing policy right. Initially, the company offered rooms at Rs1,000 ($21, €14, £13) in any of its hotels, regardless of location, and its rooms were highly in demand.

But as Indian property prices soared amid the economic boom of 2007 and early 2008, Ginger raised its room rates as high as Rs2,500, only marginally less expensive than many full-service hotels.

With the global economic slowdown hitting India soon after, occupancy rates tumbled. "They tried to take the pricing up, but that really hurt them because their value proposition got diluted," says Manav Thadani, managing director in India of HVS International, the hospitality consultancy. "Indian consumers are very price-sensitive."

The higher tariffs sent the most budget-restricted consumers back to cheaper guesthouses and more affluent consumers took other options at the same price level.

Ginger is now offering flexible, segmented rates, with sharp discounts for early web booking. Mr Pani says most hotels in the chain are running at 60-70 per cent occupancy - with some properties fully booked for weeks at a stretch.

But Ginger will not have the no-frills hotel business to itself for long. Patu Keswani, an entrepreneur who spent 10 years at Taj Group himself, mainly running its business hotels, has now established his own hotel company, Lemon Tree Hotels. It has backing from foreign investors including Warburg Pincus, the US private equity fund.

Mr Keswani has 10 full-service, mid-range hotels under the Lemon Tree brand, with another 10 due to open between now and 2012. In the next two months, the company is also opening its first two budget hotels, called Red Fox. Mr

Keswani says these two hotels will not be as stripped down as Ginger, allowing him to charge higher prices.

India's Sarovar Hotels, a domestic hotel management chain, is also developing a budget brand, Hometel, which operates one property in the software hub Bangalore, and has several others under development.

International companies are also keenly eyeing India's no-frills hotel segment, with Accor exporting its Formule 1 chain, and the UK's Whitbread aiming to introduce its Premier Inn.

All these new hotels are good news for India's budget-conscious travellers. Yet in spite of the increased competition, Mr Thadani believes the hotel players will thrive as the country's economic growth makes travel more accessible to increasing numbers of Indian travellers. "If you look at it in the short to medium term, it may look pretty crowded," he says. "But in the long term, the opportunity is great."

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