Vol. 1 | 2019

The Ultimate
INDIAN TRAVEL & HOSPITALITY REPORT

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Foreword

The Indian hospitality industry is at an important juncture. The industry upcycle, increased inbound and domestic travel, introduction and use of new technology, favourable government initiatives, more evolved owners, a larger number of domestic and international operators, new-age hotel chains and, overall, a more forward-looking approach of various industry stakeholders together make the present times very exciting.

Amidst all this, there have been massive debates about the overall size of the Indian hospitality industry. While there are numerous estimations being made, most fail to leverage a sound methodology. So, the Hotelivate team decided to conduct a comprehensive market sizing exercise, consulting key industry stakeholders and using its experience in tracking hotel markets across the country for over two decades. We have been at the forefront of hospitality research in India for long. My team had demonstrated this back in 1995/96, when we first quantified the number of branded rooms operating in the country at around 18,000; every year since then, the industry uses our research as a credible benchmark for this metric.

Hotelivate is proud to bring to you **THE ULTIMATE INDIAN TRAVEL & HOSPITALITY REPORT**, which presents the results of our market sizing exercise along with the methodology used to arrive at the figures. We have also taken it a couple of steps forward by establishing the number of people directly employed by the Indian hospitality industry and the tax revenue generated by it. You may have noticed that we are specifically using the term "hospitality industry" and not "hotel industry". We believe it's high time that the organised sector of branded hotels in India recognises the informal or unbranded sector, represented by independent/unbranded hotels and alternate accommodation such as guesthouses and homestays, as a key industry player. To put things in perspective, the informal economy (across industries) in the country contributes as much as 40% to the nation's GDP. In terms of employment, its dominance is way higher than the formal sector, accounting for more than 80% of the country's workforce, per International Labour Organisation (ILO)'s estimates. Hence, overlooking the informal/unbranded segment when attempting to determine the size of the Indian hospitality industry will not only be imprudent, but also fail to provide a complete picture of how many lodging/accommodation rooms are actually out there. **As of December 2018, we peg the number of lodging/accommodation rooms in the country at 2.72 million$^{(ME\ =\ \pm 7\%)}$ that operate across branded/traditional hotel chains (predominantly organic branded), new-age hotel chains (mostly conversion-branded), independent or unbranded hotels and alternate accommodation.**

In addition to the industry size, The Ultimate Indian Travel & Hospitality Report presents **many interesting trends and data points relating to tourism** (inbound, domestic and outbound) and **transportation** (air, rail and coach/bus), which although available in public domain, are rarely referred to or used by the hospitality industry in an insightful manner. Part of it could be due to the lack of such information being available through a single source; Hotelivate has tried to address this issue by collating all relevant trends and statistics in this report, serving as an all-inclusive reference. Moreover, **through different sub-articles, we have offered our insights on diverse industry topics**, such as inbound leisure tourism to the country, hotel management contract trends, the scalable model of OYO, and hotels and online travel agencies (OTAs) trying to find their balance. Also, the **performance of the branded/traditional hotel chains** has been analysed and presented in detail by city, positioning and origin (domestic and international), along with pertinent trends relating to **OTAs** operating in India.

We would like to sincerely thank all industry stakeholders whose contributions, guidance and support made this massive research report possible. Particularly, Hotelivate collaborated with The World Travel & Tourism Council (WTTC), World Travel & Tourism Council, India Initiative (WTTCII), Center for Asia Pacific Aviation (CAPA) India, Indian Railway Catering and Tourism Corporation (IRCTC), Ministry of Railways (Indian Railways), several branded hotel chains and select online travel agencies in the country.

We hope you enjoy reading the report as much as we enjoyed creating it. We welcome any feedback to improve future editions and are happy to answer any questions you may have.

MANAV THADANI
Founder Chairman
Hotelivate

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Section I: Travel & Tourism – Where Does India Stand?

Travel & Tourism, supporting **1 in every 10 jobs**, is one of the largest industries in the world, growing at a faster pace than the global economy and making a total contribution (direct, indirect and induced) of almost US$9 trillion in 2018.[1] More people are traveling today than ever before owing to a variety of factors such as the global economic upswing, reduction of travel barriers, enhanced connectivity, digitalisation of the industry, higher disposable incomes and a proactive role of the private sector. Global tourist arrivals surpassed 1.4 billion last year, registering a 6% year-on-year growth – the second strongest year since 2010.[2]

For India, the industry has been a major contributor to employment, foreign exchange and GDP growth. Several factors have helped propel the country to a prominent place in the world Travel & Tourism scene. These include infrastructure improvements, increased purchasing power of the middle class, and an active participation of the industry. Equally significant is the role played by favourable government initiatives: the introduction of electronic visa, expansion of visa-on-arrival, the UDAN scheme that is revolutionising air connectivity to Tier-II and Tier-III cities, identification and development of tourist sites, and the Incredible India 2.0 campaign that promotes a wide range of tourism products including medical and spiritual tourism.

India currently ranks 3rd in WTTC's Travel & Tourism Power Ranking, which looks at the "absolute growth" of 185 countries across four main Travel & Tourism indicators – total Travel & Tourism GDP; visitor exports (foreign visitor spending); domestic spending; and Travel & Tourism capital investment – for the period between 2011 and 2017 (Figure 1). Domestic demand has predominantly fueled India's growth, contributing 87% of the total Travel & Tourism visitor spending in the country.

TRAVEL & TOURISM | GLOBAL

10.4% (US$8,811 bn) of Global GDP

10.0% (319 mn jobs) of Total Employment

4.4% (US$941 bn) of Total Investments

78.5% Leisure Spending

21.5% Business Spending

71.2% Domestic Spending

28.8% Foreign Visitor Spending

TRAVEL & TOURISM | INDIA

9.2% (US$247 bn) of India's GDP

8.1% (43 mn jobs) of Total Employment

5.9% (US$46 bn) of Total Investments

95.0% Leisure Spending

5.0% Business Spending

87.0% Domestic Spending

13.0% Foreign Visitor Spending

Source: WTTC Travel & Tourism Economic Impact 2019 – World & India Reports

FIGURE 1: WTTC TRAVEL & TOURISM COUNTRIES POWER RANKING TOP 10 – 2018

Country	Overall Rank	GDP Rank	Visitor Exports Rank	Domestic Spending Rank	Investment Rank
China	1	1	3	1	1
USA	2	2	4	2	2
India	**3**	**3**	**8**	**3**	**3**
Mexico	4	5	7	8	7
UK	5	6	14	7	5
Spain	6	10	5	13	9
Turkey	7	11	9	17	6
Canada	8	14	20	10	8
Indonesia	9	15	15	15	12
Australia & UAE	10	12 | 16	13 | 6	9 | 21	25 | 16

Source: WTTC Travel & Tourism Power and Performance Report 2018

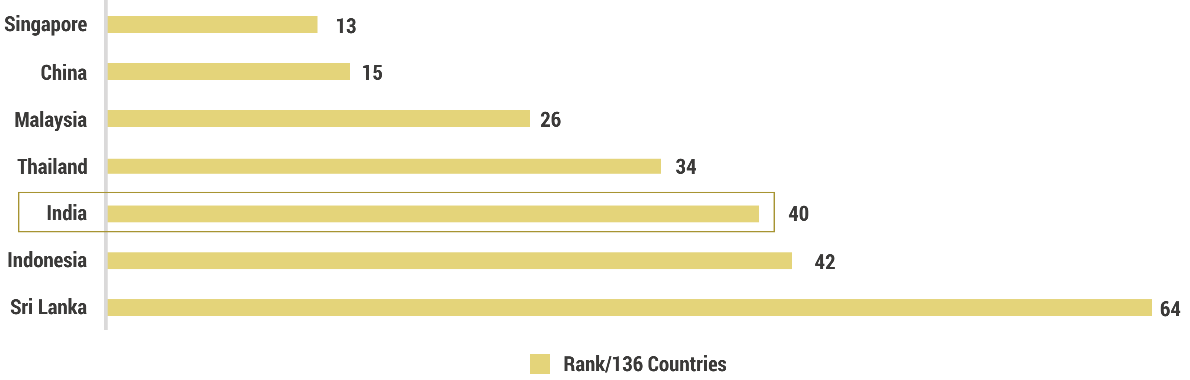
Additionally, an in-depth biennial research by the **World Economic Forum** across 14 critical parameters reveals that **India moved up 12 places over the last two years to rank 40th out of 136 countries** in terms of **Travel & Tourism Competitiveness**. When viewed in conjunction with the WTTC's Travel & Tourism Power Rankings discussed previously, one obtains a more rounded view of the country's strengths, areas for improvement and opportunities vis-à-vis other nations.

India's rich cultural and natural resources, its relative price attractiveness, developing transportation infrastructure and progress in international openness (via minimising travel barriers) have been enablers for the continual rise in inbound travel to the country. In contrast, safety and security, health and hygiene, prioritisation of Travel & Tourism (especially government expenditure on the industry), environmental sustainability, ICT (Information & Communication Technology) readiness and tourist service infrastructure in the country remain relatively weak.

[1] *WTTC Travel & Tourism Economic Impact 2019 – World*
[2] *UNWTO International Tourism Results 2018 and Outlook 2019*

It is particularly striking that **India ranks 133 out 136 nations in terms of the number of hotel rooms per 100 population** – assessed within the tourist service infrastructure parameter. This poses a major hindrance to the country's Travel & Tourism growth and has been explored in greater detail later in this report. Figure 2 illustrates India's performance on each competitiveness criterion and compares its rankings with the peer set.

FIGURE 2: TRAVEL & TOURISM COMPETITIVENESS RANKING INDEX OF INDIA VS PEER COUNTRIES – 2017



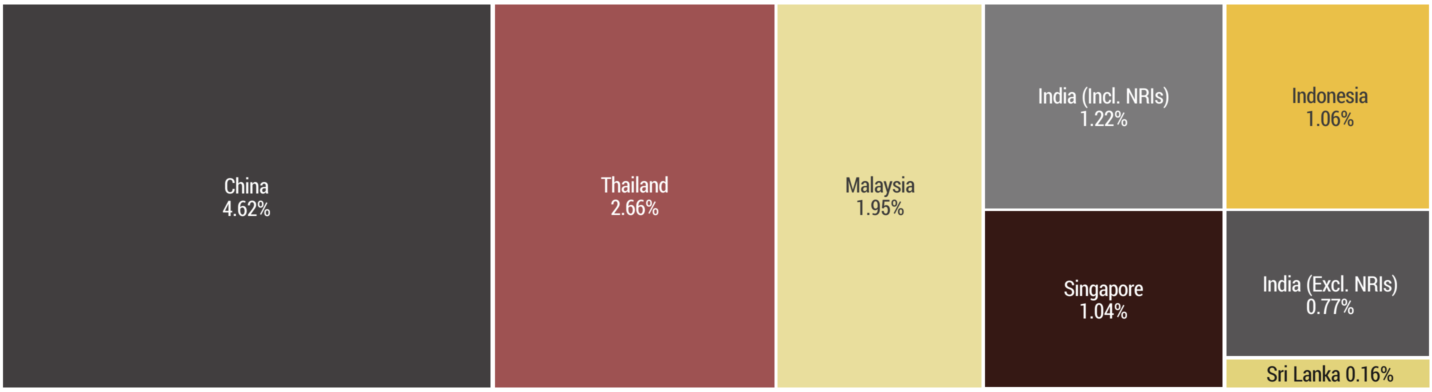
Parameters	India	Singapore	China	Malaysia	Thailand	Indonesia	Sri Lanka
Cultural Resources and Business Travel	9	28	1	34	37	23	72
Price Competitiveness	10	91	38	3	18	5	20
Natural Resources	24	103	5	28	7	14	31
Ground and Port Infrastructure	29	2	44	34	72	69	45
Air Transport Infrastructure	32	6	24	21	20	36	68
International Openness	55	1	72	35	52	17	67
HR and Labour Market	87	5	25	22	40	64	78
Business Environment	89	2	92	17	45	60	50
Prioritisation of Travel & Tourism	104	2	50	55	34	12	26
Health and Hygiene	104	62	67	77	90	108	71
Tourist Service Infrastructure	110	24	92	46	16	96	94
ICT Readiness	112	14	64	39	58	91	100
Safety and Security	114	6	95	41	118	91	59
Environmental Sustainability	134	51	132	123	122	131	93

Source: World Economic Forum's Travel & Tourism Competitiveness Report 2017

Inbound Tourism

Evidently, though India is taking deliberate steps to improve its Travel & Tourism performance, a lot more remains to be accomplished. The nation received 10.04 million international tourists excluding NRIs (15.54 million including NRIs), accounting for **0.77% of the global share in 2017**. While this translated to a 14% increase in arrivals over the previous year, India's global share was **notably lower than that of its peers** in the Asia Pacific (Figure 3). CAPA links this to the nation's lower capture of the Chinese outbound travel, stronger presence of peer countries in India's source markets, high reliance of the country on tourists from long-haul destinations, and lower government spending on tourism in comparison to other Asia Pacific nations.[3]

FIGURE 3: GLOBAL SHARE OF INTERNATIONAL TOURIST ARRIVALS OF INDIA VS PEER COUNTRIES– 2017



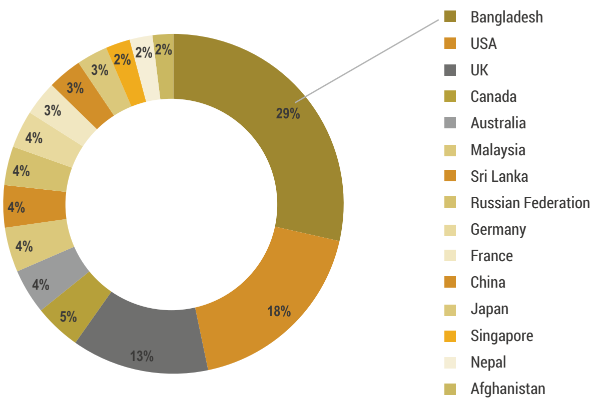
Source: CAPA India Research 2018

[3] *CAPA India Inbound Tourism Report 2018*

It is further interesting that India's Top 10 source markets have largely remained the same in the past decade (Figure 4), and while the number of tourists from these countries has grown in absolute terms, India's share of outbound travel from these markets has been low vis-à-vis other Asia Pacific destinations.

Particularly, **India's market share of outbound travel from Sri Lanka, China, the UK, France, Japan and Canada is witnessing a downward trend** with other Asia Pacific nations like Thailand, Singapore, Indonesia, China and Malaysia gaining in popularity in these source markets. This could be due to the relatively low attention being given to these countries on the assumption that they are well established, notes CAPA.[3]

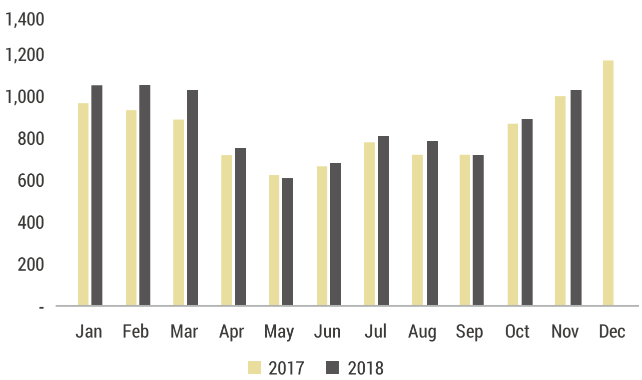
FIGURE 4: TOP 15 SOURCE COUNTRIES FOR INTERNATIONAL TOURIST ARRIVALS (EXCL. NRIs) IN INDIA – 2017



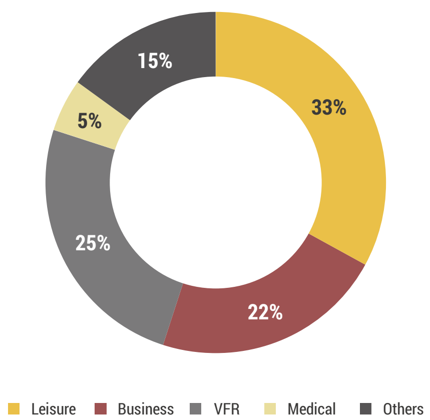
Note: Percentage share of each market is based on the total number of international tourist arrivals from these 15 source countries only, and not all source countries for India.

Source: Ministry of Tourism, Government of India – India Tourism Statistics at a Glance 2018

FIGURE 5: MONTH-WISE INTERNATIONAL TOURIST ARRIVALS (000s, EXCL. NRIs) IN INDIA – 2017 AND 2018*



Purpose of Travel **



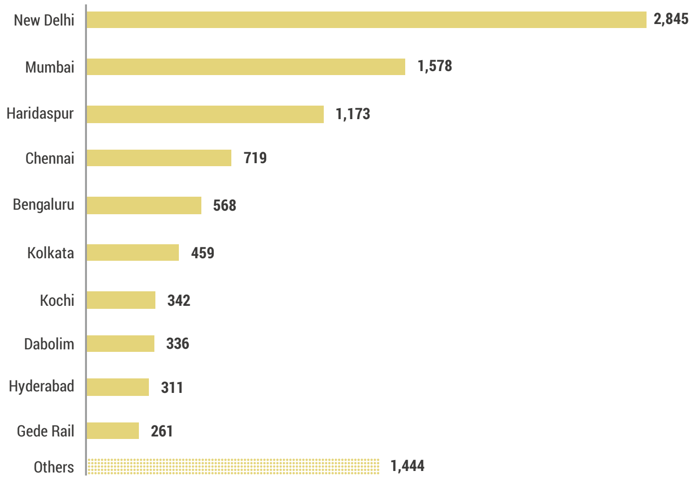
*Note: *January to November 2018; ** Excluding NRIs and Bangladesh nationals*

Source: Ministry of Tourism and CAPA India Research

In terms of the **seasonality**, November-February marks the peak period for international arrivals to India, whereas May and June are the leanest months (Figure 5). As for the **purpose of travel**, most of the visitors to the country travel for leisure, followed by business, visiting friends and relatives (VFR), medical and others. Here, we would like to draw the government's and industry's attention to the leisure segment – accounting for 33% of the total visitation– which we believe is highly under penetrated for a country this size with rich and diverse tourism offerings. We have discussed this separately in our insight column within the section. Figure 6, overleaf, highlights the top 10 of the 86 **international check posts** for foreign tourist arrivals in India. Notably, Haridaspur and Gede Rail, the crossover points from Bangladesh, rank third and tenth on the list.

Ancient Structure, Chikmagaluru

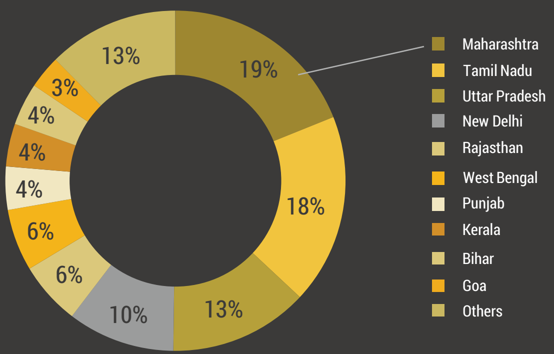
FIGURE 6: TOP 10 INTERNATIONAL CHECK POSTS FOR INTERNATIONAL TOURIST ARRIVALS (000s, EXCL. NRIs) IN INDIA – 2017



Source: Ministry of Tourism, Government of India – India Tourism Statistics at a Glance 2018

Lodhi Garden New Delhi

FIGURE 7: STATES WITH THE HIGHEST INTERNATIONAL TOURIST VISITS (EXCL. NRIs) – 2017



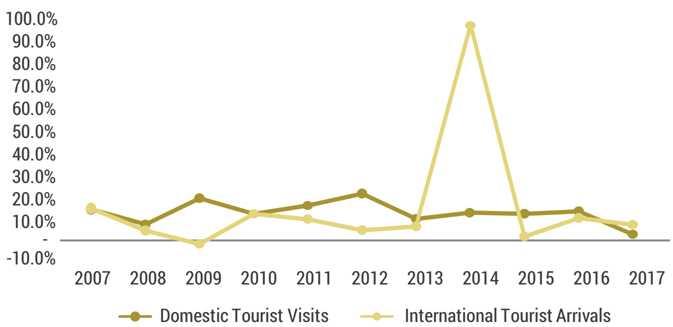
Maharashtra, apart from housing the nation's financial capital, is also home to the popular Ajanta and Ellora Caves, Shirdi and hill stations like Lonavala and Mahabaleshwar, making it the most visited state by foreign nationals in 2017. Unsurprisingly, the predominantly leisure-driven destinations of Rajasthan, Goa and Kerala also feature in the top 10 list, along with Uttar Pradesh (Taj Mahal) and Bihar (Buddhist Circuit).

Source: Ministry of Tourism, Government of India – India Tourism Statistics at a Glance 2018

Domestic Tourism

One must also bear in mind that **India's Travel & Tourism success is largely built on its rising domestic demand.** In 2017, India recorded **1.65 billion domestic tourist visits**, an increase of 2.3% over the previous year.[4] When the growth trajectory of this segment is compared to that of international tourist arrivals, the strong foundation laid by the former for India's Travel & Tourism sector becomes clearer. As shown in Figure 8, international tourist arrivals to India fluctuated considerably in the last decade, even registering a negative growth in 2009 because of the global economic crisis and H1N1 influenza pandemic, whereas domestic tourist visits within the country in fact grew by nearly 19% that year, maintaining a stable momentum, overall. Domestic tourism has, thus, increased India's resilience to global uncertainties in addition to minimising the seasonality of the sector. Therefore, even as the country gears itself to attract more inbound travellers, the importance of domestic tourism must not be undermined; **India's tourism policy, going forward, needs to be well-balanced, focussing on both international as well as domestic demand.**

FIGURE 8: GROWTH IN DOMESTIC TOURIST VISITS VS INTERNATIONAL TOURIST ARRIVALS IN INDIA – 2007 TO 2017



Note: The spike in international tourist arrivals in 2014 is due to a combination of a surge in inbound travel from Bangladesh and the fact that MoT started reporting the number of NRIs visiting the country (2014 onwards), who being Indian passport holders were previously not counted as foreign tourists.

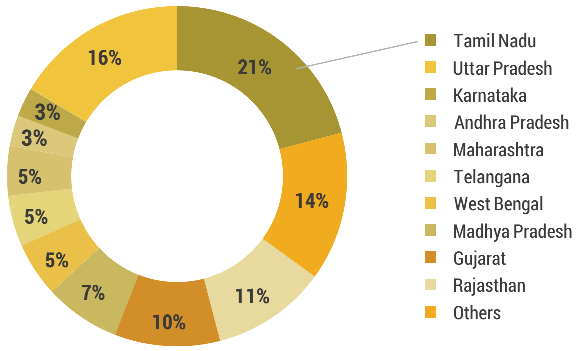
Source: Hotelivate Research and Ministry of Tourism, Government of India – India Tourism Statistics at a Glance 2018

[4] *Ministry of Tourism, Government of India - India Tourism Statistics at a Glance 2018*

India recorded **1.65 billion domestic** tourist visits in 2017, an increase of **2.3% over the previous year.**[4]

Moreover, a large chunk of the domestic tourist visits in the country at present are to pilgrimage destinations, especially those situated in Tamil Nadu, Karnataka and Andhra Pradesh (Figure 9). Though this trend is anticipated to continue, India's diverse tourism offerings need to be better communicated and made attractive to the domestic traveller. Hotelivate firmly believes that there is tremendous potential in this segment, most of which remains largely unexploited.

FIGURE 9: STATES WITH HIGHEST DOMESTIC TOURIST VISITS IN INDIA – 2017



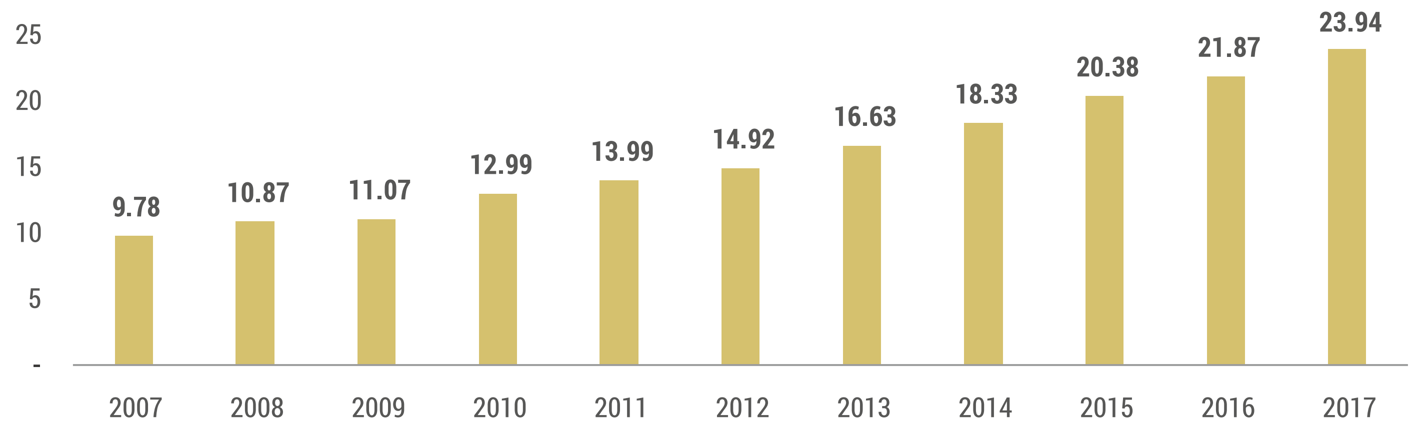
Source: Ministry of Tourism, Government of India – India Tourism Statistics at a Glance 2018

Outbound Tourism

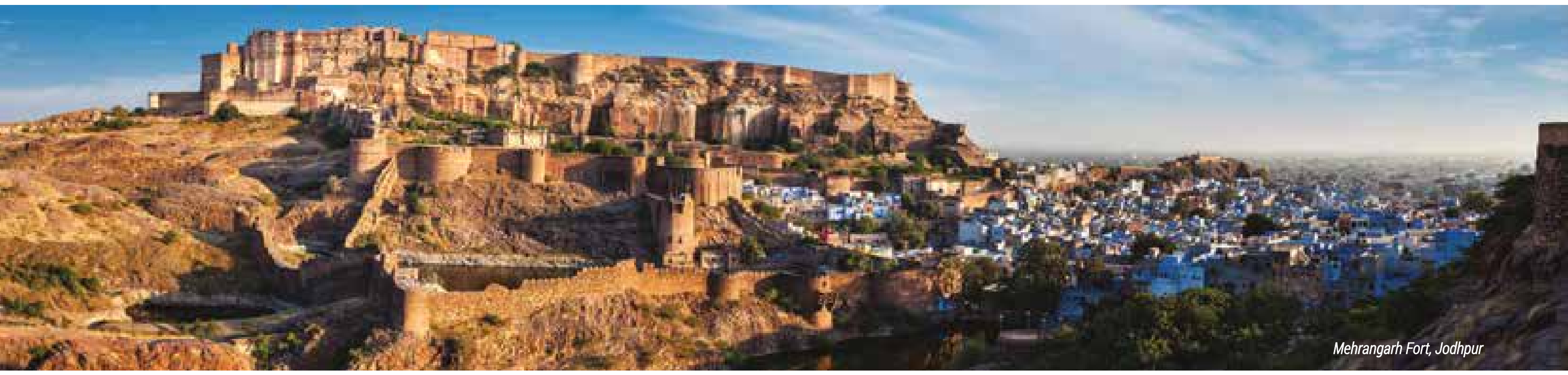
When assessing where India stands in terms of Travel & Tourism, in addition to inbound and domestic tourism, it is important to review **outbound** tourism from the country as well. The second-most populated country in the world with a sizeable young demographic, a growing and aspiring middle class, a robust domestic economy, improving air connectivity to short- and long-haul destinations, and advent of low-cost carriers make India an attractive outbound travel market. However, relative to its peer set in the Asia Pacific, the country's outbound tourism penetration is quite low.

There were nearly **24 million Indian national departures** in 2017, which is a 9.5% increase over the previous year (Figure 10). This included travel for business, leisure, visiting friends and relatives (VFR), and education, among others, by both resident as well as non-resident Indian nationals. The peak season for outbound travel from India was found to be during the summer months of April-June and the period from October to January. The **most popular outbound markets** for Indians were Dubai, Saudi Arabia, Bahrain, the US and Thailand. Figure 12 presents the most recent data available from 2016, with the likelihood of any significant change in the trend over the last couple of years being very low. In terms of total expenditure on international travel, India ranked 20th in 2016 and travellers from the country spent US$16.4 billion that year (Figure 13).[5]

FIGURE 10: DEPARTURES OF INDIAN NATIONALS FROM INDIA (MILLION) – 2007 TO 2017



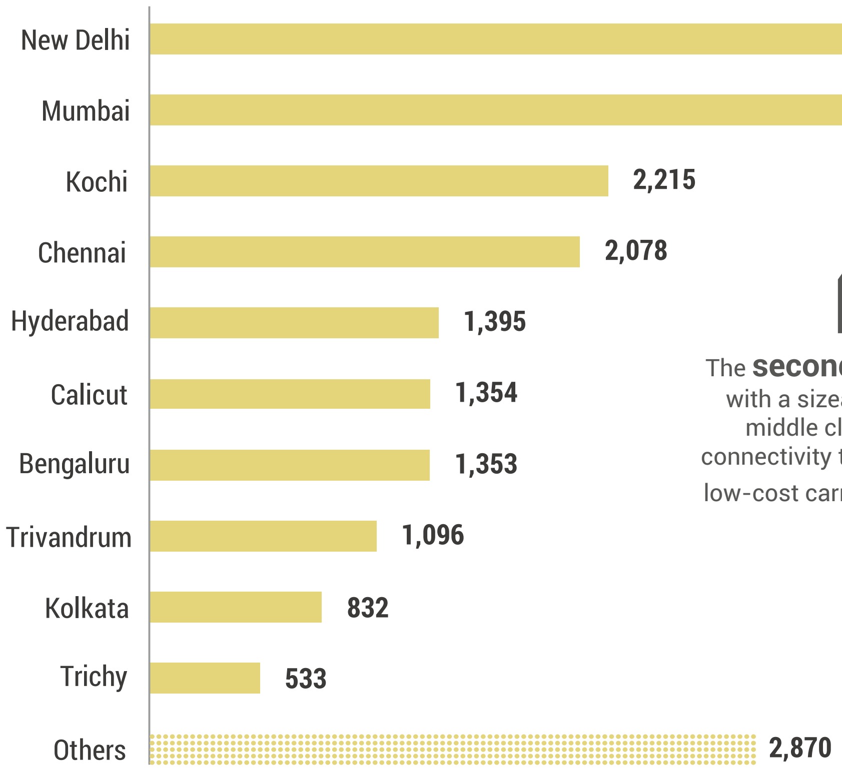
Source: Ministry of Tourism, Government of India – India Tourism Statistics at a Glance 2018



Mehrangarh Fort, Jodhpur

[5] *CAPA India and Expedia (2018). The Inflection Point for Indian Outbound Travel.*

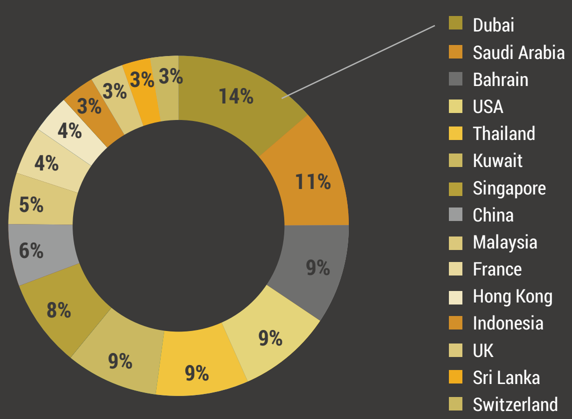
FIGURE 11: TOP 10 INTERNATIONAL CHECK POSTS FOR INDIAN NATIONAL DEPARTURES (000s) – 2017

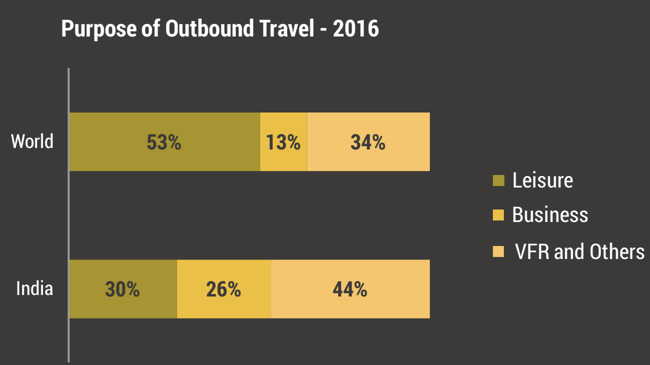


> The **second-most populated country in the world** with a sizeable young demographic, a growing and aspiring middle class, a robust domestic economy, improving air connectivity to short- and long-haul destinations, and advent of low-cost carriers **make India an attractive outbound travel market.**

Source: Ministry of Tourism, Government of India – India Tourism Statistics at a Glance 2018

FIGURE 12: TOP 15 OUTBOUND MARKETS FOR INDIA – 2016



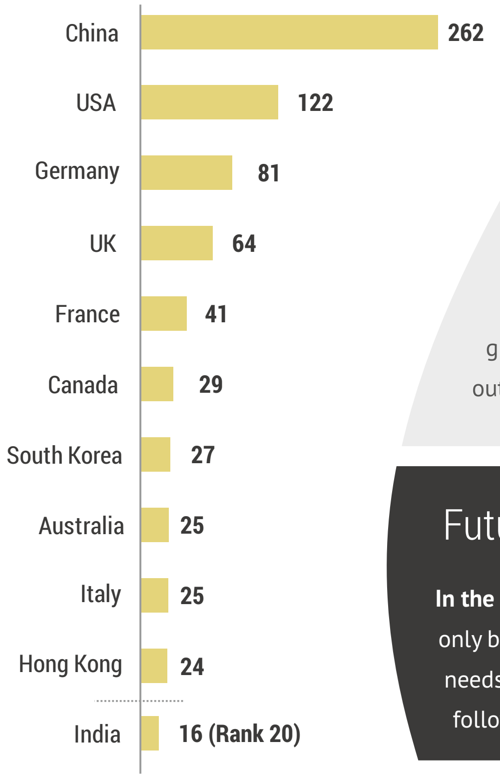


Note: Percentage share of each market is based on the total number of outbound travellers to these 15 markets only, and not all outbound markets for India.

Source: CAPA India and Expedia (2018). The Inflection Point for Indian Outbound Travel.

Backwaters Alleppey

FIGURE 13: TOP 10 COUNTRIES FOR INTERNATIONAL TOURISM EXPENDITURE (US$, BILLION) – 2016



Source: CAPA India and Expedia (2018). The Inflection Point for Indian Outbound Travel.

Moreover, based on a survey conducted by CAPA, **top five preferred activities for Indians while on a holiday** (i.e. leisure travel), include sightseeing, relaxation, dining, shopping and activities/sports. The results also revealed that local cultural festivals, music and sporting events, and nightlife and entertainment are increasingly becoming a draw for Indian outbound travellers, especially the millennial segment.

Overall, with rising income levels, easing of visa restrictions and a reduction in airfares, due to greater participation of low-cost carriers along long-haul routes and low fuel prices, the Indian outbound market is anticipated to grow manifold, at a faster pace than recorded in the past.

Future Proofing Travel & Tourism for India

In the next 10 years, WTTC forecasts India to become the third largest Travel & Tourism economy, only behind China and the USA. For this growth to be realised in a sustainable manner, the country needs to work towards an inclusive agenda and create a more enabling environment, involving the following key steps listed in Figure 14.

FIGURE 14: KEY STEPS FOR A MORE ENABLING TRAVEL & TOURISM ENVIRONMENT IN INDIA

ROBUST TOURISM POLICY

- *Well-structured and defined national tourism policy focusing on inbound as well as domestic tourism*
- *Collaboration between central and state governments*
- *Greater involvement of the private sector in tourism planning and development*
- *Reduced regulations and higher fiscal incentives for the sector*
- *Vigorous funding mechanism recognising the cyclical nature of the industry*
- *Focus on environment sustainability*
- *Participation of the local communities*

TOURISM INFRASTRUCTURE

- *Improvement in international and domestic connectivity*
- *Adequate supply of hotel rooms across positioning*
- *Adequate supply of skilled talent*
- *Cleaner and better organised civic amenities*
- *Embracing technology across all levels of the industry*
- *Maintenance and development of tourist sites*

MARKETING AND PROMOTION

- *Destination branding and marketing*
- *Domestic and international campaigns, tailor-made for key source markets*
- *Influencer programs - journalists, bloggers, guidebooks, tour operators*
- *Strong online presence*

OTHER CRITICAL ASPECTS

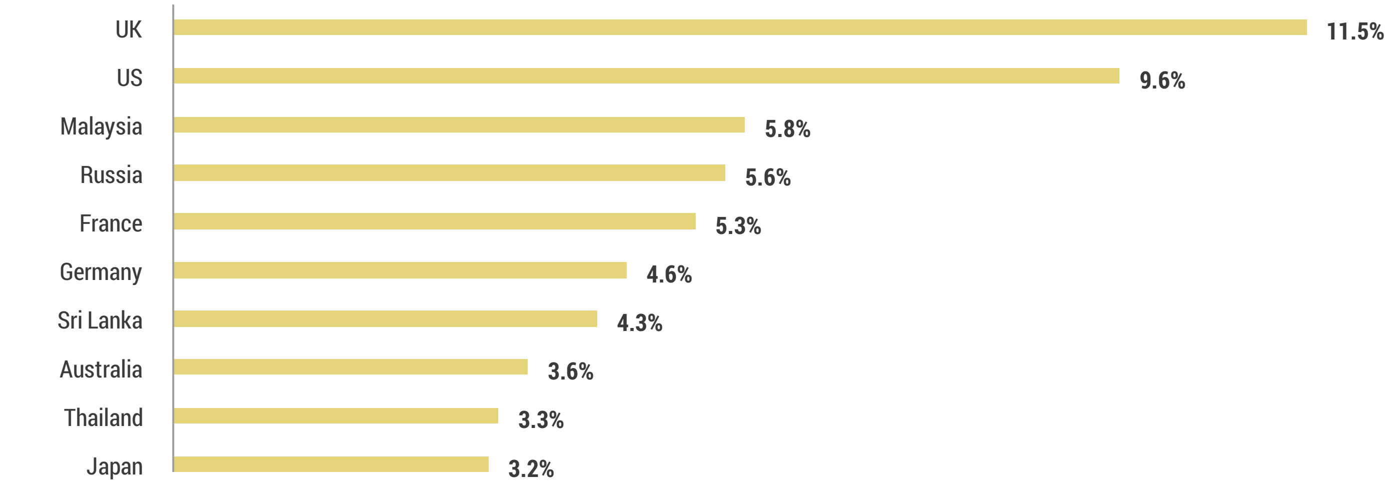
- *Enhanced security measures*
- *Crisis response preparedness and management mechanisms*
- *New tourism products - MICE, rural, wellness, spiritual, royal, ecotourism, adventure, cruise*

Source: Hotelivate Research

How Can India Increase its Share of Inbound Leisure?

India received over 10 million international tourists (excl. NRIs) in 2017, but how many of them travelled for leisure? Based on an in-depth research and analysis by CAPA, it turns out that only 2.5-3 million tourists visit India each year for the purpose of a holiday, with the USA and UK contributing a major chunk of the total (Figure 15, below). For a country this size, which has rich and diverse tourist offerings, the figure is dismally low. To offer some perspective, Thailand received 35 million tourists, predominantly in the leisure segment, in 2017 and Singapore, a city-state, received around 17 million inbound tourists that year. Our focus on leisure tourism can be better understood when one considers its economic benefits. Leisure travellers usually have longer durations of stay. They also tend to access more facilities and services related to accommodation, food, transportation and recreational activities and engage more with the local community than business travellers; thus, resulting in a wider induced economic impact.

FIGURE 15: SHARE OF TOP 10 SOURCE MARKETS FOR LEISURE FOREIGN TOURIST ARRIVALS TO INDIA – 2016

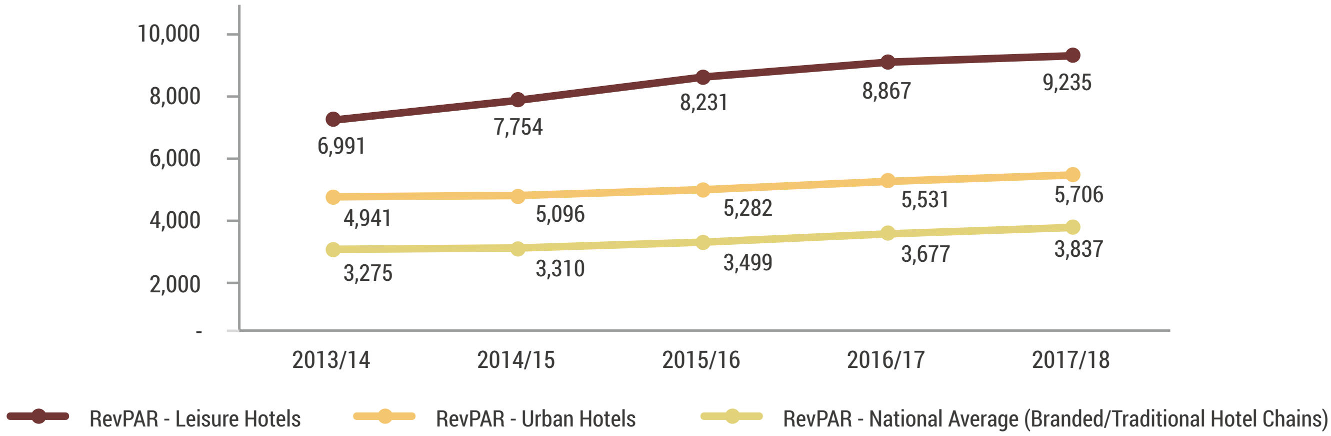


Note: Inbound leisure travel from Malaysia may be lower than what is shown above, possibly due to VFR traffic (visiting friends and relatives) being incorrectly reported as leisure.
Source: CAPA India Research and Analysis

In the hotel industry, leisure properties continued to outperform their urban counterparts in 2017/18 largely as a result of steady demand and higher average rates. Figure 16, overleaf, compares the RevPAR performance of 20 stabilised branded leisure properties with that of 60 stabilised branded urban properties in India over a five-year period. The RevPAR of INR9,235 clocked in 2017/18 by the leisure sub-set was 1.6 times that of the urban sample and 2.4 times the national average. The strong year-on-year performance of the former clearly points towards a healthy demand for such hotels in the country, making investment in leisure properties perceivably more viable than previously thought. The peaks and troughs in demand in leisure locations is smoothening with creative promotions, social events, corporate off-sites, MICE and group travel serving as fillers. Moreover, the low reliance of leisure hotels on RFPs from corporates that are relatively more sensitive to economic and trade conditions, make them less vulnerable to price wars.

Mount Triund, McleodGanj

FIGURE 16: PERFORMANCE OF LEISURE HOTELS VS URBAN HOTELS (BRANDED/TRADITIONAL CHAINS) IN INDIA – 2013/14 TO 2017/18



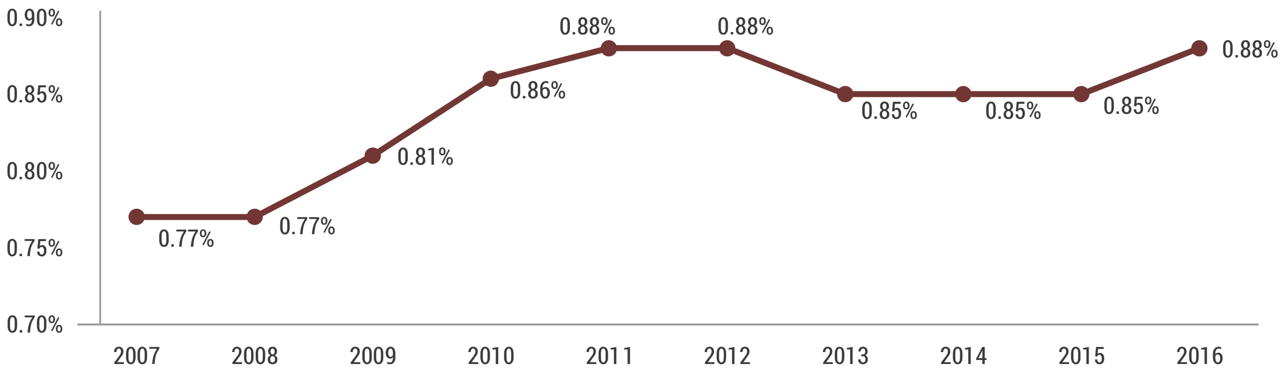
Note: Branded/Traditional Hotel Chains refer to companies with hotels that are predominantly organic-branded such as Marriott International, Indian Hotels Company Limited, EIH Limited, ITC Hotels, Hyatt, Hilton Worldwide and similar.
Source: Hotelivate Research

So, **how can India increase its share of inbound leisure?** CAPA makes the following recommendations:

- **Capture a larger share of outbound leisure traffic from mature source markets than investing scarce resources in emerging source markets.** In comparison to its peer set in the Asia Pacific, India has a low market share even in its top 10 source markets. At an individual market level, India's share of outbound traffic from its 10 largest source markets ranges from 0.3% in Germany and China to 3.7% in the USA. The country's low market share has declined further in recent years for outbound travel from Sri Lanka, China, the UK, France, Japan and Canada even as China's share in these markets has been growing.

India's share of **outbound traffic** from its 10 largest source markets ranges from **0.3%** in Germany and China to **3.7%** in the USA.

FIGURE 17: INDIA'S MARKET SHARE IN ITS TOP 10 SOURCE MARKETS (OVERALL) – 2007 TO 2016



Source: CAPA India Research and Analysis

FIGURE 18: INDIA'S VS PEER SET'S SHARE OF OUTBOUND TRAVEL FROM INDIA'S LEADING SOURCE MARKETS (OVERALL) – 2016

	USA	UK	Canada	Australia	Sri Lanka	Russia	Germany	France	China
India	3.7%	1.3%	2.6%	3.0%	20.5%	0.7%	0.3%	0.9%	0.3%
China	6.4%	0.8%	6.2%	6.8%	4.2%	6.2%	0.7%	1.9%	-
Thailand	2.7%	1.4%	1.9%	8.2%	4.7%	3.4%	0.9%	2.6%	10.9%
Singapore	1.5%	0.7%	0.8%	10.3%	7.0%	0.2%	0.4%	0.6%	3.5%
Indonesia	0.9%	0.5%	0.7%	13.1%	1.7%	-	0.3%	1.0%	1.9%
Malaysia	0.6%	0.6%	0.6%	3.8%	2.3%	0.2%	0.1%	0.5%	2.6%
Sri Lanka	0.2%	0.3%	0.4%	0.8%	-	0.2%	0.1%	0.4%	0.3%

Note: The leading source markets identified above are based on all types of tourists and not just leisure, specifically.
Source: CAPA India Research and Analysis, UNWTO

- **Participate more in the Chinese outbound travel phenomenon.** China leads the world in terms of international outbound travellers as well as international tourism spend. However, India currently receives fewer Chinese visitors than even Sri Lanka and Maldives (that are way smaller), despite being a similar length of haul from China.

- **Make reaching India easier and more cost-effective for tourists.** Around 98% of leisure tourists arrive into India by air, and so direct connectivity and availability of seats is paramount. At present, for most of the priority markets for leisure tourism to India, the majority of traffic still flows through an intermediate hub, especially from long-haul markets like the USA, Canada and Australia.

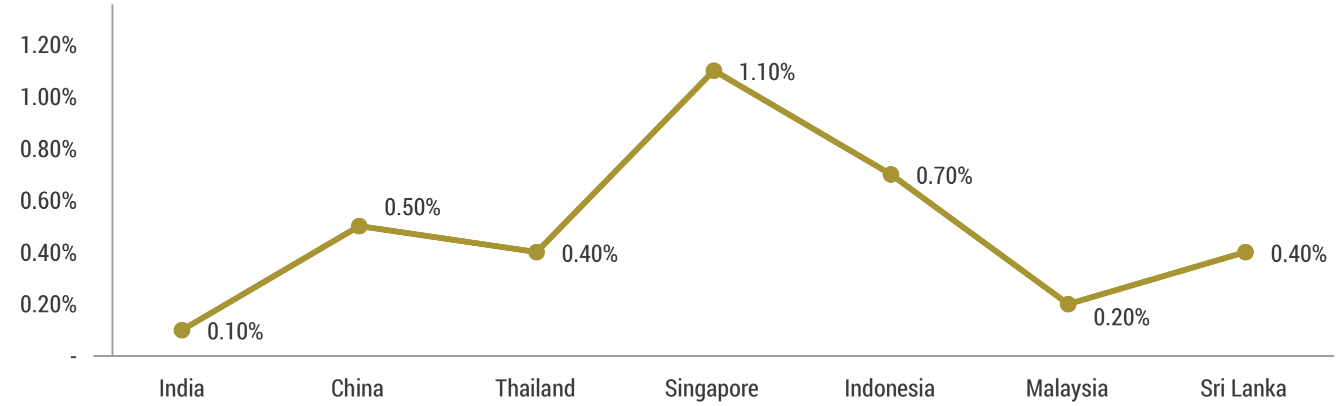
- **Establish greater connectivity to develop short-haul leisure markets.** Around 61% of India's foreign tourists are from long-haul destinations (more than six hours). This is in clear contrast to leading tourist destinations in the world, like France, Spain, USA, China and Italy, which receive their largest share of visitor traffic from their neighbours (short- and medium-haul markets – under three hours and between three-to-six hours, respectively). Distance makes travel to India not only more expensive, but also less suitable for short, spontaneous breaks. Also, India ends up competing with a greater number of destinations of a similar haul and cost.

- **International expansion by Indian carriers.** While the primary focus of home-based airlines is to increase point-to-point traffic, as the networks of these airlines increase, there will be more connecting traffic via India (e.g. between London and Sydney), creating more incremental visits and encouraging transiting passengers to return in the future.

- **Increase government spending on tourism as a percentage of its GDP.** In 2017, the Indian government's collective travel and tourism spending as a share of its GDP was just 0.1% despite the sector's total contribution to GDP of 9.4%. Comparing this statistic to that of peer countries, one can see that India ranks the lowest.


Qutub Minar, New Delhi

FIGURE 19: GOVERNMENT'S COLLECTIVE SPENDING ON TRAVEL & TOURISM AS PERCENTAGE OF THE COUNTRY'S GDP – 2017



Source: CAPA India Research and Analysis, WTTC

- **India needs to attract a higher share of millennial leisure travellers.** While India has a backpacker market, it needs to reorient itself to promote high value youth leisure tourism. Youthtravel is one of the fastest growing and most dynamic markets of global tourism. According to UNWTO's 2016 report on youth travel, young travellers spend more of their budget in local communities, have longer durations of stay, are a great source of word-of-mouth marketing (especially via social media) and tend to be more resilient to economic problems.

- **Effective destination marketing and promotion.** The Incredible India campaign needs to develop continually with vigour, and ways to gauge its true effectiveness need to be determined. Moreover, states must align their tourism marketing and promotion with the national campaign.

- **A well-defined tourism policy/strategy document.** Other leading tourist destinations studied by CAPA have a well-defined tourism policy focussing on overseas promotion, government and industry collaboration, infrastructure improvements and reduced regulations. These countries do not govern tourism as a separate ministry; rather, they manage it as a department under the ministry responsible for trade development. The department is supported by advisory boards and an inter-ministerial group to aid collaboration between the tourism department, other government offices and the industry.

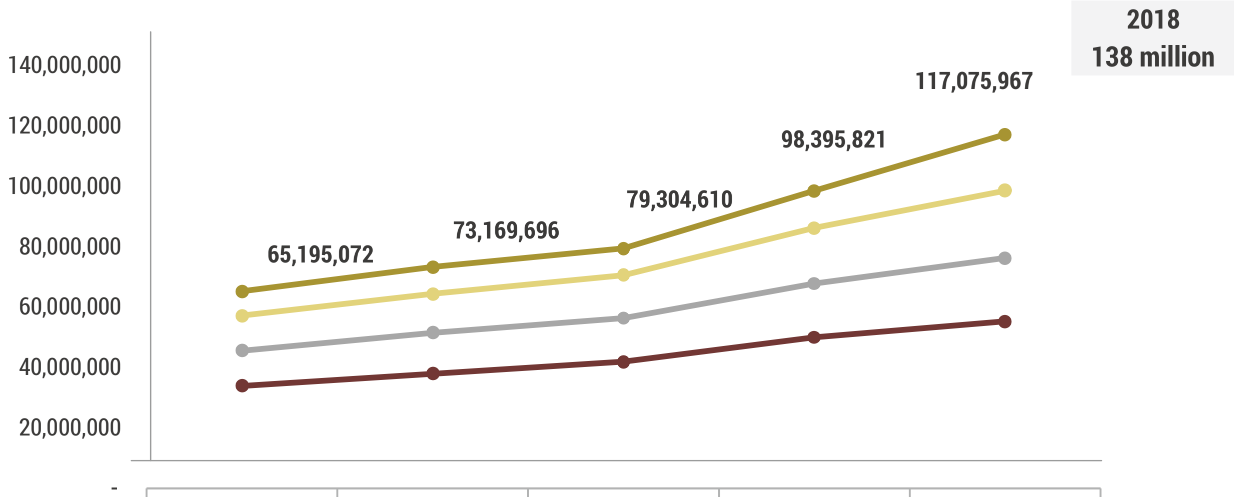
In conclusion, we observe that leisure travel to India has huge potential (be it pure leisure or "bleisure" that combines business with leisure), and the country is just scratching the surface at the moment. To this extent, the tourism industry (including hotels) needs to collectively plan and commit resources to attract leisure tourists to the country. The diversity of India's leisure offerings should be better communicated, and the subsequent growth of this segment should be adequately supported and sustained. We must aim at making India a "must-visit and easy-to-discover" destination!

Section II
Domestic Transportation Trends

Section II A: Air Transportation

Around **117 million domestic passengers** travelled by domestic airlines in India in 2017, registering a **19% increase** over the last fiscal and growing at a **CAGR of 16%** in the past five years. The advent of low-cost carriers, improving air connectivity, rising disposable incomes and a growing middle class have aided the rise in air traffic within the country in recent years. The top 25 busiest routes in the country accounted for around 47% of the overall domestic air traffic in 2017.

FIGURE 20: TOTAL DOMESTIC AIR TRAFFIC IN INDIA (DOMESTIC AIRLINES) – 2013 TO 2017



	2013	2014	2015	2016	2017
Total Domestic Air Traffic	65,195,072	73,169,696	79,304,610	98,395,821	117,075,967
Top 25 Busiest Routes	33,925,171	37,945,993	41,914,681	50,044,247	55,312,498
Top 50 Busiest Routes	45,628,359	51,548,116	56,370,252	67,827,063	76,260,739
Top 100 Busiest Routes	57,139,731	64,428,142	70,612,412	86,165,535	98,568,595

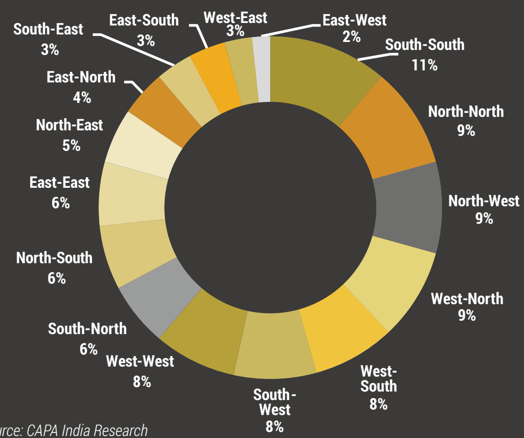
Total Domestic Air Traffic   Top 25 Busiest Routes   Top 50 Busiest Routes   Top 100 Busiest Routes

Source: CAPA India Research and DGCA

Interestingly, **air travel within southern India has been the highest** of all regions in the country in the last five years, recording 13 million passengers in 2017 alone. The North-North direction, indicating travel within the **northern region**, comes a close second with 11 million passengers travelling in 2017.

Cross-country travel, i.e. in the North-South, South-North, East-West and West-East directions, is relatively less popular, with only **17%** of the overall air traffic moving across these regions.

FIGURE 21: DIRECTION OF DOMESTIC AIR TRAFFIC (DOMESTIC AIRLINES) IN INDIA – 2017

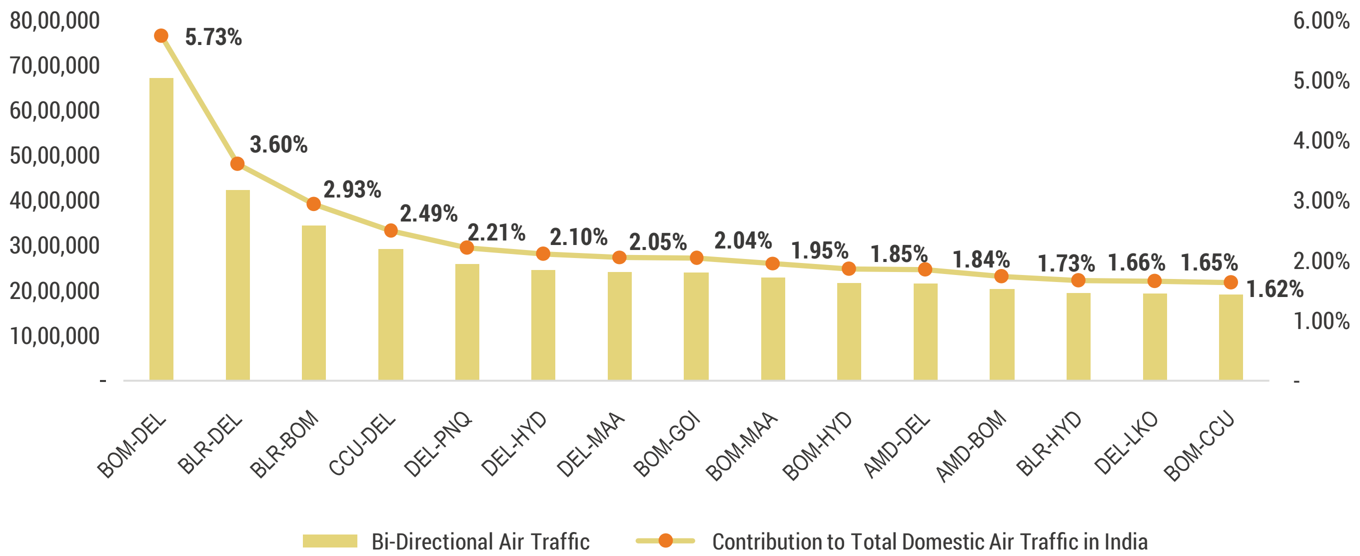


Source: CAPA India Research

The top 15 busiest bi-directional air routes in India together accounted for 35% of the overall traffic in 2017 (Figure 22, overleaf). **Expectedly, the Mumbai - New Delhi route topped the list, carrying 6.7 million passengers both ways,** growing by 5.3% over the previous year and contributing nearly 6% to the total air traffic.

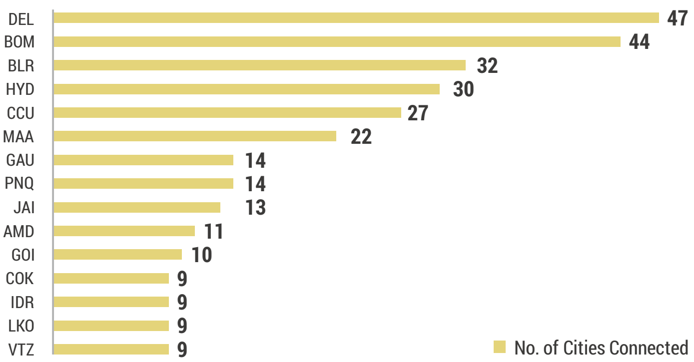
> The top **25** busiest routes in the country accounted for around **47%** of the overall **domestic air traffic** in 2017.

FIGURE 22: TOP 15 BUSIEST DOMESTIC AIR TRAFFIC ROUTES IN INDIA – 2017



Source: CAPA India Research

FIGURE 23: TOP 15 AIRPORTS BY THE NUMBER OF CITIES THEY ARE CONNECTED TO IN INDIA – 2017

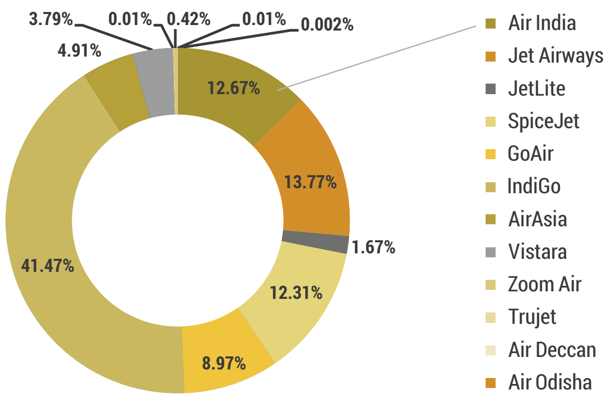


Airport Name	City	IATA Code
Chhatrapati Shivaji International Airport	Mumbai	BOM
Indira Gandhi International Airport	New Delhi	DEL
Bengaluru International Airport	Bengaluru	BLR
Netaji Subhash Chandra Bose International Airport	Kolkata	CCU
Lohegaon Airport	Pune	PNQ
Hyderabad International Airport	Hyderabad	HYD
Chennai International Airport	Chennai	MAA
Dabolim Airport	Goa	GOI
Ahmedabad Airport	Ahmedabad	AMD
Amausi Airport	Lucknow	LKO
Borjhar Airport	Guwahati	GAU
Sanganeer Airport	Jaipur	JAI
Cochin International Airport	Kochi	COK
Vishakhapatnam Airport	Vishakhapatnam	VTZ
Devi Ahilyabai Holkar Airport	Indore	IDR

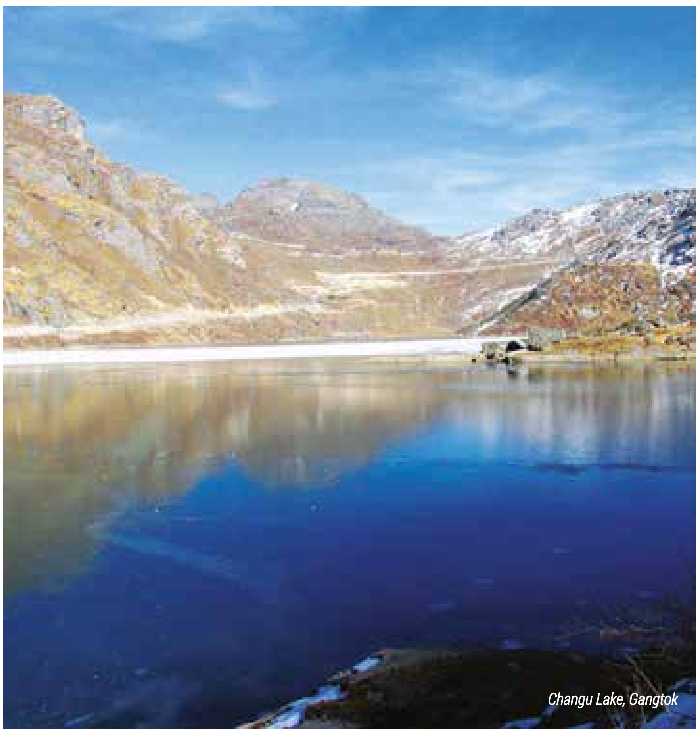
Source: CAPA India Research

Low-cost carriers were introduced in India in 2003 and have since redefined air travel in the country, making it affordable for the masses. As a result of significant capacity additions and competitive pricing in 2018, such airlines carried more than 65% of all domestic air passengers in India.

FIGURE 24: MARKET SHARE OF DOMESTIC CARRIERS IN INDIA BY PASSENGERS CARRIED – 2018



Source: Directorate General of Civil Aviation (DGCA) Domestic Air Traffic Report (December 2018)



Changu Lake, Gangtok

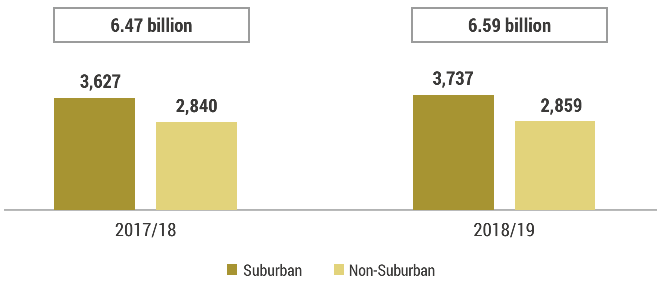
Section II B: Rail Transportation

Indian Railways, operated by the Ministry of Railways, Government of India, is the **fourth-largest rail network** (by total operating length) in the world after the US, China and Russia. A whopping **6.47 billion passengers** travelled on the Indian Railways in 2017/18, and the figure has already been exceeded this fiscal, with 6.59 billion passengers booked until Jan 2019.

There are **17 major rail corridors** in the country. Of these, Central Railway (CR) is the busiest, carrying approximately 1.4 billion passengers in 2017/18, followed by Western Railway (WR) and Eastern Railway (ER) that recorded 1.3 billion and 948 million booked passengers, respectively. Among the non-suburban rail corridors, Northern Railway (NR) ranks the highest, registering 450 million booked passengers in 2017/18. In terms of individual stations, Howrah Junction in Kolkata is reportedly the busiest, followed by New Delhi Railway Station, Kanpur Central, Kalyan Junction in Mumbai and Patna Junction.

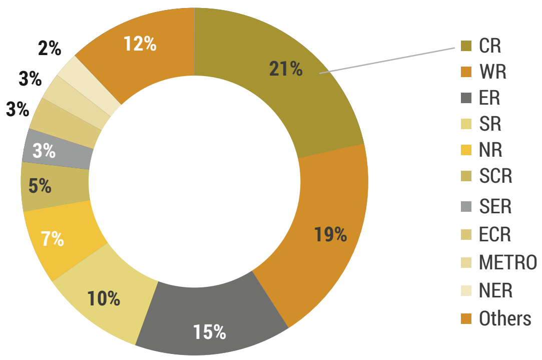
The **gross passenger earnings** of the Indian Railways stood at INR37,427 crore last fiscal, and is anticipated to cross INR40,000 crore in 2018/19. The highest passenger earnings were recorded by the following rail corridors: Northern Railway (NR), contributing 18% of the total; Central Railway (CR), contributing 11%; Southern Railway (SR) and Western Railway (WR), each generating 10% of the total; and South-Central Railway (SCR), contributing 8%.

FIGURE 25: PASSENGERS BOOKED ON THE INDIAN RAILWAYS (MILLION) – 2017/18 AND 2018/19 (TILL JAN)



Source: Indian Railways

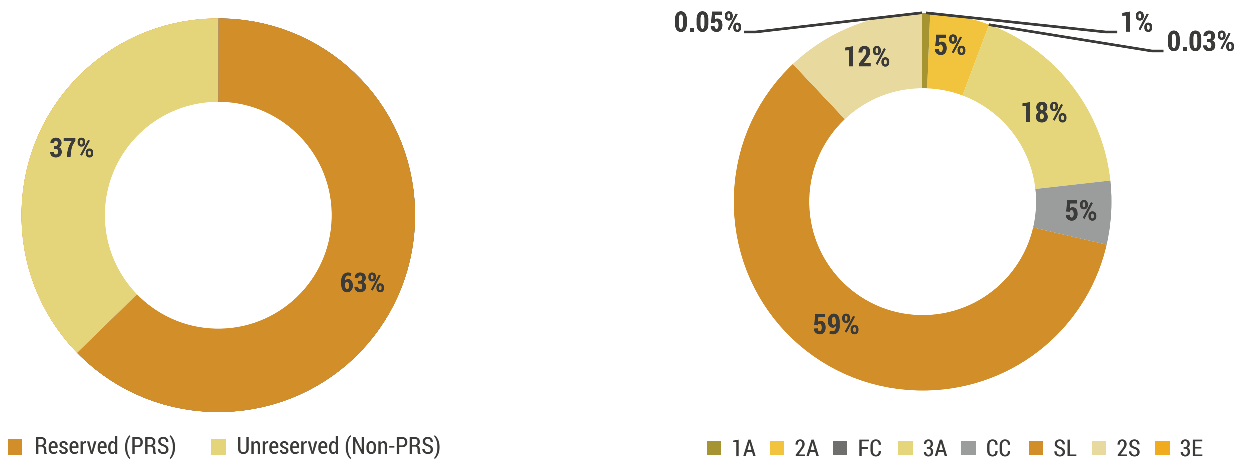
FIGURE 26: PASSENGERS BOOKED BY RAIL CORRIDOR – 2017/18



Source: Indian Railways

The Passenger Reservation System (PRS) of the Indian Railways is a computerised reservation system that allows "reserved" travel. Introduced in the late 1980s, the PRS has been upgraded several times since then. Yet, of the total 6.5 billion people who travelled by train last fiscal, 2.4 billion were "unreserved" (Non-PRS). In terms of travel class[6], around 254 million people journeyed in Sleeper Class Non-AC (SL) in 2017/18, representing 59% of all PRS non-suburban passengers. The second-most popular class of travel was Three-Tier AC Sleeper (3A), followed by Second Class Sitting (2S). The top-tiers of rail travel (i.e. 1A and 2A) represented only 6% of total PRS non-suburban travel last fiscal, with a similar trend being witnessed for 2018/19.

FIGURE 27: RESERVED (PRS) VS UNRESERVED PASSENGERS AND PRS ORIGINATING PASSENGERS BOOKED BY TRAVEL CLASS – 2017/18

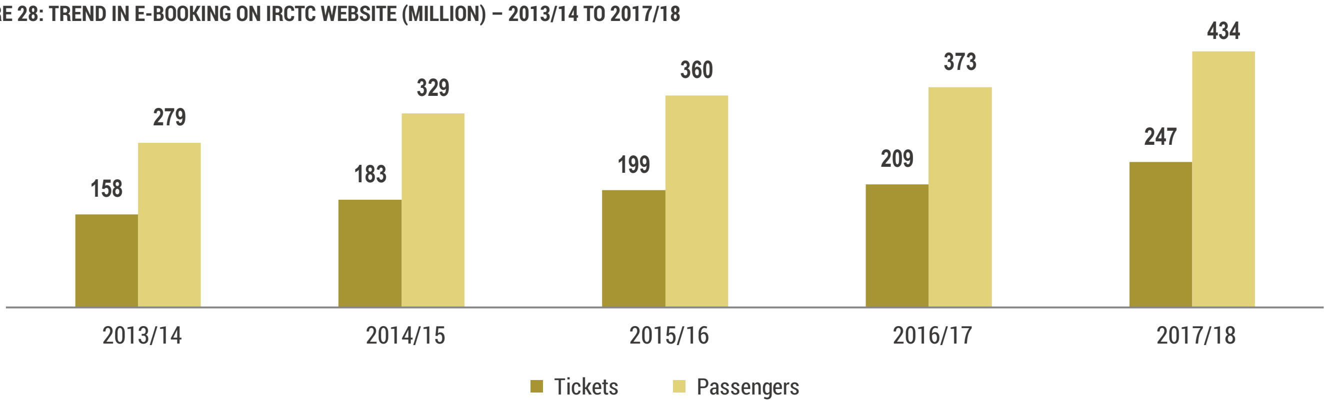


Source: Indian Railways

[6] *1A: First AC Sleeper; 2A: Second AC Sleeper; FC: First Class Non-AC; 3A: Three-Tier AC Sleeper; 3E: AC Sleeper Economy; SL: Sleeper Class Non-AC; CC: AC Chair Car and 2S: Second Class Sitting.*

Modernisation of the Indian Railways is ongoing to meet the challenges of economic growth, increasing population, evolving consumer needs and changing technology. **E-ticketing was introduced for rail travel in India in 2002**. Today, Indian Railway Catering and Tourism Corporation's (IRCTC) e-ticketing service accounts for approximately 66% of reserved rail tickets booked online. A total of 434 million passengers were booked through e-tickets on the IRCTC website in 2017/18, generating INR28,476 crore in revenue. The **IRCTC Mobile App** was launched in May 2016 and the total number of tickets booked via this medium stood at 48.3 million in 2017/18, translating to around 132,500 tickets per day as compared to 40,752 tickets per day in 2016/17. Currently, the Mobile App accounts for 20% of the total rail tickets booked online in the country. Going forward, to increase the online penetration of the Indian Railways, especially in the rural areas, around 280,000 Village-Level Entrepreneurs (VLE) have been permitted to be registered for e-ticketing via internet cafes under the E-governance Plan of the Government of India.

FIGURE 28: TREND IN E-BOOKING ON IRCTC WEBSITE (MILLION) – 2013/14 TO 2017/18



Note: More than one passenger could be booked per ticket, resulting in a ratio of 1.76 passengers per ticket in 2017/18.
Source: IRCTC Ltd. 19th Annual Report 2017-18

Additionally, the services of **E-catering** are also now available to passengers via the website and phone; a Mobile App, "Food on Track" has been developed by IRCTC to facilitate online ordering. On an average, 8,500 meals are booked per day using this feature, which is an encouraging trend with tremendous potential for growth. Apart from the above, there are several other **modernisation initiatives** being implemented to improve rail travel in the country, such as upgrading railway stations and signalling, expansion of the WiFi facility, electrification of the network, introduction of high-speed trains (like the Vande Bharat Express, aka Train 18) and wider use of energy-efficient equipment, among others.

Another aspect important to highlight about the Indian Railways is the **tourist trains** operating in the country. From deserts, to hills and heritage sites to beaches, rail tourism in India is unique in its offerings. Many of these trains are award-winning, complete with private chambers and suites (including lavish presidential suites), restaurants, bar-cum-lounge, spa, business centre, meeting rooms, fitness centre, library, foreign exchange counters, WiFi, laundry service, and doctor-on-call, among other facilities and amenities. Moreover, customised tour packages are also offered via Indian Railways and IRCTC, including charter trains and coaches (some with glass tops), special state trains and educational tours for students. Most of the rail tourism products can be booked online.

FIGURE 29: POPULAR TOURIST TRAINS IN INDIA

Tourist Train	Region
Palace on Wheels	Rajasthan, New Delhi, Uttar Pradesh (Agra)
Heritage Palace on Wheels	Rajasthan, New Delhi, Uttar Pradesh (Agra)
Royal Rajasthan on Wheels	Rajasthan, New Delhi, Uttar Pradesh
Maharajas' Express	Across different tour packages – New Delhi, Rajasthan, Uttar Pradesh, Goa, Madhya Pradesh, Maharashtra, Karnataka, Kerala, Tamil Nadu
Deccan Odyssey	Across different tour packages – Goa, New Delhi, Maharashtra, Rajasthan, Gujarat, Karnataka, Uttar Pradesh (Agra)
Golden Chariot	Karnataka, Goa, Tamil Nadu, Kerala
Fairy Queen	New Delhi, Rajasthan
Heritage Hill Trains	Himachal Pradesh (Shimla), Haryana, West Bengal (Darjeeling), Tamil Nadu (Nilgiri)
Buddhist Circuit Tourist Train	New Delhi, Uttar Pradesh, Bihar, Nepal (Lumbini)
Bharat Darshan Tourist Train	Special Tourist Trains for the budget-conscious traveller, operating across the length and breadth of the country on various circuits
Gandhi Circuit Special Train	Across major tourist places connected to the life of Mahatma Gandhi
Aastha Circuit Special Train	Catering to people interested in visiting religious destinations across the country

Source: Hotelivate Research

Lastly, alongside long-distance travel, there has been an increase in **rapid transit systems** like Metro and Monorail systems that are providing seamless connectivity and movement in India's urban centres. An increasing number of cities in the country are being added to the rapid rail networks and carrying more passengers per day than the traditional forms of transport like buses and taxis. As of March 2019, India has 628.08 kilometres (390.27 miles) of operational metro lines and 491 stations; a further 500+ kilometres of lines are under construction. Kolkata, New Delhi NCR, Bengaluru, Mumbai, Jaipur, Chennai, Kochi, Lucknow, Ahmedabad and Nagpur are operational now, with around 26 cities to be added over the next couple of years. The mode of operation in many cases is a private-public-partnership, or in some cases solely private. This mode of transportation will ease congestion and provide better access within India in years to come.

Section II C: Coach/Bus Transportation

Coach/bus travel is amongst the most widespread and economical means of shared transportation in India. According to various industry sources, **there are around 16 lac buses operating in the country**, which includes school buses, buses for employee transport and intra-city and inter-city passenger buses. This mode of transportation in India is very fragmented and unorganised mainly due to its sheer size and the large number of operators.

One of the largest segments (in value terms) within this mode of transportation is inter-city buses. There is an inventory of about 2 million seats available every day, offered by both **State Transport Undertakings (STUs)** as well as **Private Bus Operators**. In recent years, like all other modes of public transport, coach/bus travel booking in the country too has moved online, with many operators selling tickets on the internet alongside aggregator/meta search websites like MakeMyTrip (including redBus), Yatra, Travelyaari and Ticket Goose, to name a few. These websites allow travellers to choose from a variety of operator listings based on their online search criteria, very similar to the way hotels and airlines are booked online today.

The most apparent customer benefits for e-booking coach/bus travel are convenience and personalisation. Travellers can select based on:

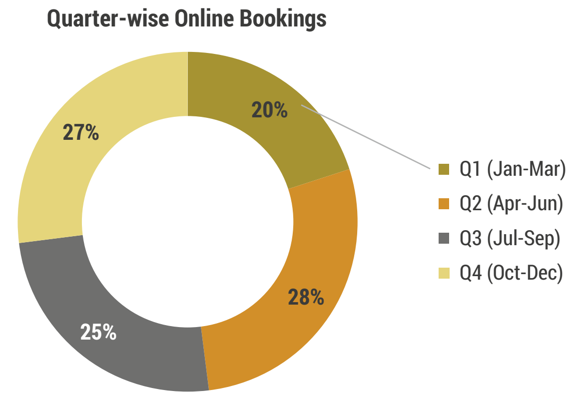
- Bus types – sleeper, seater, air conditioned, non-air conditioned
- Price point
- Pick-up and drop-off points (displayed with pictures and navigation)
- Operator
- Amenities offered – Wi-Fi, bottled water, snacks, blankets, charging point, and in-coach entertainment (movie), among others
- Provision for live bus tracking service
- Provision for emergency/SOS service
- Provision for 24/7 customer support
- Ratings and reviews for almost every bus operator

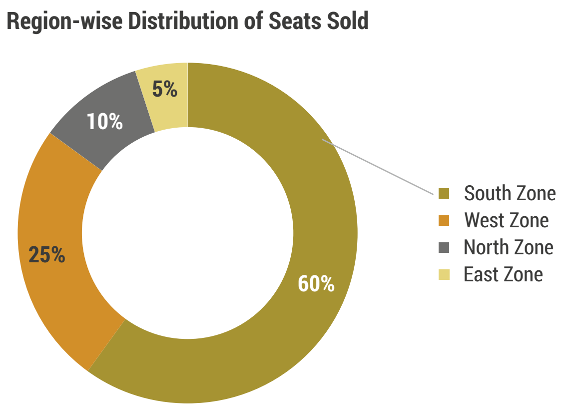
Nonetheless, online coach/bus booking still has a low penetration in the country, especially in the rural areas, due to the lack of internet, inability to make a payment online, and general awareness of this facility. In addition, there is a perceptible difference in the **online penetration of Private Bus Operators and STUs.** While the online penetration of the former is closer to 50%, this figure is less than 10% for STUs. Thus, there is an opportunity for STUs to improve their technology to provide seamless connectivity for facilitating online bookings.

Online bookings have led to high levels of growth in the private sector, contributed by newer bus operators entering the business, as distribution has become easy and accessible to everyone. It has improved the efficiency of bus operations by reducing distribution losses and increasing the reach manifold without the need for maintaining large staff and offices. Newer technologies like the GPS have improved safety and passenger convenience through features such as live bus tracking. Moreover, government reforms, such as "One Nation, One Tax", when implemented in entirety would lead to lower prices for customers that is likely to further spur the growth of this sector.

Herein, we have illustrated the current trends in "online" coach/bus travel in India, mostly based on **urban statistics.** Although just scratching the surface at the moment, we believe that the e-booking segment has tremendous potential to scale-up in the coming years as technology becomes more accessible in the country. E-ticketing for coach/bus travel is more popular in **South India** than other parts of the country, with eight of the **top 10 uni-directional** routes based here. Moreover, the top 10 routes together accounted for nearly **12%** of the total number of coach/bus routes booked online in India in 2018.

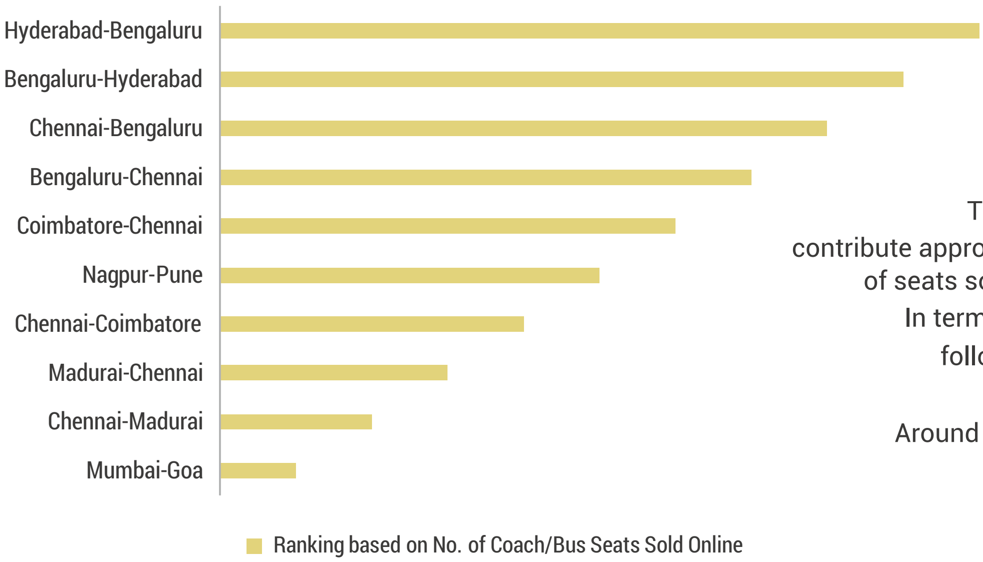
FIGURE 30: COACH/BUS ONLINE BOOKING PATTERN IN INDIA – 2018





Source: Hotelivate Research

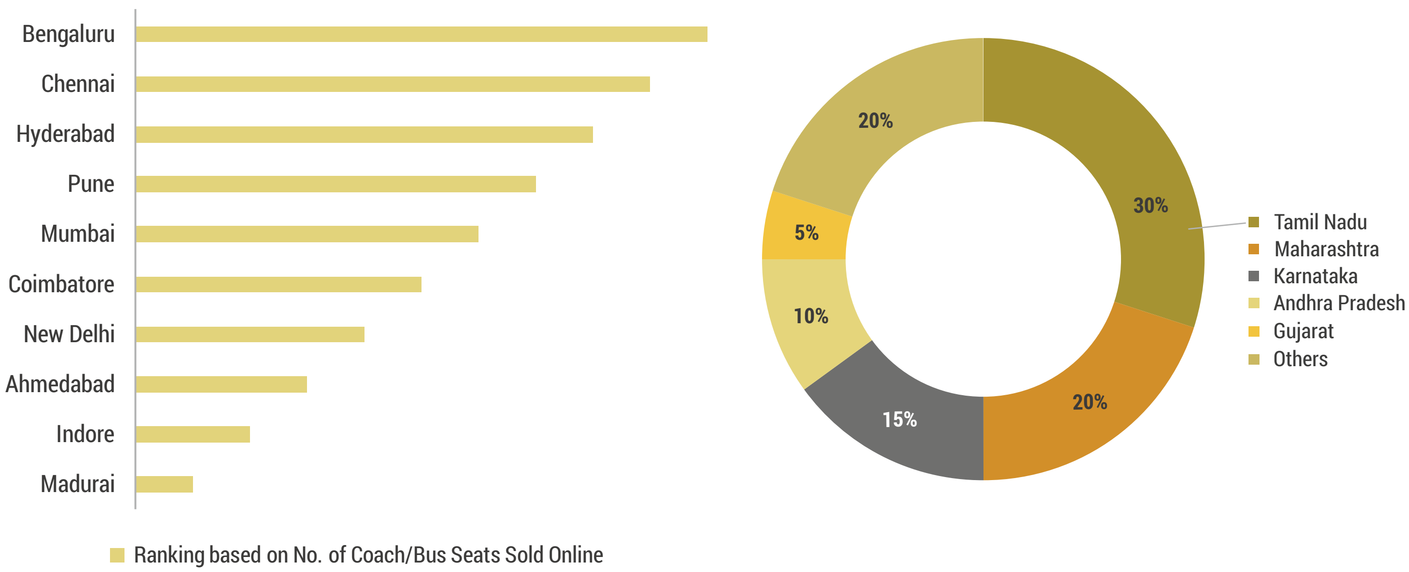
FIGURE 31: TOP 10 COACH/BUS UNI-DIRECTIONAL ROUTES BY SEATS SOLD ONLINE – 2018



Source: Hotelivate Research

The top 10 source cities, as shown here, contribute approximately **55% of the total number** of seats sold online for coach/bus travel in India. In terms of states, **Tamil Nadu** tops the list, followed by **Maharashtra, Karnataka, Andhra Pradesh and Gujarat**. Around **80%** of all online coach/bus bookings originate from these five states.

FIGURE 32: TOP 10 SOURCE CITIES AND TOP 5 SOURCE STATES FOR COACH/BUS TRAVEL BY SEATS SOLD ONLINE – 2018



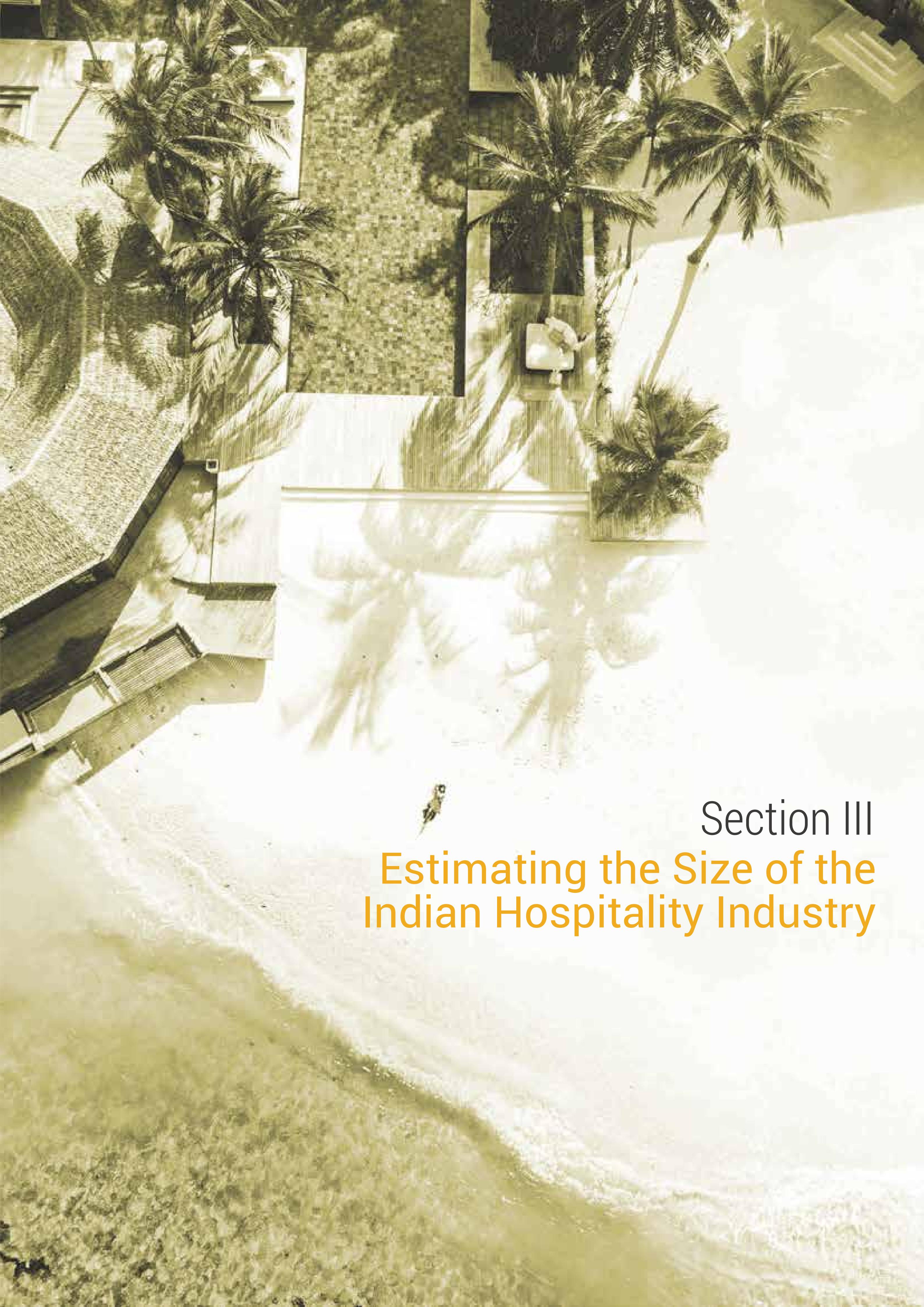
Source: Hotelivate Research

FIGURE 33: TOP PRIVATE BUS OPERATORS AND STATE TRANSPORTATION UNITS (STUs) IN INDIA (ONLINE) – 2018

PRIVATE

PUBLIC

Source: Hotelivate Research



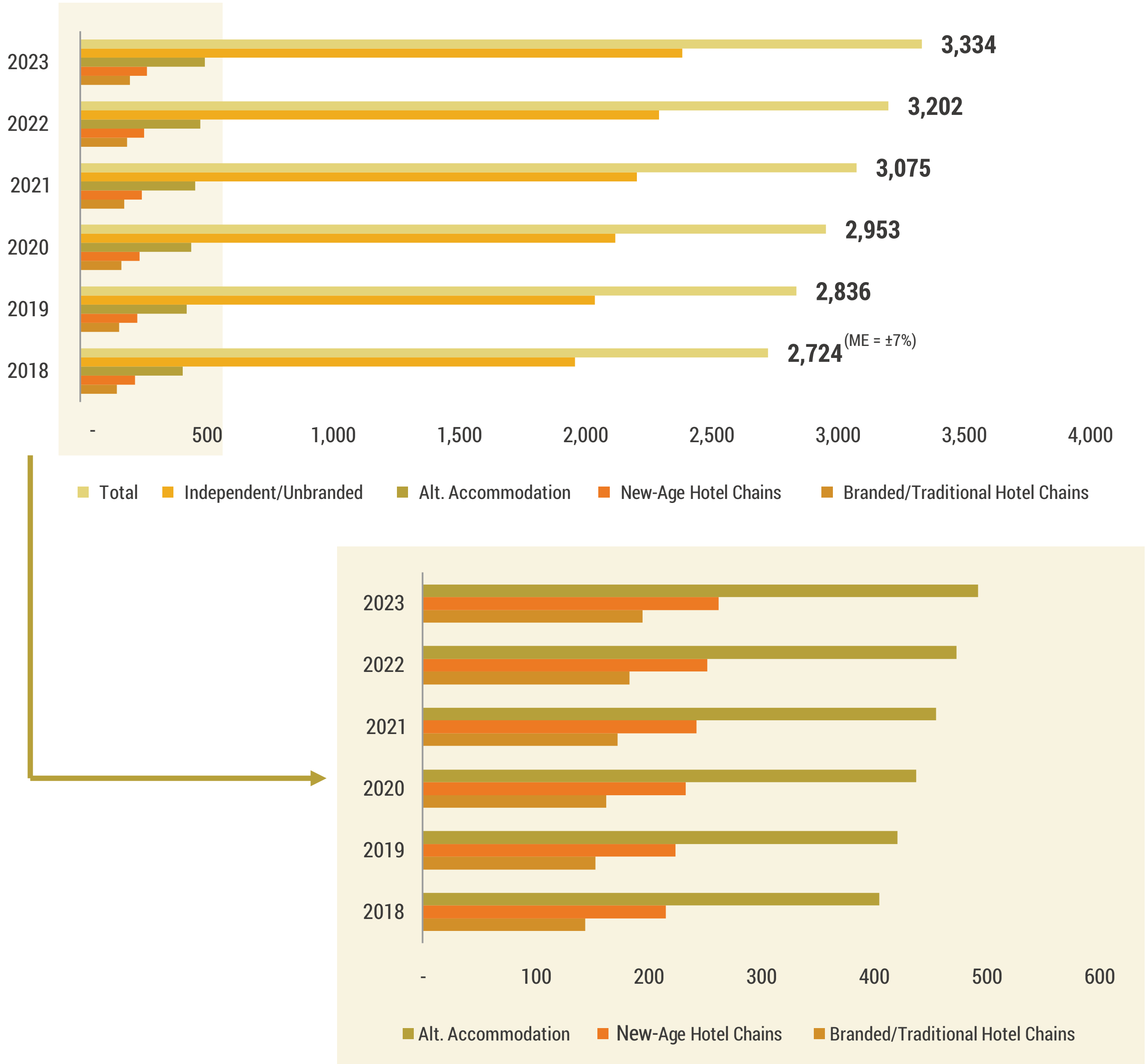
Section III
Estimating the Size of the Indian Hospitality Industry

Section III A: Total Number Of Lodging/Accommodation Rooms

There have been quite a few estimations of how many lodging/accommodation rooms are operating in India; however, most fail to share a sound scientific methodology adopted to arrive at these. So the Hotelivate team decided to conduct the market sizing exercise, consulting various industry stakeholders, and using its experience of tracking hotel markets in the country for nearly two decades. After all, our team had quantified the number of branded rooms in the country (at around 18,000) back in 1995/96, a first for the industry, establishing a credible benchmark for this metric each year since then. While we do not claim to be 100% accurate (with the margin of error being ±7%), our approach is methodical and uses reliable data points and assumptions. We are excited to share the following results.

Hotelivate estimates that as of December 2018, there are approximately 2.72 million lodging/accommodation rooms(ME = ±7%) operating in the country across the branded/traditional hotel chains, new-age hotel chains, independent/unbranded hotels and alternate accommodation (such as guesthouses and homestays). By 2023, we anticipate the total lodging/accommodation rooms operating in India to rise to 3.33 million.

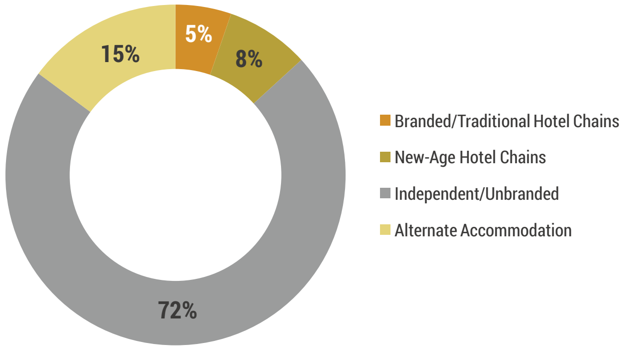
FIGURE 34: NUMBER OF LODGING/ACCOMMODATION ROOMS IN THE INDIAN HOSPITALITY INDUSTRY (000s) – 2018 TO 2023



Note: Branded/Traditional Hotel Chains refer to companies with hotels that are predominantly organic-branded such as Marriott International, Indian Hotels Company Limited, EIH Limited, ITC Hotels, Hyatt, Hilton Worldwide and similar. New-Age Hotel Chains refer to companies with hotels that are predominantly conversion-branded such as OYO Rooms, Treebo, Fab Hotels and similar. Alternate accommodation refers to guesthouses and residential properties.

Source: Hotelivate Research

FIGURE 35: NUMBER OF LODGING/ACCOMMODATION ROOMS IN THE INDIAN HOSPITALITY INDUSTRY BY TYPE – 2018



Source: Hotelivate Research

Evidently, the **independent/unbranded** segment constitutes the majority of the hospitality lodging/accommodation rooms in India, representing 72% of the total. Moreover, the growing popularity of homestays, in addition to the already existing mass of guesthouses, makes **alternate accommodation** the second-largest room/rentable unit category in the country. Interestingly, **branded or traditional hotel chains** that dominated the organised sector in the past, form only 5% of the total lodging/accommodation rooms supply in India today, and **new-age hotel chains,** expanding rapidly with their highly scalable models, constitute 8%.

HOTELIVATE METHODOLOGY: We tracked close to 500 hospitality markets in the country and based on data from various credible sources, we established the "known" supply for each of these under branded/traditional hotel chains, new-age hotel chains, independent/unbranded hotels and alternate accommodation. Next, we categorised them under the Top 15 hospitality markets, Next 25 and the Rest, based on the "known" supply of lodging/accommodation rooms in each (i.e. by existing inventory). Then, to account for the "unknown" supply, we consulted various industry experts and used our own judgement to quantify the extent to which the lodging/accommodation rooms supply in each of these markets is known. The following table presents the tracking percentages assumed by Hotelivate.

PERCENTAGE OF "KNOWN" SUPPLY:

Hotel Market Categories	Branded/Traditional Hotel Chains	New-Age Hotel Chains	Independent/Unbranded	Alternate Accommodation
Top 15	95%	100%	66%	33%
Next 25	95%	100%	50%	25%
Rest	95%	100%	33%	10%
Average	**95%**	**100%**	**42%**	**22%**

Using these tracking percentages, we determined the "unknown" supply in each hotel market, and then adding that to the "known" supply base, we arrived at the total market size of 2.72 million lodging/accommodation rooms (ME = ±7%).

For proposed supply, we tracked new hospitality developments that are likely to enter various markets in India over the next five years in order to get an accurate assessment of future supply as far as possible. Apart from this actual data, we looked at the CAGR by positioning for the past 15 years and then, using a combination of both (actual proposed supply and assumed proposed supply), we forecasted new lodging/accommodation room inventory from 2019 to 2023.

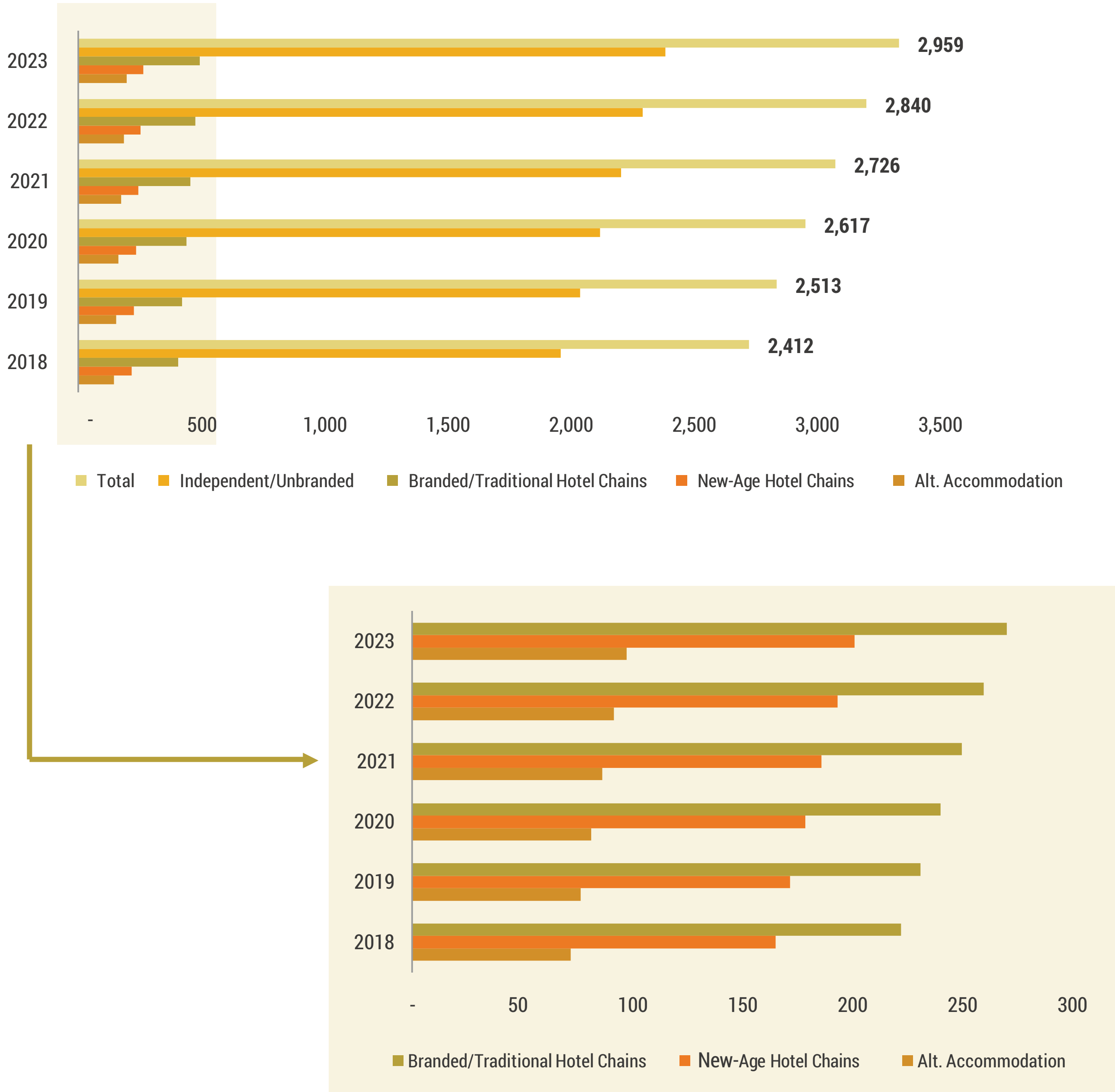
Once the market size was established, we decided to take it a step further and compute the total number of people employed **(Section III B)** as well as the tax revenue generated **(Section III C)** by the Indian hospitality industry.

City Palace, Udaipur

Section III B: Total Number Of Employees

Hotelivate estimates that around **2.4 million people** are directly employed by the hospitality industry in India as of December 2018, resulting in a weighted average of **0.89 employees per lodging/accommodation room** on a nationwide basis. According to WTTC, the Travel & Tourism sector in India employed around 43 million people in total (direct – includes employment by hotels, travel agents, airlines, and other passenger transportation services, excluding commuter services; and indirect – including wider effects from investment, supply chain and induced income) in 2018, indicating that the hospitality industry singlehandedly contributes approximately 6% to the employment by the sector. By 2023, we expect the total number of employees to rise to **3.0 million**.

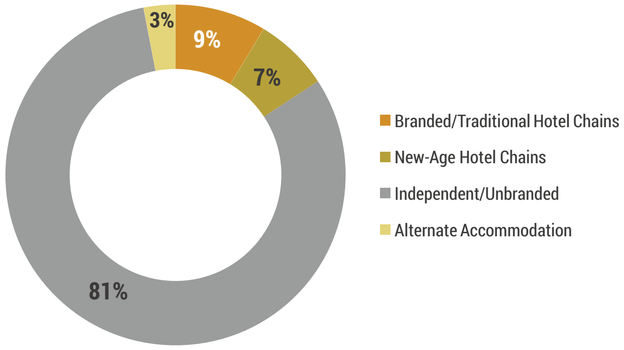
FIGURE 36: NUMBER OF PEOPLE EMPLOYED IN THE INDIAN HOSPITALITY INDUSTRY (000s) – 2018 TO 2023



Note: Branded/Traditional Hotel Chains refer to companies with hotels that are predominantly organic-branded such as Marriott International, Indian Hotels Company Limited, EIH Limited, ITC Hotels, Hyatt, Hilton Worldwide and similar. New-Age Hotel Chains refer to companies with hotels that are predominantly conversion-branded such as OYO Rooms, Treebo, FabHotels and similar. Alternate accommodation refers to guesthouses and residential properties.

Source: Hotelivate Research

FIGURE 37: NUMBER OF PEOPLE EMPLOYED IN THE INDIAN HOSPITALITY INDUSTRY BY TYPE OF ACCOMMODATION – 2018



Source: Hotelivate Research

Despite a low room-to-employee ratio, **independent/unbranded hotels** are the largest employers of this industry in the country, owing to their sheer size in terms of the number of lodging/accommodation rooms. The **branded/traditional hotel chains** come next, with the highest room-to-employee ratio, followed by the **new-age hotel chains.**

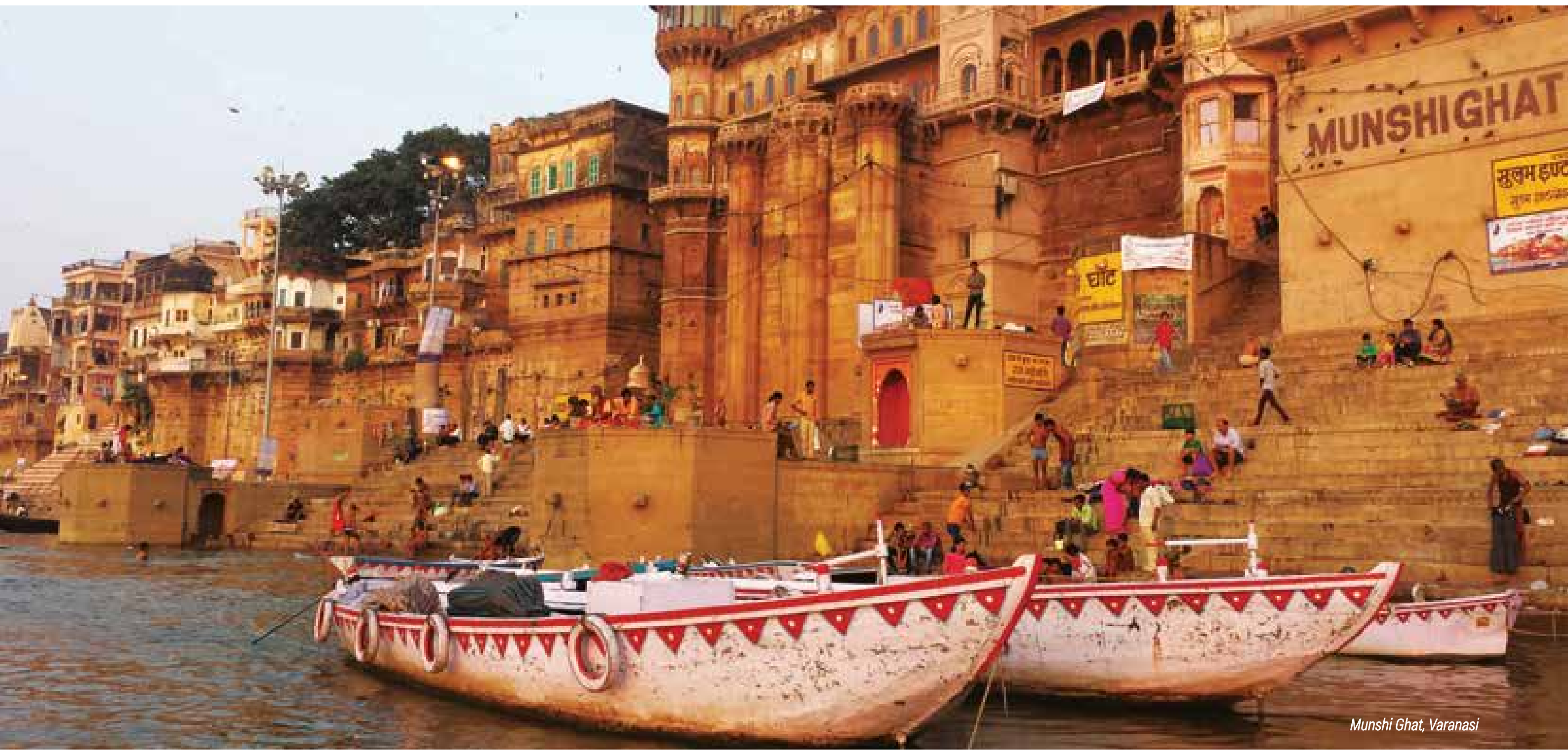
> Despite a low room-to-employee ratio, **independent/unbranded hotels** are the largest employers of this industry in the country.

HOTELIVATE METHODOLOGY: For calculating the total number of employees, we first filtered the hotels/properties by market positioning and accommodation type, and then, based on the prevalent industry standards for the organised segment (as presented in the 2019 Indian Hotel Manpower Survey by Hotelivate) and reliable estimates for the unorganised sector, we applied a room-to-employee ratio as presented below to arrive at 2.4 million employees in 2018.

Accommodation Type	Room-to-Employee Ratio
Branded/Traditional Hotel Chains	1.45
Luxury	*2.27*
Upper Upscale	*1.83*
Upscale	*1.53*
Upper Mid Market	*1.49*
Mid Market	*1.32*
Budget	*0.82*
Economy	*0.45*
New-Age Hotel Chains	0.79
Independent/Unbranded	1.00
Alternate Accommodation	0.18

Source: 2019 Indian Hotel Manpower Study by Hotelivate and Hotelivate Research

For proposed supply, we tracked new hospitality developments that are likely to enter various markets in India over the next five years in order to get an accurate assessment of future supply as far as possible. Apart from this actual data, we looked at the CAGR by positioning for the past 15 years and then, using a combination of both (actual proposed supply and assumed proposed supply), we forecasted new lodging/accommodation room inventory from 2019 to 2023. After arriving at the additional available lodging/accommodation room nights on a yearly basis, we used the aforementioned room-to-employee ratios to estimate the incremental employees being added each year.



Munshi Ghat, Varanasi

Section III C: Total Tax Revenue Generated

Disclaimer: It is to be noted that Hotelivate does not specialise in taxes, and therefore, the data presented in this section is our broad estimate based on information received from secondary sources and discussions held with industry professionals. Any liability of a legal nature is expressly disclaimed.

The Goods & Services Tax (GST) came into effect on July 1, 2017, replacing many indirect taxes in India. In the period between July 2017 and March 2018, INR6,709 crore was payable in GST revenues by the Indian hospitality industry per Hotelivate estimates. Most of it came from the sale of lodging/accommodation rooms (73%), with the remaining being contributed by F&B and Other departments of a hotel/lodging property. In 2023/24, we anticipate the total GST payable by the industry to touch **INR23,982 crore**, annually.

FIGURE 38: GST GENERATED BY THE INDIAN HOSPITALITY INDUSTRY – 2017/18 (JULY-MARCH)

	GST Calculations (Lodging/Accommodation Rooms)	
Accommodation Type	**GST Payable (INR)**	**What % of Room Nights are Taxed at 28%**
Branded/Traditional Hotel Chains	29,063,228,808	20.7%
Luxury	*7,365,002,647*	*84.3%*
Upper Upscale	*5,455,968,848*	*61.1%*
Upscale	*5,924,639,832*	*21.2%*
Upper Mid Market	*5,612,481,694*	*5.7%*
Mid Market	*3,144,339,484*	*1.4%*
Budget	*1,218,226,369*	*0.4%*
Economy	*342,569,935*	*0.0%*
New-Age Hotel Chains	1,650,944,064	0.0%
Independent/Unbranded	18,118,719,433	0.0%
Alternate Accommodation	-	-
Total (Rooms)	**48,832,892,304**	

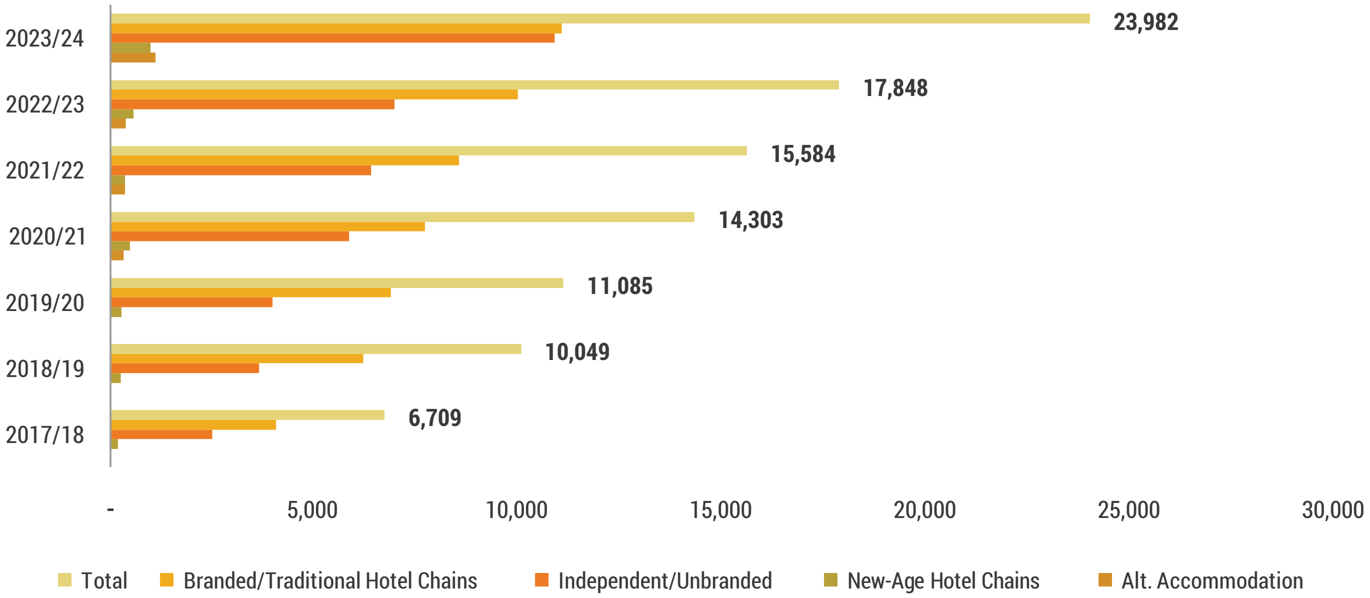
	GST Calculations (Hospitality F&B and Others)	
Accommodation Type	**GST Payable (INR)**	**% of GST from Hospitality F&B and Others**
Branded/Traditional Hotel Chains	11,466,597,129	62.8%
Luxury	*2,093,103,955*	*11.5%*
Upper Upscale	*2,614,884,645*	*14.3%*
Upscale	*2,729,449,644*	*14.9%*
Upper Mid Market	*2,289,329,436*	*12.5%*
Mid Market	*1,359,399,989*	*7.4%*
Budget	*331,809,420*	*1.8%*
Economy	*48,620,039*	*0.3%*
New-Age Hotel Chains	-	-
Independent/Unbranded	6,794,519,787	37.2%
Alternate Accommodation	-	-
Total (F&B and Others)	**18,261,116,916**	

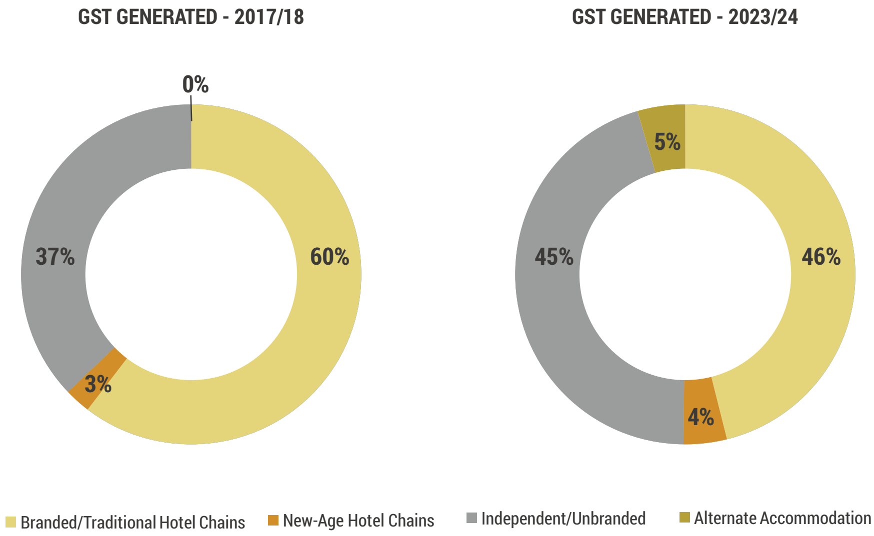
	GST Calculations (Total)	
Accommodation Type	**GST Payable (INR)**	**% of Total GST**
Branded/Traditional Hotel Chains	40,529,825,937	60.4%
Luxury	*9,458,106,602*	*14.1%*
Upper Upscale	*8,070,853,493*	*12.0%*
Upscale	*8,654,089,476*	*12.9%*
Upper Mid Market	*7,901,811,130*	*11.8%*
Mid Market	*4,503,739,473*	*6.7%*
Budget	*1,550,035,790*	*2.3%*
Economy	*391,189,974*	*0.6%*
New-Age Hotel Chains	1,650,944,064	2.5%
Independent/Unbranded	24,913,239,220	37.1%
Alternate Accommodation	-	-
Total	**67,094,009,220**	

Note: Branded/Traditional Hotel Chains refer to companies with hotels that are predominantly organic-branded such as Marriott International, Indian Hotels Company Limited, EIH Limited, ITC Hotels, Hyatt, Hilton Worldwide and similar. New-Age Hotel Chains refer to companies with hotels that are predominantly conversion-branded such as OYO Rooms, Treebo, Fab Hotels and similar. Alternate accommodation refers to guesthouses and residential properties.

Source: Hotelivate Research

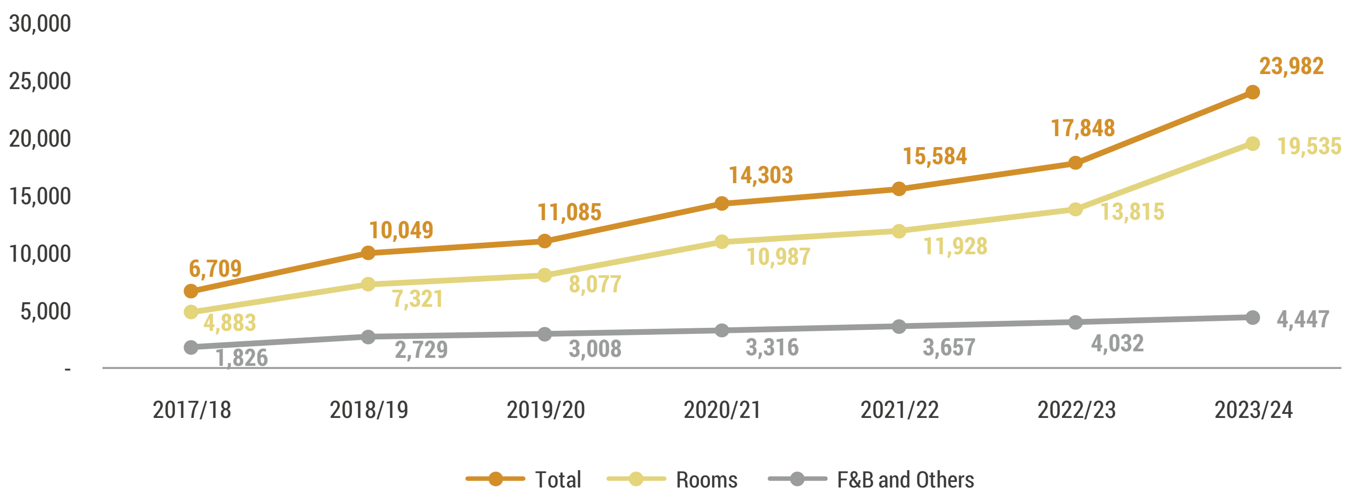
FIGURE 39: GST PAYABLE BY THE INDIAN HOSPITALITY INDUSTRY (INR, CRORE) BY ACCOMMODATION TYPE – 2017/18 (JUL-MAR) TO 2023/24





Source: Hotelivate Research

FIGURE 40: GST PAYABLE BY THE INDIAN HOSPITALITY INDUSTRY (INR, CRORE) BY DEPARTMENT – 2017/18 (JUL-MAR) TO 2023/24



Source: Hotelivate Research

HOTELIVATE METHODOLOGY: For computing the GST on the sale of lodging/accommodation rooms for 2017/18, we first filtered the branded/traditional hotels in the country by positioning into seven buckets: Luxury, Upper Upscale, Upscale, Upper Midmarket, Midmarket, Budget and Economy. We then analysed their average rate performance for the full fiscal year, splitting the same into the three different segments based on the following assumptions. A hotel's average rate is the weighted average of the various amounts charged to different market segments, such as rack rates, published rates, commercial rates and contract rates. The average rate also takes into account differentials during peak and off-peak periods, including various seasons of the year, holidays and weekends. Different types of rooms may also command varying rates and, thus, have an impact on the overall average rate. To account for these different rates, we have assumed that 50% of all occupied rooms for each individual hotel were sold at the average rate, 25% of occupied rooms were sold at a rate 20% higher than the average rate, and 25% of rooms were sold at a rate 20% lower than the average rate. Using these three different rate segments and based on which GST bracket each of these fell into, be it 0%, 12%, 18% or 28% (as per the table below), we computed the overall GST payable on rooms sold in 2017/18 (July to March).

For new-age hotel chains, we took only a portion of the lodging/accommodation inventory (around 23%) into consideration for the GST calculation, as the rest are likely sold at a rate below INR1,000. For the independent/unbranded hotels, we believe that only 25% of the current inventory will qualify for GST, and for alternate accommodation, our research indicates that almost all of the rooms supply falls under INR1,000 and below rate category, with no GST being applicable at present.

Room Rate (INR)	GST Slab
1,000 and Below	0%
1,001-2,499	12%
2,500-7,499	18%
7,500 and Above	28%

Next, we estimated the ratio of revenue from Rooms, F&B and Other departments across the different positioning and accommodation types and applied the same to arrive at the total F&B revenue and Other revenue generated by the operating lodging/accommodation properties in 2017/18. We then applied a GST of 18% to compute the tax generated from these departments of a lodging/accommodation property.

Thereafter, combining the above, we computed the total GST paid by the hospitality industry for 2017/18 (July to March), overall, by major departments as well as by positioning.

For proposed supply, we tracked new hospitality developments that are likely to enter various markets in India over the next five years in order to get an accurate assessment of future supply as far as possible. Apart from this actual data, we looked at the CAGR by positioning for the past 15 years and then, using a combination of both (actual proposed supply and assumed proposed supply), we forecasted new lodging/accommodation room inventory from 2018/19 to 2023/24. Subsequently, assuming similar occupancy levels and inflation-driven average rate growth, we estimated the occupancy and average rate by positioning and accommodation type for the following five years. Finally, applying the same methodology used to calculate GST for the existing supply, we computed the tax that will be generated by the future supply.

With critical contributions from Achin Khanna, Diksha Chopra and Sanaya Jijina

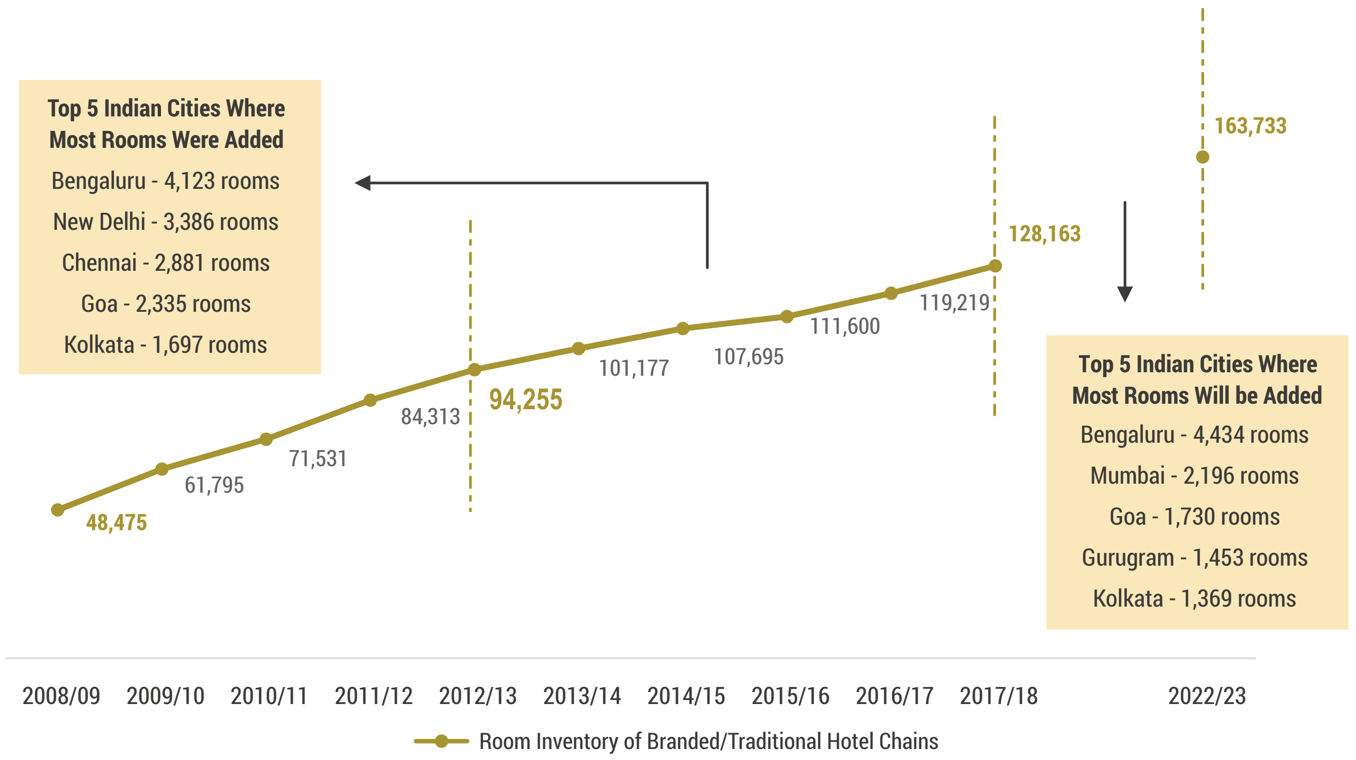
Jal Mahal, Jaipur

Section IV
Hospitality Trends

Section IV A: Branded/Traditional Hotel Chains

India has around **130,000 branded/traditional chain-affiliated hotel rooms,** which is expected to grow to nearly **165,000 in the next five years.** Since 2008/09, the traditional chain-affiliated room inventory in the country has increased 2.6 times at a compounded annual growth rate of 11%.In the following figures, we break down this inventory by various characteristics to offer different vantage points to the reader.

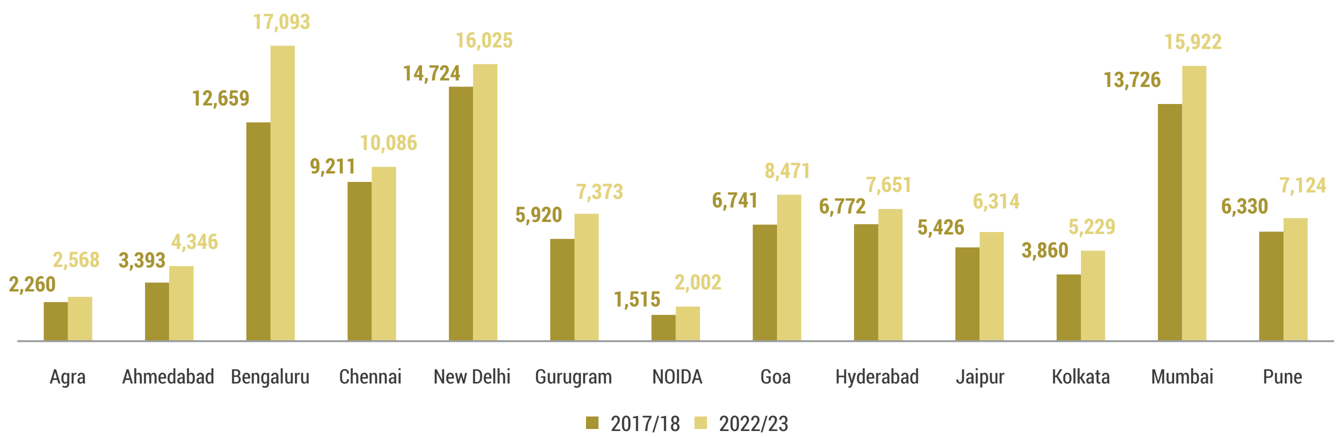
FIGURE 41: GROWTH OF BRANDED/TRADITIONAL CHAIN-AFFILIATED ROOM INVENTORY IN INDIA – PAST 10 YEARS AND 2022/23



Note: The supply for 2022/23 has been computed by adding the "active" future supply to the existing base of rooms in 2017/18.
Source: Hotelivate Research and Industry Sources

At present, **New Delhi** is the largest branded hotel market in the country with 14,724 rooms; however, in the next five years, **Bengaluru** is expected to surpass India's capital to have the highest number of branded/traditional chain-affiliated hotel rooms in the country. On the other hand, **NOIDA** is and will likely retain its position as the smallest major hotel market in India.

FIGURE 42: BRANDED/TRADITIONAL CHAIN-AFFILIATED ROOM INVENTORY IN INDIA BY MAJOR CITY – 2017/18 VS 2022/23

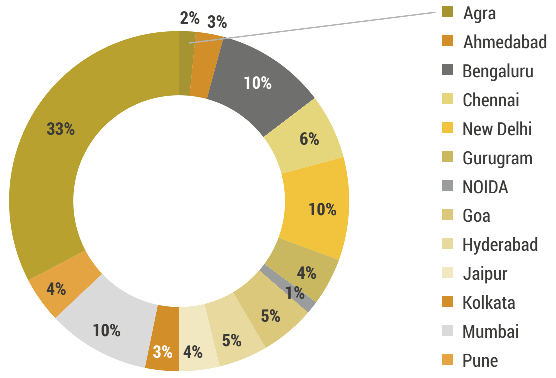


Note: The supply for 2022/23 has been computed by adding the "active" future supply to the existing base of rooms in 2017/18.
Source: Hotelivate Research

Interestingly, around **28%** of the traditional chain-affiliated hotel rooms are currently housed in **Tier II and Tier III** Indian cities (included within Other Cities in Figure 43); by 2022/23, this share is anticipated to rise to **33%.** Both domestic and international hotel chains are recognising the unaccommodated demand prevalent in these markets, and thus, nearly **50%** of the actively developing hotels being tracked by Hotelivate are coming up in these areas.

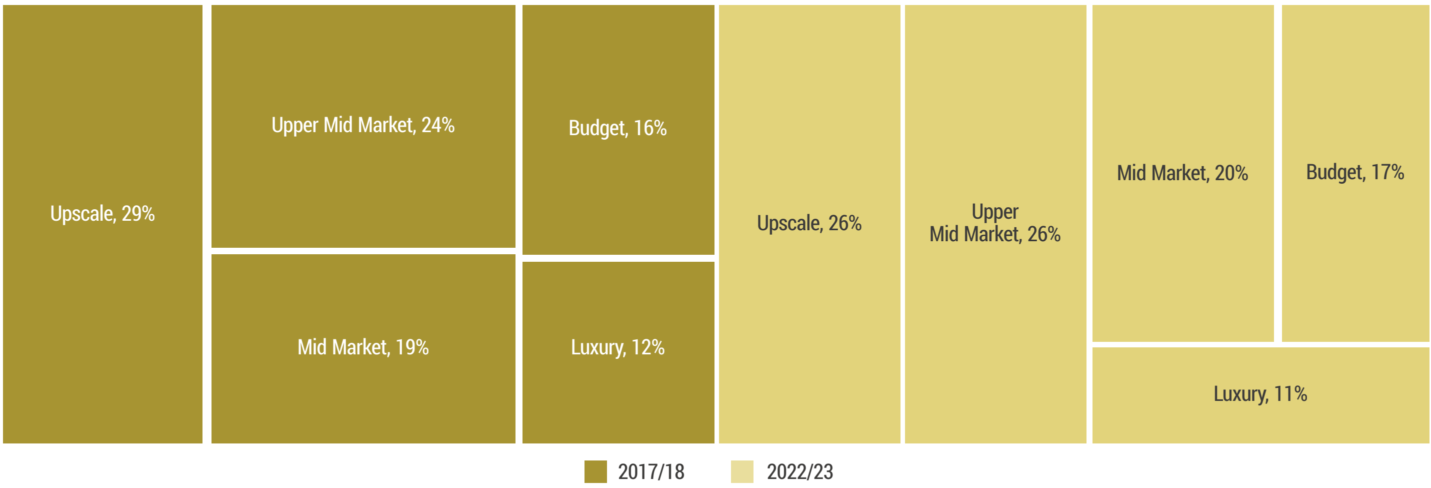
Additionally, what was once said about the Indian hotel industry being an "inverse pyramid" with most of the organised hotel rooms operating in the upscale-luxury space, is apparently no longer true. **In 2017/18, 59% of the traditional chain-affiliated room inventory in India was positioned between Budget and Upper Mid Market.** Going forward as well, this space will dominate the organised room inventory in the country. Moreover, the ratio of rooms affiliated with traditional hotel chains of a domestic origin vis-à-vis an international one is likely to remain similar, although the latter could gain a slight edge in the next five years (Figure 45).

FIGURE 43: BRANDED/TRADITIONAL CHAIN-AFFILIATED ROOM INVENTORY MARKET SHARE IN INDIA BY MAJOR CITY – 2022/23



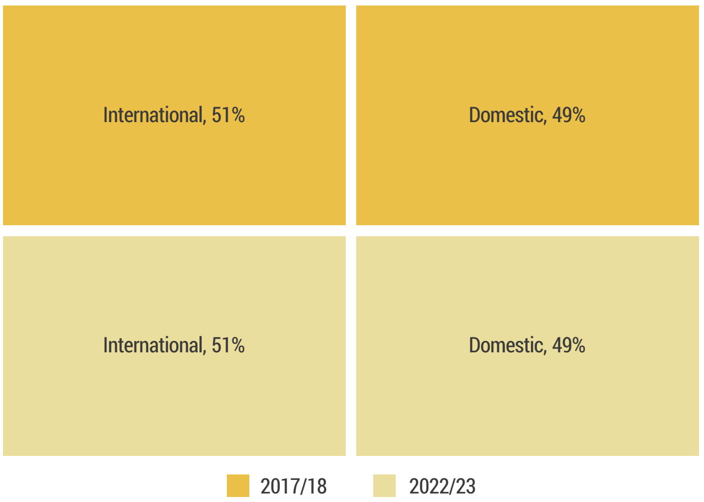
Source: Hotelivate Research

FIGURE 44: BRANDED/TRADITIONAL CHAIN-AFFILIATED ROOM INVENTORY IN INDIA BY POSITIONING – 2017/18 VS 2022/23



Source: Hotelivate Research

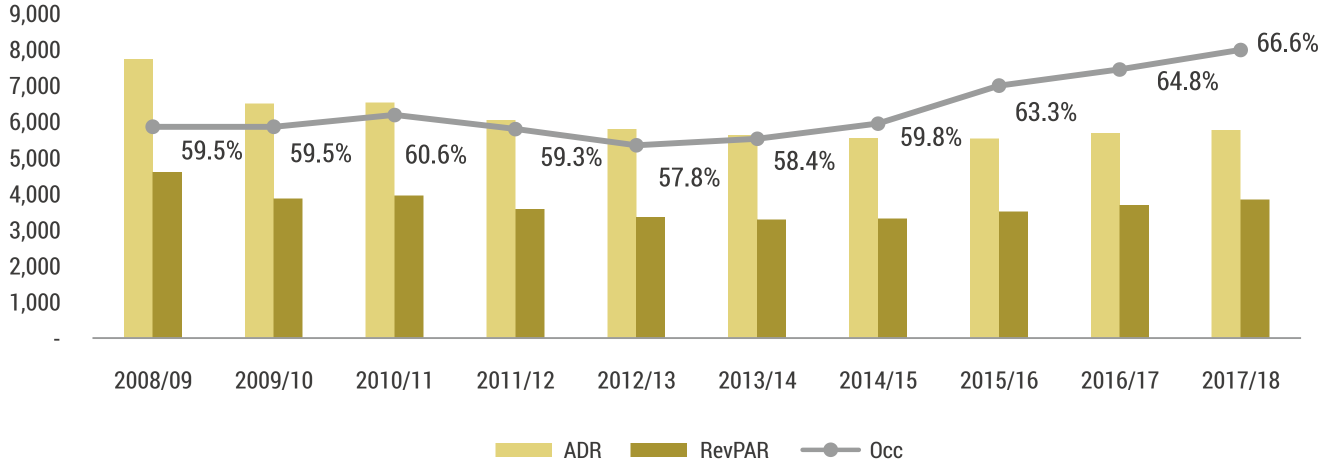
FIGURE 45: BRANDED/TRADITIONAL CHAIN-AFFILIATED ROOM INVENTORY IN INDIA BY ORIGIN – 2017/18 VS 2022/23



Source: Hotelivate Research

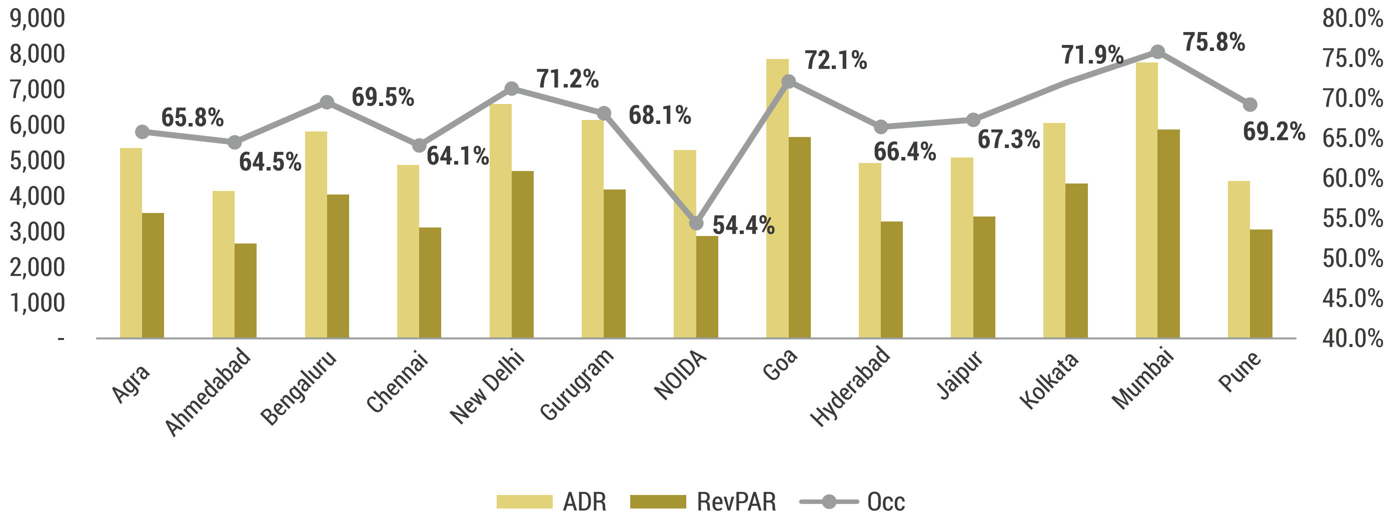
Taj Mahal, Agra

FIGURE 46: PERFORMANCE OF THE BRANDED/TRADITIONAL CHAIN-AFFILIATED ROOM INVENTORY IN INDIA – 2008/09 TO 2017/18



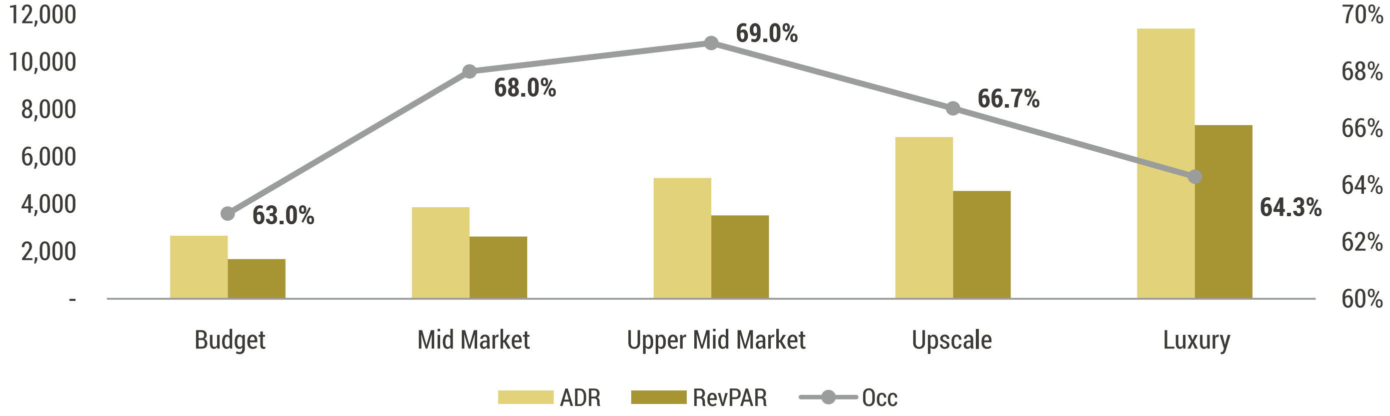
Source: Hotelivate Research and Industry Sources

FIGURE 47: PERFORMANCE OF THE BRANDED/TRADITIONAL CHAIN-AFFILIATED ROOM INVENTORY BY MAJOR CITY IN INDIA – 2017/18



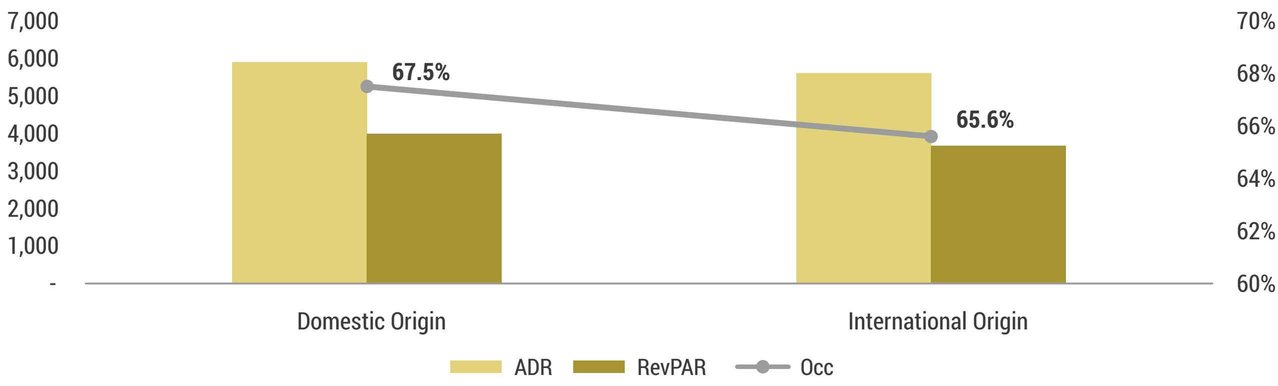
Source: Hotelivate Research

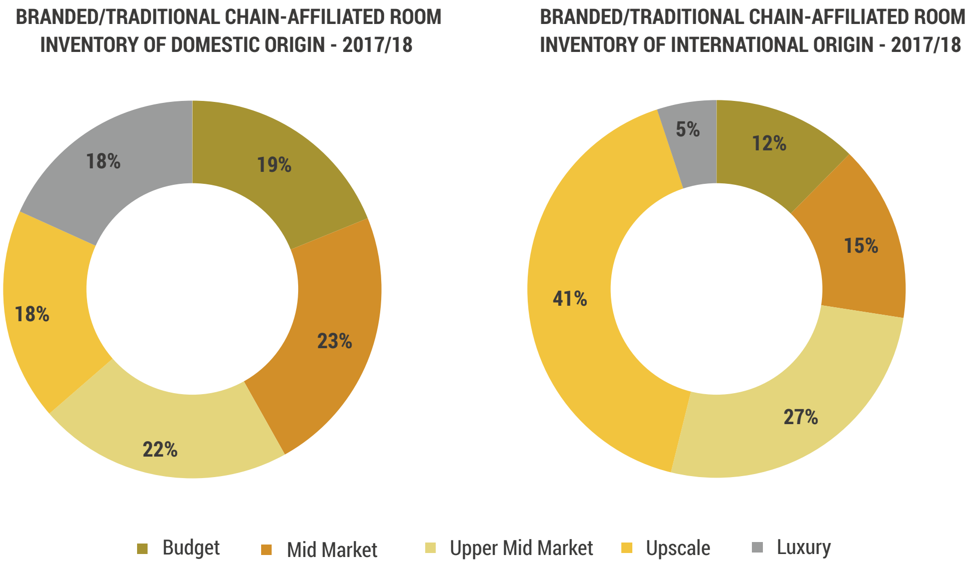
FIGURE 48: PERFORMANCE OF THE BRANDED/TRADITIONAL CHAIN-AFFILIATED ROOM INVENTORY BY POSITIONING IN INDIA – 2017/18



Source: Hotelivate Research

FIGURE 49: PERFORMANCE OF THE BRANDED/TRADITIONAL CHAIN-AFFILIATED ROOM INVENTORY BY ORIGIN IN INDIA – 2017/18





Source: Hotelivate Research

Strong demand and modest supply growth resulted in healthy occupancies for the branded hotel sector in India last fiscal. That said, average rate appreciation has continued to remain elusive. This is disappointing considering that stabilised occupancies of existing hotels and first-year occupancies of new hotels have been showing an upward trend, indicating that demand is clearly outpacing supply. If nothing else, it should encourage hotels across positioning to enhance their rates via sophisticated revenue management strategies, market segmentation and use of technology for accurate demand assessment. Instead, we find hotels entering price wars that can not only affect their positioning adversely but also deplete their bottom lines over time. Hence, Hotelivate urges the industry to capitalise on the current upcycle and not lose focus of the long-term objective of asset value enhancement for short-term gains.

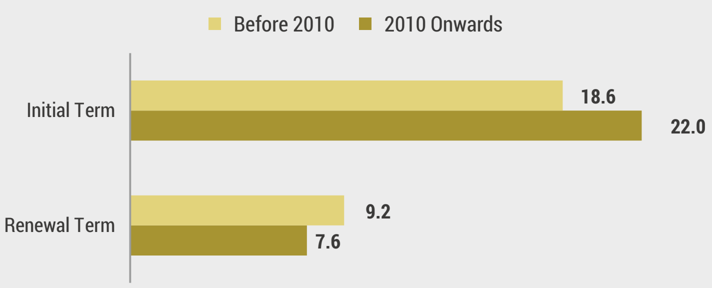
Tea Gardens, Munnar

Hotel Management Contracts in India: The Game is Changing

Change is inevitable, and more so in an industry as dynamic as hospitality. Market performance, lending environment, number of players, owner and operator objectives, costs and margins, and customer profile are all changing almost constantly, and so are hotel management agreements that have evolved remarkably in India in the past decade. Once an operator stronghold, hotel management agreements had little to no room for negotiations, leaving an inexperienced owner (with no expert advice) with a sub optimal contract. However, the game is now changing! Today's more experienced and perceptive owner is demanding higher returns for lower fees from operators, who are at present in much larger numbers than in the past, increasing the competition and offering the owner more choice. Additionally, owners are showing their might, with many of them developing a portfolio of hotels as against just stand-alone properties. Understandably, operators are more than willing to sweeten the deal in such cases, since it is easier to negotiate with one party for a larger number of hotels than with different parties for each of their properties. Also, the nature of hotel ownership is changing today, with a growing number of institutional investors assuming a more dominant role than HNIs and family holdings – mainly attributable to the industry upcycle, relaxation of FDI norms in the sector and more widespread development of lower-positioned assets that are easier to transact. This new breed of owners has a clear exit strategy in mind, as against retaining legacy assets, and thus, expects management companies to have skin in the game. This may take the form of equity participation, key money, an operator loan or a more robust performance-based compensation structure.

The Hotelivate team has two decades of experience in negotiating hotel management agreements in the country. Drawing upon that experience, we have highlighted select key terms and depicted the way they have changed since 2010. While the charts show the sample set averages, we have shared additional insights alongside to make the reader aware of the many ways in which the terms are changing – beyond what just meets the eye.

Length of the Initial and Renewal Terms (Years)

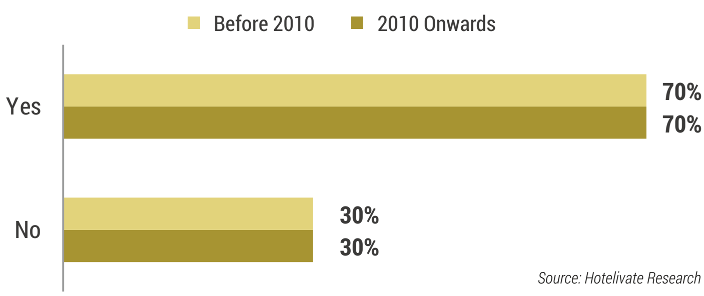


Source: Hotelivate Research

The **length of the initial term** averages around 20 years in India, while that of the **renewal term** is around 8 years. Over time, the management contract term has been reducing, although the Figure alongside shows differently; this is due to the newer contracts in the sample set mostly being of higher-positioned hotels that tend to have a longer initial term than their budget-mid market counterparts. Another notable trend is that renewal on mutual consent of both parties is more widespread than before, when it was at the operator's will or automatic. In stray cases, we have come across conditional renewal wherein the operator is required to meet a certain performance threshold prior to the term being extended, such as achieving a pre-defined occupancy, RevPAR or operating profit level in the two or three years preceding the expiration of the initial term. We expect this clause to become more popular in the coming years.

Provision for **area of protection (AOP) or restricted area** has been common in contracts signed then and now, although a few prominent trends are emerging. First, a greater number of contracts signed before 2010 offered an AOP for the entire length of the initial term and for a larger radius than currently seen; recently, the duration of the AOP is mostly restricted to 8-10 years from signing or 5-7 years from opening, with the radius shrinking (especially for lower-positioned assets). This is largely because of the changing demand dynamics in various hotel markets, including the formation of micro-markets that support the development of more hotels of the same/similar branding in a city. Second, having two areas demarcated for an AOP is more prevalent now than in the past – the first one with a larger radius for a shorter period, followed by another with a shorter radius but for a longer duration. Additionally, AOP burn-off provisions linked to development milestones are becoming increasingly relevant and frequent, with an intent to safeguard the operator's interests when projects get delayed.

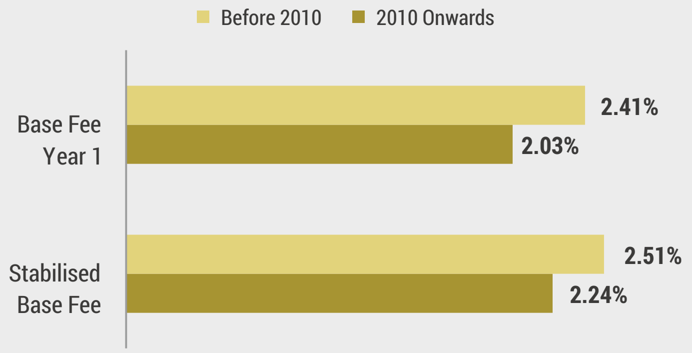
Provision for an Area of Protection



Source: Hotelivate Research

Recently, the duration of the **AOP** is mostly restricted to **8-10 years** from signing or **5-7 years** from opening, with the radius shrinking (especially for lower-positioned assets).

Base Management Fee (% of Gross Revenues)

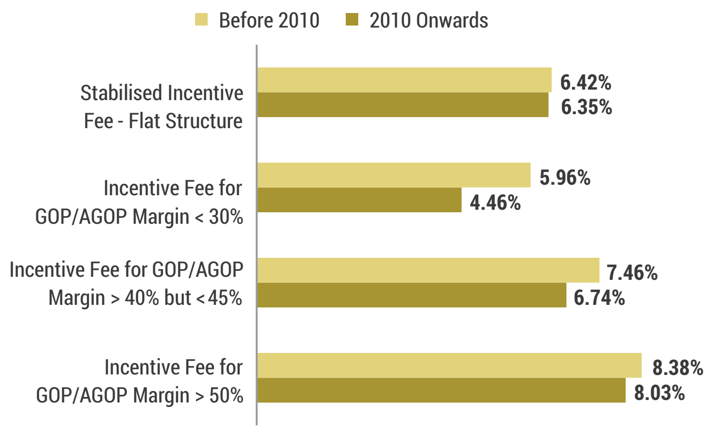


Source: Hotelivate Research

The **base management fee (aka operating fee)** has an inverse relation with market positioning, i.e. higher the market positioning, lower is the base fee. It has generally decreased over the years, with a flat annual rate becoming less common, making way for a ramp-up structure. The Figure shows the first-year base fee to be averaging at around 2.00%; however, we have come across this fee going as low as 1.50%-1.75% for strategic projects. Additionally, operators have occasionally even agreed to a ramp-down, with a higher fee in the initial years, before stabilising at a lower percentage of total revenue. That said, operators tend to try and keep the format of this fee as stable and uncreative as possible, preferring more flexibility with the incentive fee.

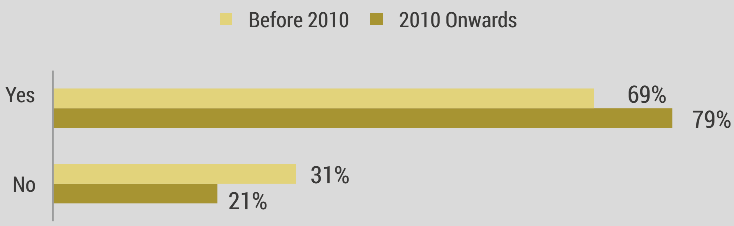
Most of the management contracts being signed today have a performance-based **incentive fee** structure as against a flat annual structure, with or without a ramp-up. Also, the fees are declining for the various GOP/AGOP margin thresholds as shown. In fact, operators at times have even agreed to no incentive fee in the initial few years, or a significantly reduced fee for a GOP/AGOP margin less than 30%. Further interesting to note is that the concept of subordinating the incentive fee to a desired level of owner's return is gaining ground. This may take the form of an owner's priority amount, where the incentive fee is linked to the residual/available cash flow. Moreover, operators today are more willing to commit to a minimum performance guarantee, whereby a certain level of profit is assured, and should that not be achieved, the operator makes up for the shortfall. So, evidently, owners are seeking to safeguard their investments in more ways than seen before.

Incentive Management Fee (% of Operating Profit)



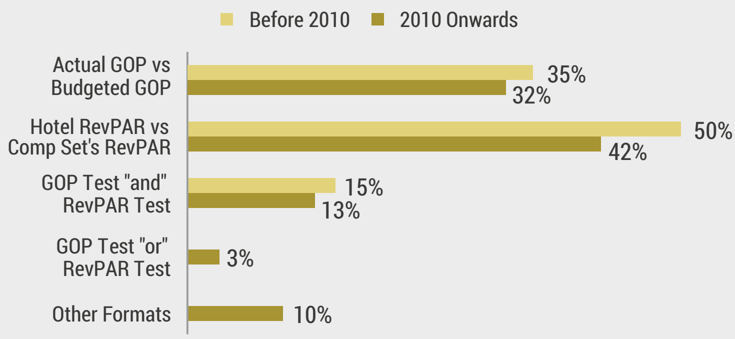
Source: Hotelivate Research

Provision for an Operator Performance Test



Source: Hotelivate Research

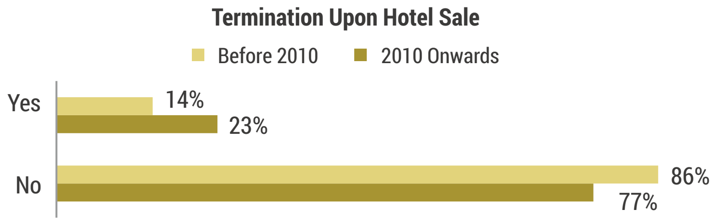
Type of Operator Performance Test



Source: Hotelivate Research

An **operator performance test** is more prevalent in management contracts signed in or after 2010, with it commencing typically in Year 4 or 5 for new properties and Year 1 in case of conversion assets. Notorious for not being as effective as it looks, the performance test clause is often drafted in a manner that it is nearly impossible to terminate the operator based on poor performance. Thus, owners and their advisors are finding ways in which the test can be made more robust and fairer to both sides. For instance, while the test period is commonly two consecutive years, we find that a period of two out of every three consecutive years or three out of every five consecutive years is also being agreed upon. Additionally, higher test thresholds are being demanded (greater than 90%), and instances of operators agreeing to GOP "or" RevPAR-based tests, where failure on "either" account could give rise to owner's right to terminate (if left uncured) are increasing. Other customised test formats such as achieving certain EBITDA levels during the test period can also be found.

Contracts that allow the owner to **terminate upon hotel sale** to a third party are more frequent now than prior to 2010, though it always attracts a severance/termination fee that is payable by the owner. Nonetheless, owners still try and include this provision in the contract as the sale is a lot easier when the asset is unencumbered by a management contract. Moreover, an incompetent operator can be terminated sooner than possible under the typical performance test clause.



Source: Hotelivate Research

Chandrashila, Tungnath, Uttarakhand

Besides the key commercial clauses discussed above, a hotel management contract comprises several other critical aspects that need scrutiny prior to signing. For instance, the **technical services fee,** which has not undergone a significant change over the years in terms of the absolute monetary amount charged by the operator, is now time-bound. We are seeing more and more contracts stipulating a period ranging from 36-48 months for the technical services to be rendered. Beyond this duration, there is an additional fee payable by the owner to the operator. Moreover, if an operator is making an equity contribution by way of offering **key money,** the length of the initial term and the management fees charged tend to be toward the higher-end of the spectrum. Not to forget the myriad of fees and charges associated with **shared services or chain services** – all of which are non-negotiable and can be revised at the operator's discretion. Though most brands now mention the fees for marketing, select reservation services and the loyalty program contribution in the contract, these are just the tip of the iceberg.

Hence, **the significance of the owner getting expert advice or guidance before signing a hotel management agreement cannot be overemphasised.** Over the past two decades, we have seen many owner-operator relationships sour or fail only because not enough care was taken prior to entering the association. As we are asset managing a greater number of properties today, we find that aligning the expectations and financial objectives of both parties is challenging, and an equitable and fair management agreement can go a long way in making the operation of the hotel smoother.

Note: Around 70 hotel management contracts signed between 2003 and 2018 were reviewed by Hotelivate. These contracts represent all market positioning and hotels of different scales – less than 100 rooms to between 300-500 rooms. Also, Hotelivate would like to qualify that all the management contract terms and trends depicted here are broadly indicative in nature, and can vary depending on factors such as location, project profile, operator and investor type.

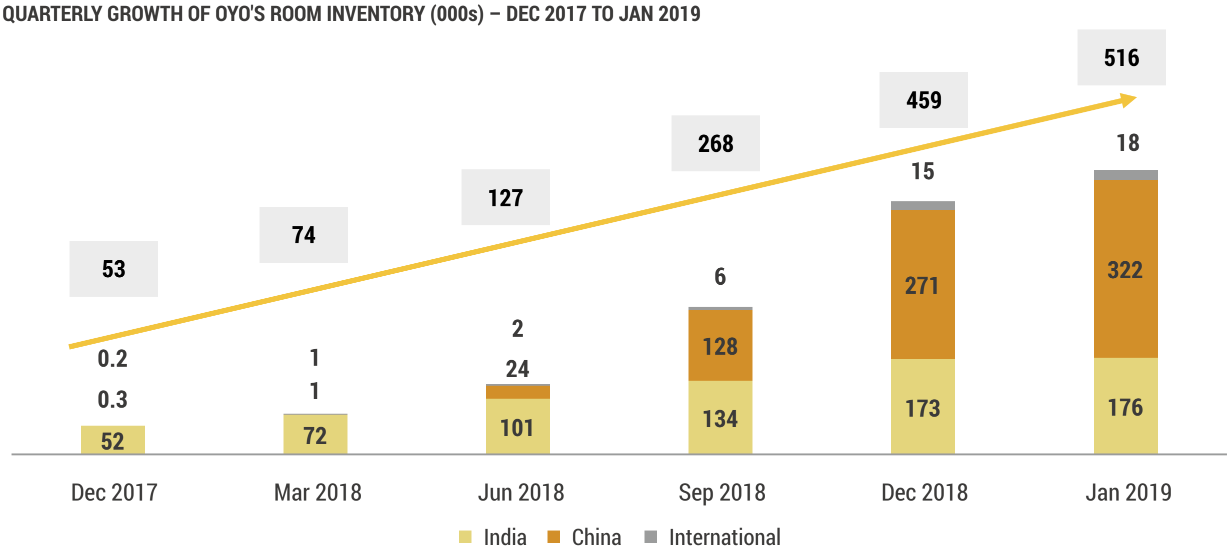
Scalability Through Innovation: A Potential First for the Hospitality Industry – An OYO Moment Has Arrived!

- Manav Thadani

For the past many decades, domestic and international hotel companies have used different **yardsticks to measure success**. Frequently and conveniently, these yardsticks change based on what suits a company best. Some measure success by being the largest in terms of the number of hotels, keys or even market cap. Others, such as those that fail to make the grade across these barometers or have a different feather in their cap, make other claims: the largest number of loyalty programme members; the highest count of brands; the largest regional presence or the greatest presence in secondary cities. Some insist on being the most environmentally sustainable, while others aspire to be the most profitable. Then there are success measures based on the number of managed and franchised properties. I could go on and on, but I think the point has been made. As they say, beauty lies in the eyes of the beholder – it all narrows down to who is the one measuring success. More often than not, these are just cool terms chosen by CEOs and their marketing teams. But then, why blame the hotel industry alone? We will find similar examples across other industries.

IHG's Holiday Inn brand is more than 65 years old and has approximately 215,000 rooms (as of Dec 2018). Closer to home, in India, is the Taj Group, with a rich legacy of 115-plus years and approximately 20,000 rooms. Marriott, with its acquisition of Starwood two years ago, is currently the largest hotel company with around 1.3 million rooms across its 30 brands. In fact, there have been so many acquisitions recently that it's becoming hard to keep track. Nonetheless, there is something new and exciting happening amid all this. **For the first time, an Indian hospitality company is growing at a meteoric pace; something that should make all of us acknowledge it at least, if not sit up and take notice**. If you don't believe me, just see how it has grown in China in just 12 months since January 2018, apart from its home market, India, and other new international markets (Figure 50). If you haven't guessed it already, I am talking about OYO Hotels & Homes. OYO currently has close to 176,000 rooms in India and another 322,000 rooms in China. Additionally, it has a presence in Nepal, Indonesia, Malaysia, the UK, the UAE, and more recently, the Philippines. Totally, OYO has 515,000+ rooms across 17,000+ hotels worldwide, with a goal to be the largest and most preferred hotel chain for the budget-midscale segment by 2023, globally.

FIGURE 50: QUARTERLY GROWTH OF OYO'S ROOM INVENTORY (000s) – DEC 2017 TO JAN 2019



Source: Hotelivate Research

Skeptics from the "traditional" hotel industry have scoffed at the OYO model; they have tried to push it aside with arguments that say it is simply an aggregator of budget hotels; or that it has a poor quality of service, or that its deliverables are not comparable with the mainstream hotel industry. It is fascinating to hear the different reasons why hotel chains do not want to consider OYO a competitor. Some might even try and convince you by saying that OYO is not a "true" hotel company. Well, OYO did start off as an aggregator back in 2013; but in the past five years, it has evolved into a full-scale hospitality company that operates exclusively franchised and leased assets, growing each day through its innovative model.

> **OYO** has evolved into a **full-scale hospitality company** that operates exclusively franchised and leased assets, growing each day through its innovative model.

OYO classifies its room inventory under two categories – **(i) Franchise/Manchise and (ii) Self Operated Businesses (SOB).** Approximately 80% of OYO's room inventory in India falls under the franchise/manchise category, with the remaining inventory categorised under SOB. For its budget brand, OYO Rooms (approximately 150,000 existing) that operates on a franchise model, OYO offers branding, management of the unit's rate strategy, inventory allocation, pricing and revenue management. It also offers training of staff, and day-to-day operations overseen by an Assistant General Manager deputed for the purpose. In several cases, OYO has also invested CapEx to help upgrade and renovate the property. In addition, the company frequently provides financial support to asset owners, thereby promoting micro-entrepreneurship. So it's not a plain vanilla franchise. In fact, OYO does a disservice by calling itself predominantly a franchise company, when it is evidently much more than that. Figure 51, below, presents a basic comparison between the responsibilities of the brand under a "typical" franchise agreement, a management contract and OYO's hybrid model.

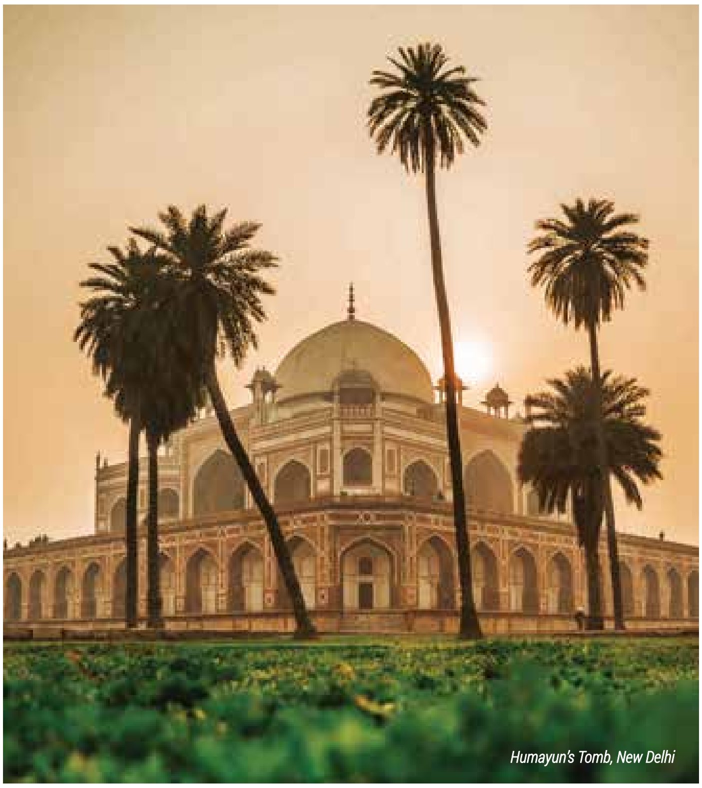
FIGURE 51: DIFFERENCES IN THE BRAND'S RESPONSIBILITIES – TYPICAL FRANCHISE VS MANAGEMENT CONTRACT VS OYO ROOMS MODEL

	Franchise	Management Contract*	OYO Rooms Model
Hotel Ownership	✗	✗	✗
Branding	✓	✓	✓
Technical Support During Construction/Renovation	Depends on the Brand	✓	✓
Regional Marketing and Distribution	✓	✓	✓
Guest Loyalty Program	✓	✓	✓
Annual Business Plan Development and Implementation	✗	✓	✓ Brand Participates in Rate and Inventory Management Strategy
Participation in Day-to-Day Management	✗	✓	✓
Pricing Decisions	✗	✓	✓
Unit-level Sales	✗	✓	✗
IT Installation and Support	✓	✓	✓
Finance and Accounting	Depends on the Brand	✓	✗
Revenue Management	Depends on the Brand	✓	✓
Employee Training	Depends on the Brand	✓	✓
Procurement Services	Depends on the Brand	✓	✓ For Items Related to OYO Brand Standards
Quality and Safety Audits	✓	✓	✓
Maintenance of Operating Licenses and Insurance	✗	✓	✗
P&L Responsibility	✗	✓	✗
Renumeration to the Brand	Establishment/Initial Fee Technical Services Fee License/Royalty Fee Marketing Fee Central Services Fees/Charges Other Fees/Charges	Technical Services Fee Base Management Fee Incentive Management Fee Marketing Fee Central Services Fees/Charges Other Fees/Charges	Commission on Rooms Sold Marketing Fee Technical and Value-Added Services Fee
Share in the Operating Profit	✗	Depends on the Agreement	✗

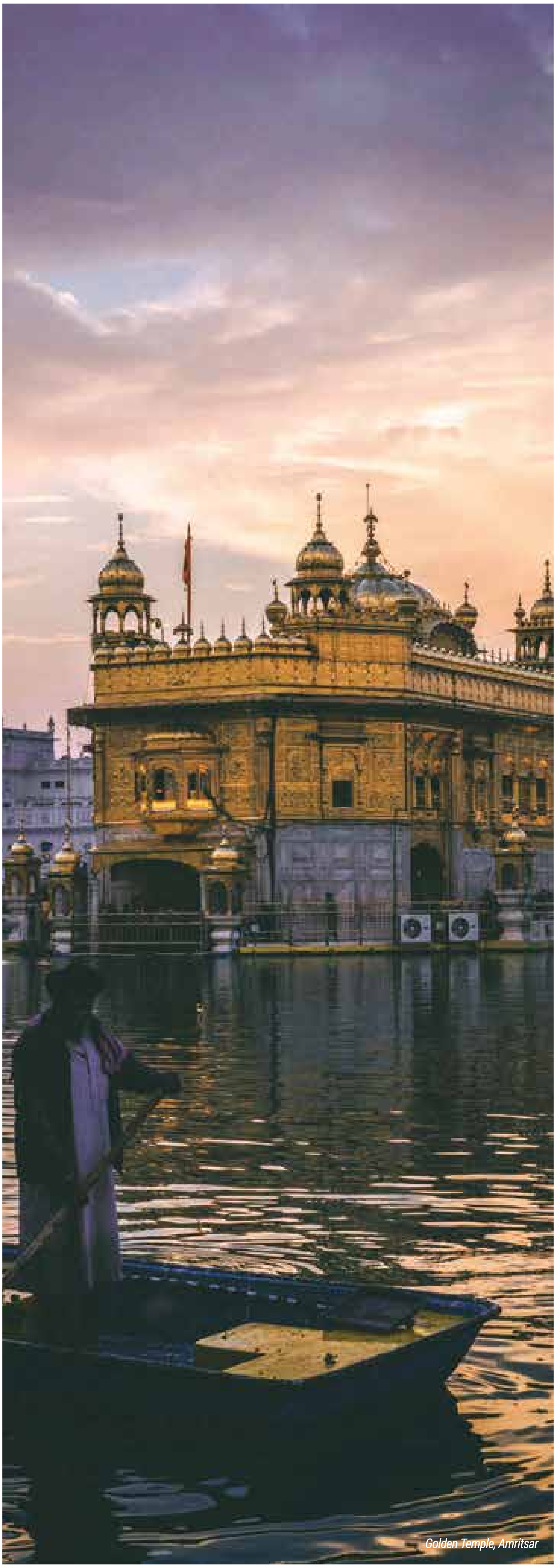
**The management contract model depicted above is that of first-tier management companies, predominant in Asia, which brand as well as manage the property.*
Source: Hotelivate Research

While I have presented a rather clinical analysis and comparison of OYO's manchise model when pegged against the traditional franchised or managed hotel models, I do recognise the fact that a large number of these 150,000 rooms are either conversions of erstwhile guesthouses or new-builds that may not have the same cost structure and/or licenses and permissions that are usually required of "hotels". That being said, **their ability to compete with other branded players in the budget and economy space must not be ignored.** Rather than eating into an existing pie, they have, in fact, grown the size of the relevant demand base to now include a much larger populace that was not captured by the branded players in the past. Moreover, the general view that OYO only "aggregates" or "converts" guest houses is also completely untrue. In fact, OYO's other midscale and upper midscale brands, such as OYO Flagship, Collection 'O', Townhouse, Silverkey, and OYO Living operate under various models, including management contracts, lease contracts and owned and self-operated entities.

To my mind, there are a few striking competitive advantages of the OYO model that make it significantly more scalable than traditional hotel companies. First, OYO is a lot more flexible when it comes to brand standards. While I am not undermining the importance of the guidelines set by brands to ensure consistency across properties and positioning, I do see merit in OYO focussing more on the basics than the frills.



Humayun's Tomb, New Delhi


Golden Temple, Amritsar

After all, a clean and safe accommodation, with a comfortable bed, adequate technology, perhaps suitable dining options, and trained staff is all one really needs – especially in the budget-to-midscale segment. Yet, we find typical franchise and management contract negotiations extending to anywhere between 10-18 months (if not more), with considerable back-and-forth between the owner and the brand regarding the property improvement plan (PIP) and other key commercials. In contrast, signing up with OYO could take as little as 10 days! Thus, one can see why OYO is far ahead in the game compared to other hotel companies, who are unrelenting on prototypes, hampering their agility to expand swiftly.

Second, OYO lays a lot of emphasis on technology – something that the traditional chains have consistently lagged in embracing. OYO focusses on reducing operating costs and improving serviceability on one hand, and attracting travellers and bookers with a user-friendly platform, on the other. It has a dedicated software and engineering team that churns out new apps and software updates on a daily basis. For instance, ORBIS, a business intelligence tool used by the OYO sales team, instantly calculates the hotel's projected occupancy rates and revenues (potential upside after joining the brand) by analysing hundreds of internal and external data points. Moreover, OYO has its own "mobile" property management system for ensuring efficient operations, as well as Krypton, an internal audit app to inspect hotels and capture customer feedback in real time.

Another interesting aspect of the OYO model is that over 93% of the demand comes through its own channels, including the website and mobile app, indicating low reliance on third-party online travel agents (OTAs). Also, repeat customers for OYO generate about 73% of the revenue. This can be attributed to a seamless product experience, efficient operations, and solid distribution capabilities.

Notwithstanding the above, OYO entered the hospitality industry as a disruptor, without a template. And as is the case with first-movers, there are benefits and challenges that come with it. OYO too is trying to overcome its share of issues, especially those related to service quality, transparency, low margins and the massive quarter-on-quarter cash-burn it is having to incur at the moment in the interest of scalability. However, looking at the leadership's desire to constantly improvise, these could iron out over time. For now, we are simply surprised by the way a model that has proven itself as being sustainable, is so easily dismissed by the rest of the industry. After reading this article, if the traditional hotel companies still choose to ignore OYO, we say do so at your own peril!

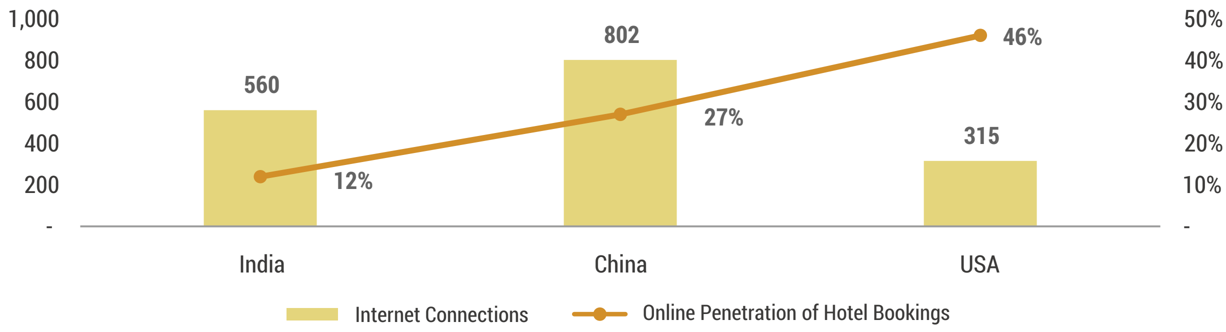
Over **93%** of **OYO's demand** comes through its own channels, including the website and mobile app, indicating low reliance on third-party online travel agents (OTAs). Also, **repeat customers** for OYO generate about **73%** of the revenue.

Section IV B: Online Travel Agencies

Making humble beginnings back in the mid-90s, **Online Travel Agencies (OTAs) have clearly become a massive force in the hospitality industry today**. MakeMyTrip, Yatra, Cleartrip, Booking.com (Priceline) and Expedia are some of the leading OTAs in India currently. These are essentially travel websites that allow consumers to purchase travel products including hotel rooms, flights, car rentals, train tickets, cruises and packages, almost serving as a one-stop shop for all travel-related services. We have explored the past and current relationship between OTAs and hotels in our insight column within this section, while pertinent trends relating to this significant segment of the Indian hospitality industry have been presented below.

We would like to begin with highlighting that the **number of internet connections** in India breached the 500 million mark in September 2018, touching 560 million. Of these, 64% are in urban areas, while the remaining connections are in rural areas. With approximately 43 internet subscribers per 100 population, India has now become the second-largest base of internet users in the world after China (802 million users). The USA ranks third with around 315 million internet users. Yet, **India's online penetration rate for hotel bookings** is notably lower than that of China as well as the USA as shown in Figure 52. The underpenetrated segments, thus, present a tremendous growth opportunity for all online players of the Indian hospitality industry, including the OTAs.

FIGURE 52: NUMBER OF INTERNET USERS (MILLION) AND ONLINE PENETRATION OF HOTEL BOOKINGS: INDIA VS CHINA VS USA – 2018

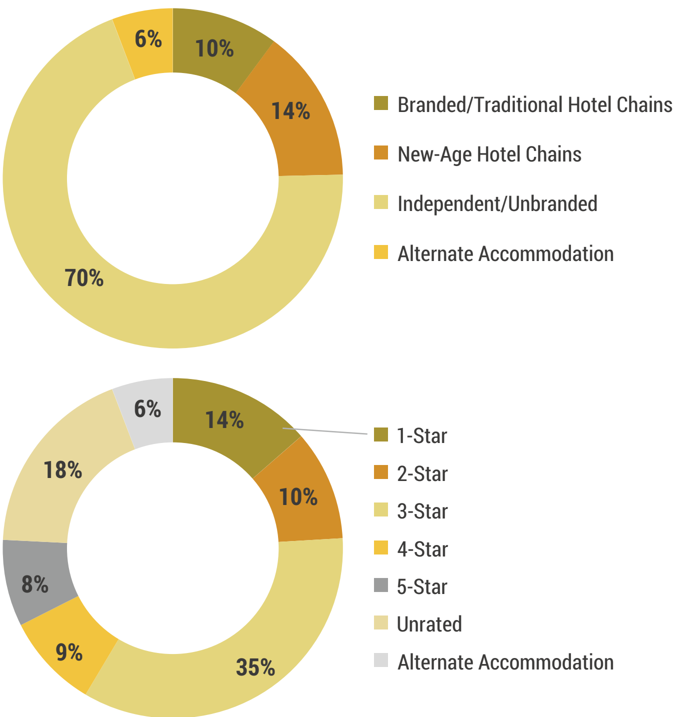


Source: Telecom Regulatory Authority of India (Trai)'s Indian Telecom Services Performance Indicators July-September 2018; China Internet Network Information Centre (CNNIC)'s 42nd Statistical Report; Industry Sources and Hotelivate Research

Based on our research of **branded/traditional hotel chains,** we gather that in terms **of channels for room bookings,** assuming a 100% occupancy, around **35%-37% of the reservations come from online channels,** like OTAs, Brand.com, GDS, CRS, third-party websites/meta search websites and social media, among others, with the rest being contributed by offline mediums. OTAs list all types of lodging properties, ranging from branded/traditional hotel chains to alternate accommodation that includes guesthouses and homestays. However, it is the unbranded/independent hotels that make up the largest segment, representing nearly 70% of the listings on OTAs in India. In terms of star categorisation, the three-star properties constitute the largest slice of the pie.

Ladakh, Jammu and Kashmir

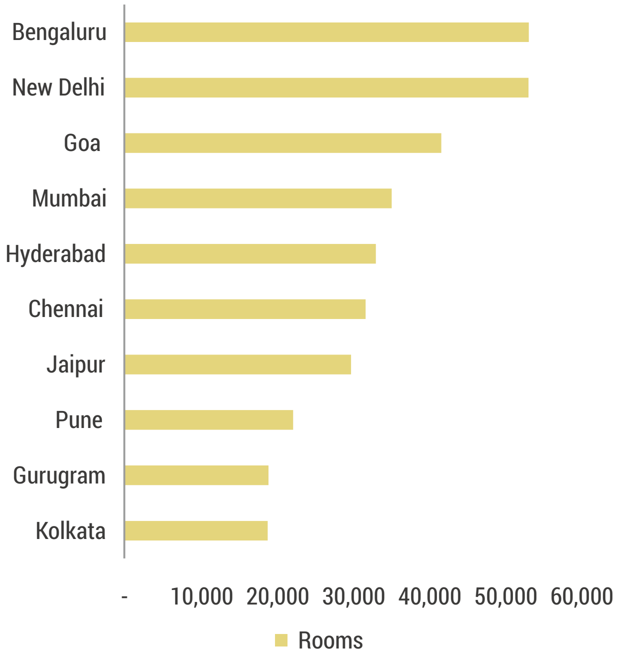
FIGURE 53: HOTEL MARKET SEGMENTATION OF OTAS IN INDIA BY ROOMS – 2018



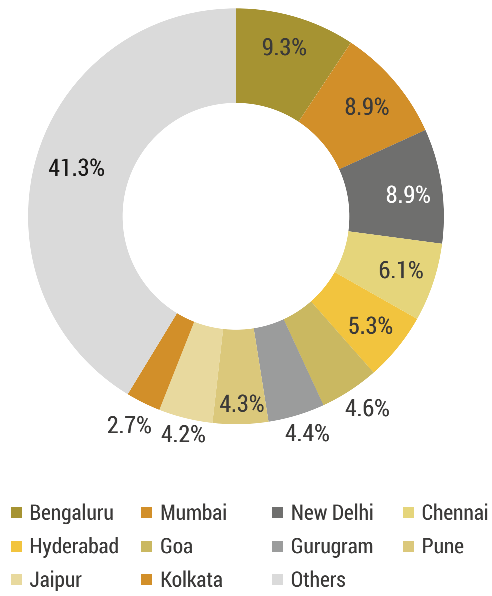
Note: Branded/Traditional Hotel Chains refer to companies with hotels that are predominantly organic-branded such as Marriott International, Indian Hotels Company Limited, EIH Limited, ITC Hotels, Hyatt, Hilton Worldwide and similar. New-Age Hotel Chains refer to companies with hotels that are predominantly conversion-branded such as OYO Rooms, Treebo, Fab Hotels and similar. Alternate accommodation refers to guesthouses and residential properties.

Source: Hotelivate Research

TOP 10 OTA MARKETS BY NO. OF ROOMS



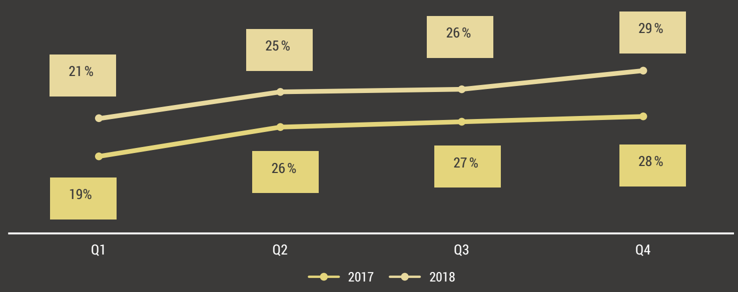
DISTRIBUTION OF BRANDED/TRADITIONAL HOTEL CHAIN INVENTORY ON OTA WEBSITES



Source: Hotelivate Research

Visitors to OTA websites, with an intent to book hotel rooms, have steadily increased over the years. While the **peak months** for such visitor traffic are **May, June and December,** the quarterly distribution of visitors to OTA websites can be seen evening out, gradually.

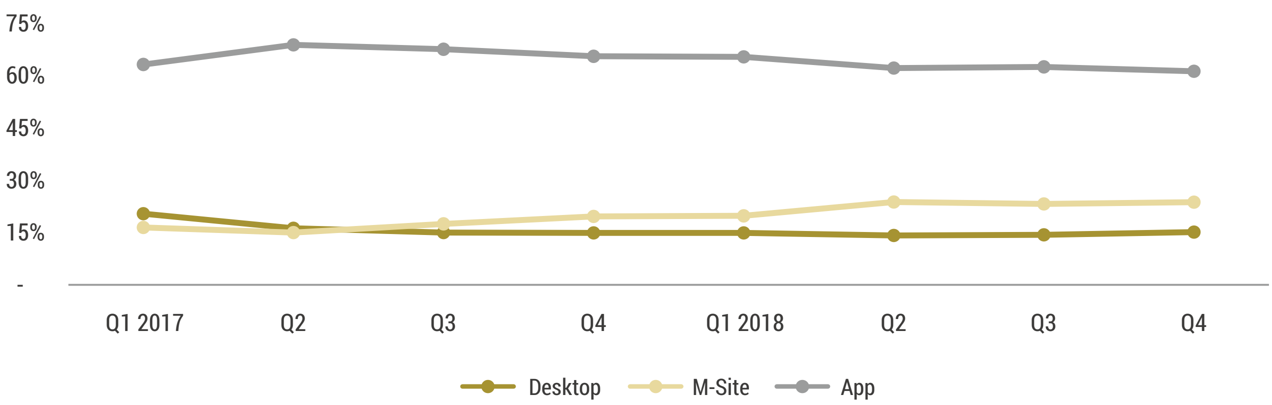
FIGURE 54: QUARTERLY VISITOR TRAFFIC FOR HOTEL BOOKINGS TO OTA WEBSITES – 2017 AND 2018



Source: Hotelivate Research

Interestingly, most OTA users prefer the respective agency's **App** over **Desktop** or **Mobile-Site (M-Site)** for browsing and making hotel bookings; currently, more than 60% of the overall visitor traffic comes directly via the App to various OTAs. Moreover, with increased smart phone penetration, M-Site is gaining in popularity, overtaking Desktop traffic in recent years. Nonetheless, it must be noted that users looking for higher value transactions tend to rely more on Desktop in comparison to the other two modes of booking/browsing. Also, M-Site is seemingly more popular for booking budget-mid market hotels, with lower average rates than higher-positioned hotels.

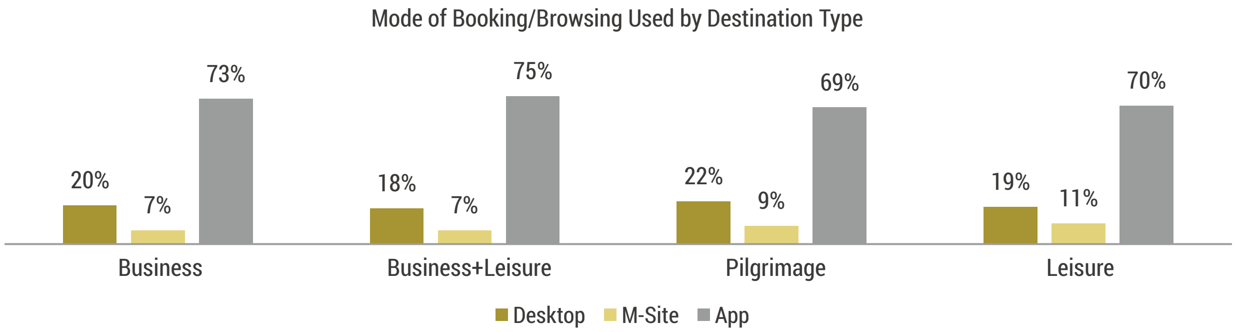
FIGURE 55: COUNTRYWIDE OTA DEMAND TRENDS BY MODE OF BOOKING/BROWSING HOTELS – 2017 AND 2018



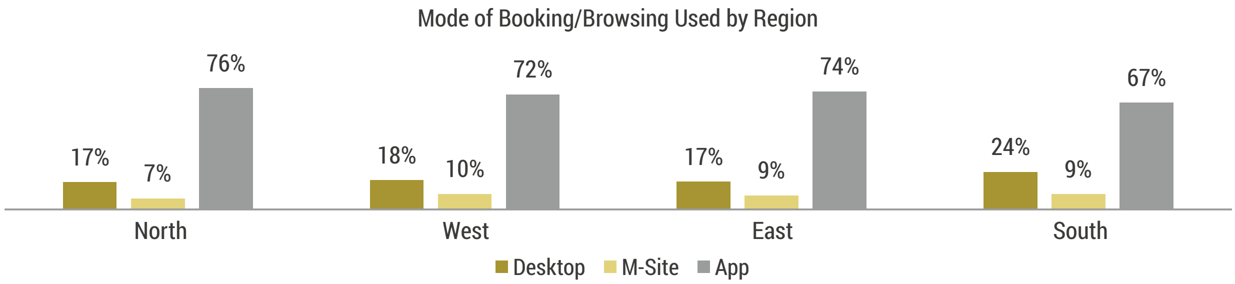
Source: Hotelivate Research

With respect to the **destination type – business, leisure or pilgrimage** – we find that App is the most popular mode of booking/browsing hotels across all, with it being used notably more in business and business-cum-leisure destinations than pilgrimage or predominantly leisure destinations. Typically, in case of the latter, users tend to explore/browse a lot more, with a lower "look-to-book" ratio than commercial destinations. Desktop, thus, tends to be more frequently used for such locations. In terms of **regions – north, west, east and south** – Desktop traffic is clearly higher in the south, whereas App is the most popular in the north to browse or book hotel rooms.

FIGURE 56: OTA DEMAND TRENDS BY MODE OF BOOKING/BROWSING HOTELS W.R.T DESTINATION TYPE AND REGION – 2018



*Note: The sample used for the above chart comprises the following: **Business** – New Delhi-NCR, Mumbai, Bengaluru, Hyderabad, Chennai, Kolkata, Pune, Chandigarh and Ahmedabad; **Business+Leisure** – Jaipur, Cochin, Amritsar, Mysore, Agra and Udaipur; **Pilgrimage** – Puri, Varanasi, Tirupati, Shirdi; **Leisure** – Goa, Mahabaleshwar, Lonavala, Manali, Shimla, Pondicherry, Ooty, Munnar, Coorg and Wayanad.*

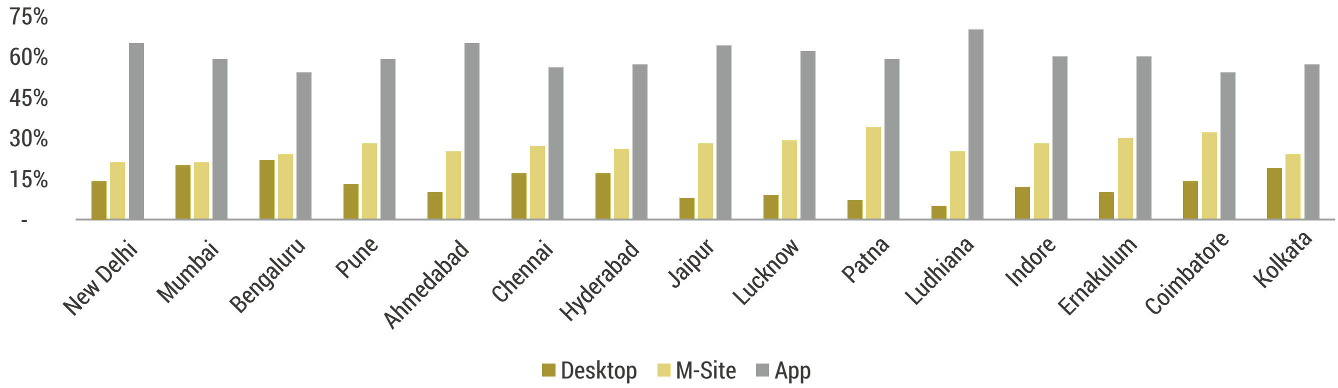


*Note: The sample used for the above chart comprises the following: **North** – New Delhi-NCR, Jaipur, Chandigarh, Manali, Shimla, Amritsar, Agra, Udaipur; **West** – Mumbai, Mahabaleshwar, Lonavala, Shirdi, Pune, Goa, Ahmedabad; **East** – Kolkata, Puri, Varanasi, Bhubaneshwar, Digha; **South** – Tirupati, Pondicherry, Ooty, Munnar, Coorg, Wayanad, Bengaluru, Hyderabad, Chennai, Cochin and Mysore.*

Source: Hotelivate Research

Figure 57, below, indicates the **top 15 source cities for OTAs in terms of user traffic for hotels** along with the mode of booking/browsing used in 2018. Our research reveals that in cities with a high IT/ITeS presence, use of Desktop to search and make hotel bookings is significantly higher than other locations. Additionally, the adoption of M-Site is higher in Tier-II Indian source cities than the major metros.

FIGURE 57: OTA DEMAND TRENDS BY MODE OF BOOKING/BROWSING HOTELS W.R.T TOP 15 SOURCE CITIES – 2018



Source: Hotelivate Research

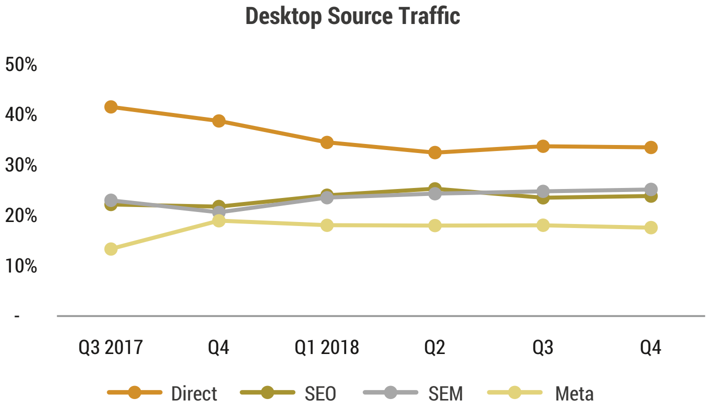
The **channel of source traffic for OTAs** can be broadly categorised under the following:

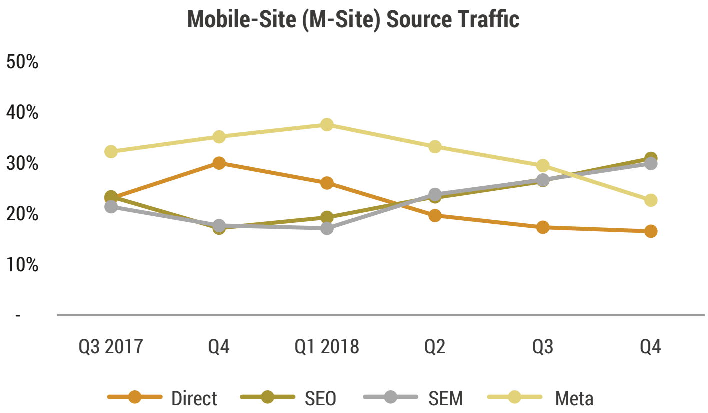
- *Direct*: This refers to the users accessing the OTA directly via the Desktop, M-Site or App.
- *SEO*: Traffic via Search Engine Optimisation (SEO) indicates users who visit the OTA website or App after clicking on a "free or unpaid" search engine result, such as those on Google, Bing and Yahoo, among others.
- *SEM*: Traffic via Search Engine Marketing (SEM) refers to users who visit the OTA website or App after clicking on a "paid" search engine listing, such as those on Google, Bing and Yahoo, among others.
- *Meta*: This refers to traffic coming from meta-search sites like TripAdvisor, Trivago and Google where users can see rates from multiple OTAs and choose to go with any one.

As can be seen in Figure 58, direct traffic is higher on Desktop than M-Site, while in case of meta traffic, it is the reverse. User traffic from SEO and SEM are near similar across the two modes of booking/browsing hotels.

Based on our discussions with some of the OTAs operating in India, we have highlighted select interesting trends relating to customer booking and stay behaviour as well as hotel reviews, below. With a sizeable portion of hotel bookings being generated via OTAs today, the importance of **online reputation and the power of online customer reviews** cannot be undermined. In fact, future guests often tend to rely on the experience of past guests, which is frequently shared in the form of hotel reviews on OTA websites, even if they eventually book directly with the property.

FIGURE 58: COUNTRYWIDE OTA DEMAND TRENDS ON DESKTOP AND M-SITE BY SOURCE CHANNEL OF TRAFFIC – 2017 AND 2018





Source: Hotelivate Research

Customer Booking Behaviour

- The **top three converting factors** for a hotel listed on an OTA website are: (i) Price (ii) Location and (iii) Hotel Reviews and Ratings.
- Around **35%** of the customers consider **hotel star rating** while booking their stay, with the rest choosing a pre-decided hotel or making a selection based on the value offered within a price bracket.
- Around two-third of OTA users claim to start **searching for a hotel** not before 15 days from check-in.
- 73% of the OTA customers prefer to book **a room with breakfast included,** and 17% prefer to book at least one meal in addition to breakfast – especially true for leisure locations.
- Customer feedback suggests that they have near equal trust in **images submitted** by users as well as the ones posted by the hotel directly on OTA websites.
- If premium hotels offer a **"staycation" option** – which is essentially a weekend/one or two-night stay at a hotel in or around the same city as the customer's city of residence – 15% of the OTA bookers for such hotels tend to pick that rate plan as it offers good value for money. Our research shows that in January 2019, branded hotels listed with OTAs saw a 12%-15% increase in weekend business share over the previous month because of the introduction of staycation packages.
- Overall, **70%** of the customers prefer to **pay for hotel bookings online in advance**, showing a strong affinity to "pay-as-you-book".
- More than half of the customers call the hotel/OTA call-centre **post booking** to either confirm it or to arrange for a pick-up from the airport/railway station.

Customer Stay Behaviour

- Over **70%** of the OTA customers use a **digital copy of the hotel booking/confirmation** instead of carrying a printed copy at the time of check-in.
- **80%** of the travellers request for an **early check-in** and **75%** request for a **late check-out.**
- Even if not booked in advance (at the time of booking), nearly **50%** of the OTA customers end up having **lunch/dinner at the hotel.**
- Around **20%** of the travellers prefer a **late breakfast time** of around 11:00 AM.
- About **80%** of the guests feel the prices of **eatables/drinks placed in the room** are expensive, and around **40%** don't consume any eatables/drinks placed in the room.

Customer Review

- Around **20%-25%** of the customers submit reviews/ratings post check-out, of which **65%** submit **detailed reviews**; the rest prefer to simply rate the hotel.
- Demographically, guests from **South India** have the highest tendency to submit reviews.
- **WhatsApp** is emerging as one the leading mediums to capture user reviews for hotels.

Source: Hotelivate Research

The Mighty (OTAs) and The Influential (Hotels): Finding Their Balance

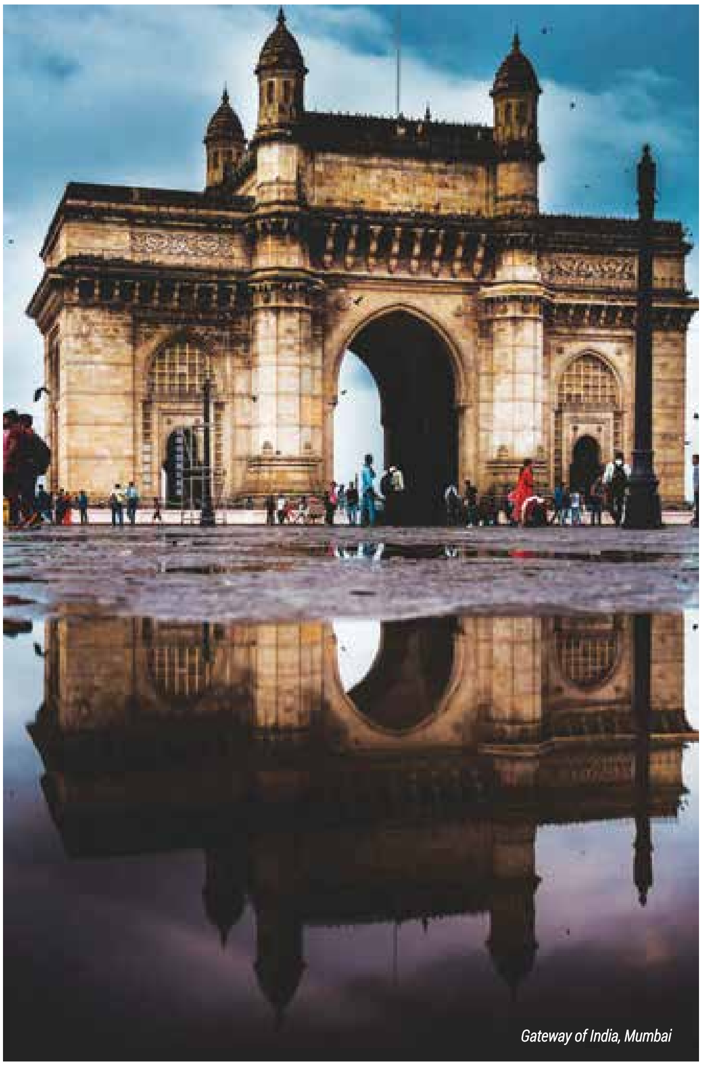
- Manav Thadani

Online Travel Agencies (OTAs) and hotels have co-existed since the mid-90s. While it started off as a win-win situation for both parties, in recent years, the conflict between the two for a higher share of the consumer's wallet has become fierce, so much so that hotel brands are making aggressive efforts to get customers to bypass OTAs and book directly with them. The reasons for this are many, and one would need to look at the last two decades to understand the ups and downs of the hotel-OTA relationship.

Prior to the mid-90s, consumers could either book directly with the hotel or rely on a high-street travel agent for their travel and accommodation needs. At the time, hotels were paying a commission of around 10% to the travel agents. Then the OTAs entered the scene; powered with sophisticated technology, they did a far better job of providing an additional room booking channel for both consumers as well as hotels. The benefits were obvious – for **consumers**, (i) OTAs offered a range of options to choose from that gave the travellers more control; (ii) they were independent, appearing to be fairer and more customer-oriented than hotel brands; and (iii) OTA websites were intuitive and simple to navigate enabling a more satisfying customer experience. For **hotels**, (i) OTAs helped drive occupancy; (ii) they offered a great marketing platform, especially for smaller chains and independent properties; (iii) OTAs diversified the customer base by introducing new guests; and (iv) they also helped integrate related travel industries such as hotels, airlines and car rentals through innovative packages. However, as OTAs grew over the years, customers continued to benefit, whereas hotels started to feel the pinch specifically in the areas discussed below:

- **Increase in indirect bookings via OTAs:** Equipped with huge marketing budgets, OTAs can reach a much wider consumer base. And coupled with benefits like greater choice of properties and ease of booking, OTAs often have a higher conversion rate than brand websites. As a result, from what was a healthy business mix before, the balance has been disrupted, with more and more customers booking hotel rooms via OTAs, not just for the first time, but for repeat visits as well.
- **Increase in the commissions charged by OTAs:** From 10% in the early years of this partnership, the OTA commission per booking has dramatically risen to anywhere between 15%-30% these days, eating into the bottom line of hotels. When viewed in conjunction with the large contribution of bookings from this channel, it is understandable why hotels are pushing back.[7] The amount of commission paid is of greater significance to smaller hotel chains and independent properties than the major players, as the former usually ends up paying a higher amount. This is attributed to the weak negotiating power of these properties that have fewer rooms to sell through OTAs.
- **Loss of vital customer data:** This aspect is critical, as it brings us to question – who controls the guest data? Both parties want to develop a direct relationship with the customer and collect valuable information to personalise their experience and gain repeat business. Hotels get the best data when guests book directly with them. In case of OTAs, while contracts may differ across agencies, most provide daily analytics of the bookings, which may or may not include all the information hotels would ideally like to have. Moreover, the quality of information and its integration into the hotel's system remain a challenge for the latter.
- **Rate parity agreements:** Hotels often must sign rate parity agreements, prohibiting the former from selling the same room online at a lower rate than what is offered by the OTA. This limits the hotel's ability to attract customers directly using discounts. In addition, OTAs have their own loyalty programs, offering special rates to select users. Having said that, in recent times, hoteliers (and regulators) are opposing this practice, seeking to introduce more diversity in rates. As a result, a limited group of customers are now excluded from being subject to the rate parity restriction, like brand loyalty program members or those who book offline.

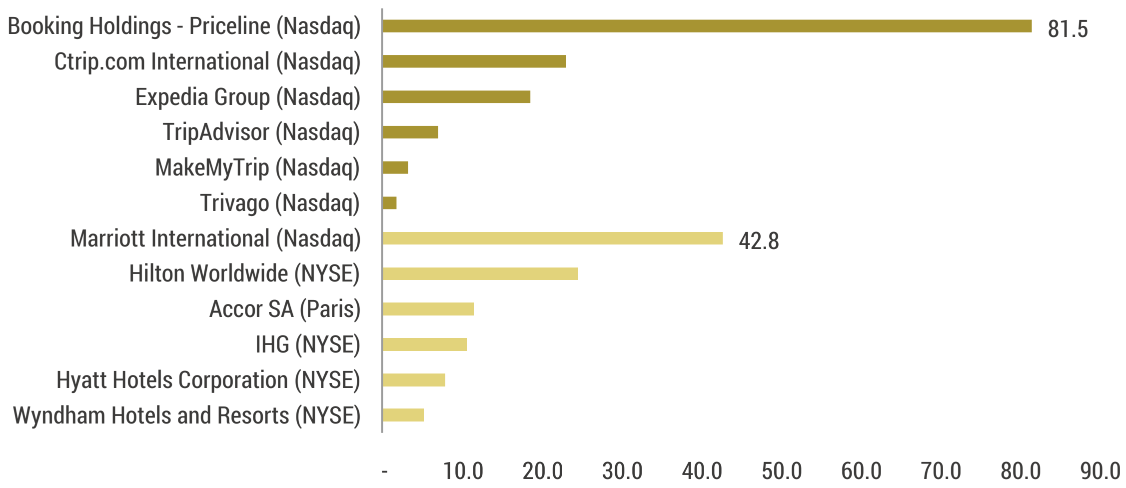
The following graph illustrates the market capitalization of some of the major hotel chains vis-à-vis that of the leading OTAs, globally. Similar to the consolidation trend in the hotel industry, the OTA segment has also seen major M&A activity in the last decade, increasing its might. Priceline acquired Booking.com in 2005, Expedia acquired Travelocity and Orbitz in 2015, MakeMyTrip merged with Goibibo in 2016 and Ctrip (China-based OTA) acquired Qunar and eLong in 2015, to name a few.



Gateway of India, Mumbai

[7] Howe, N. (2017). Hotels vs OTAs: Who is Winning Over Millennial Travelers? Forbes Media.

FIGURE 59: MARKET CAPITALISATION OF LEADING OTAs VS HOTEL CHAINS (US$, BILLION) – MAR 2019



Source: Yahoo Finance (March 6, 2019)

To combat the issues stemming from the dominance of OTAs, some of the traditional hotel chains have launched aggressive marketing campaigns to reclaim room bookings. First among them was Marriott with its "it pays to book direct" campaign that started in 2015. Subsequently, Hilton launched its largest marketing campaign ever – "stop clicking around" – in 2016,offering benefits for booking direct such as reward points that can be used for free room nights, complimentary Wi-Fi, room selection via a digital floor plan and a digital key through the brand's mobile App. IHG followed suite, promoting "your rate", a special direct booking rate for the chain's loyalty program members across regions the same year. Hyatt too introduced exclusive discounts for loyalty program members who booked directly with the company's website or App. Simultaneously, almost every major hotel chain in the world revamped its loyalty program aimed at offering more value to the customer. Apparently, the efforts paid off, and helped increase the volume of direct bookings to these hotel chains, according to various industry reports.

Notwithstanding the above, hotels and OTAs continue to carry on this marriage of convenience. The extent of reliance may vary between larger hotel chains and independent properties, but the key to a peaceful coexistence lies in achieving a healthy balance. Some fundamental points to consider in this regard are:

- **Focus more on customer loyalty than on customer acquisition:** As discussed above, hotel chains do benefit from direct bookings; however, marketing campaigns to enable the same require huge investments, and in that area, OTAs surpass hotels by a substantial margin. For SEO and SEM, the scale matters and with a much larger inventory, better technology, and higher budgets, OTAs are able to dominate online marketing channels. Hence, instead of focusing on getting the customer to book on Brand.com the very first time itself, hotels should aim at getting them to book directly in the future. Hotels have considerable control over the guest experience during their stay, which provides them with an opportunity to build a relationship with the customer and earn their future loyalty. Actually, one should think of the 15%-30% commission paid to the OTA as a one-time acquisition cost of a customer. Another area where hotels tend to falter is the treatment of a guest who books directly vis-à-vis the one who books via an OTA. Encouraging and rewarding direct booking (via upgrades, complimentary services) does not mean some of these benefits cannot be offered to a guest who choses another channel to make a room reservation. In fact, by providing them with more than they expected and clearly communicating that the hotel genuinely values their business, can help grow a repeat customer base.[8]

- **Embrace technology with open arms:** Hotels must understand that besides marketing budgets, the OTAs are far ahead of them when it comes to adoption and innovation of technology. In fact, most of the disruptions seen in this sector of late are technology led, and hotels are falling behind. They clearly need to up their game if they want to increase revenue and profitability via direct guest booking channels instead of complaining about OTA commissions. So, while steps are being taken in this direction with more robust data analysis, cloud technology, better integration between various sources of customer data and more advanced customer-facing touchpoints, such as the brand website, mobile App etcetera, hotels still have a lot of catching-up to do.

- **Improve the direct booking experience:** Keep the website updated and simple, in every way – right from the type of rooms offered and their pricing to the navigation, images and amount of information sought. The more complex, confusing and time consuming it is for a customer to make a booking, the lower is the conversion rate. Furthermore, mobile booking is on the rise, and chains investing in this medium will stand to gain in the long run.

Sosan, Himachal Pradesh

[8] *Prieto, M. (2017). How to Grow Hotel Direct Bookings. Medium.com*

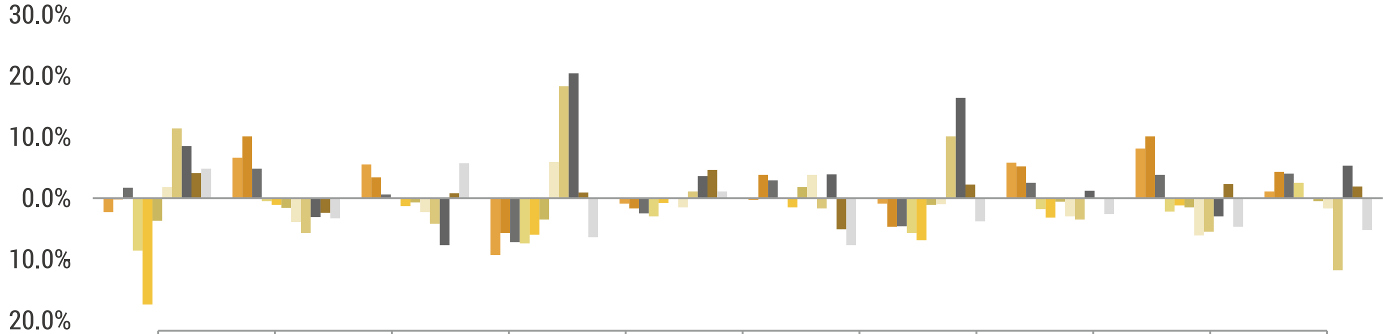
- **Use social media more actively:** The influential role of social media on consumer behaviour cannot be overemphasised. Then why can't hotels use this business tool more creatively? Rather than getting into a price war with the OTA, why can't innovative packages, discounts and promotions be offered to members/followers on Facebook, Twitter and the like? Social media has over 2 billion users, it helps establish direct relationships with customers, and the platform has a strong word-of-mouth culture. All these factors can be leveraged effectively by hotels to expand their reach and gain loyalty of customers.

- **Apply revenue management more effectively:** Here, we have specifically looked at a couple of critical aspects that can aid hotels to optimize their revenue across all channels.

  Relook at the market mix: The emphasis should be on yielding 'all' distribution channels instead of spending most of the money and effort on reclaiming customers who book using just 'one' channel, i.e. OTAs. Sites like Expedia, MakeMyTrip, and Priceline may be popular with leisure travellers, but business guests, corporates and groups (especially with event space requirements) still tend to book directly with hotels. Revenue management, thus, helps achieve an optimal revenue mix via dynamic pricing strategies across all channels of distribution. Importantly, hotels should figure out a way to increase bookings from all other sources without necessarily reducing the bookings from OTAs. After all, a commission is essentially a performance-based model – you pay OTAs for what they deliver.

  Dynamic pricing: Dynamic pricing in the context of the hotel industry refers to modifying the price of the room in real-time based on factors such as demand and availability of inventory. Typically, when demand is low, the price is lowered to attract guests, and when the demand in higher, the price increases. OTAs enable dynamic pricing strategies of hoteliers. Our research shows that the major hotel markets in the country are seeing an average rate variation of around 14% throughout the year, with Bengaluru representing a monthly variation range of -17.4% to 11.4% from the annual ADR.

FIGURE 60: RATE DYNAMISM (AVERAGE MONTHLY VARIATION FROM THE ANNUAL ADR) FOR 10 MAJOR HOTEL MARKETS – APRIL 2018 TO FEBRUARY 2019



	Bengaluru	Chennai	New Delhi	Goa	Gurugram	Hyderabad	Jaipur	Kolkata	Mumbai	Pune
Apr-18	-2.3%	6.6%	5.5%	-9.3%	-0.9%	-0.3%	-0.9%	5.8%	8.1%	1.1%
May	-0.2%	10.1%	3.4%	-5.7%	-1.7%	3.8%	-4.7%	5.2%	10.1%	4.3%
Jun	1.7%	4.8%	0.6%	-7.2%	-2.5%	2.9%	-4.6%	2.5%	3.8%	4.0%
Jul	-8.6%	-0.5%	0.1%	-7.4%	-3.0%	0.1%	-5.7%	-1.8%	-2.2%	2.5%
Aug	-17.4%	-1.1%	-1.3%	-6.0%	-0.8%	-1.5%	-6.9%	-3.2%	-1.2%	0.0%
Sep	-3.7%	-1.6%	-0.7%	-3.5%	-0.1%	1.8%	-1.1%	-0.6%	-1.5%	-0.5%
Oct	1.8%	-3.9%	-2.3%	5.9%	-1.5%	3.8%	-1.0%	-3.0%	-6.1%	-1.7%
Nov	11.4%	-5.7%	-4.2%	18.3%	1.1%	-1.7%	10.1%	-3.5%	-5.5%	-11.8%
Dec	8.5%	-3.1%	-7.7%	20.4%	3.6%	3.9%	16.4%	1.2%	-3.0%	5.3%
Jan-19	4.1%	-2.4%	0.8%	0.9%	4.6%	-5.1%	2.2%	0.0%	2.3%	1.9%
Feb	4.8%	-3.3%	5.7%	-6.4%	1.1%	-7.7%	-3.8%	-2.6%	-4.7%	-5.2%

Source: Hotelivate Research

- **Try to collaborate than compete:** Hotels have a lot of competition when it comes to attracting and retaining customers – why add OTAs to that pool? Online travel agencies rely on hotels for inventory, and hotels rely on OTAs for distribution and marketing. With the right balance, both can co-exist. It makes business sense for hotels to continue having a pie of this customer base, especially during lean business periods. And, as we heard from the OTAs, they are investing deeply in personalisation and hotel extranet that provides real-time flexibility by putting the control of inventory and rates in the hands of hoteliers. Also, ceding to the demand from hotels, the OTAs have rationalised distribution costs through innovative offerings like "Zero Cost Rate", "Pay at Hotel" and many similar schemes.

So, let's not single out OTAs and blame them for all of the hotel industry's woes. Online travel agencies are a great source for new customers as well as those who simply prefer to use them irrespective of what the branded hotel has to offer. OTAs are volume-driven and scale is the key to their success, not commissions. Hotels have leveraged this scale in the past, and should continue doing so, to generate incremental bookings, albeit judiciously, to achieve the optimal business mix.

Recommendations and **Conclusion**

Right at the onset of this report, we made recommendations for creating a more enabling environment for Travel & Tourism in India. While all these need to be addressed, we wish to draw the attention of the government to some of the key aspects, requesting for an early action.

Encouraging the airlines to have more wide-body aircrafts. Aviation is central to tourism and the government must promote and support the use of wide-body aircrafts, also known as twin-aisle planes, to enhance direct connectivity to/from long-haul international destinations like North America and Europe. Approximately, 75% of India's aircraft fleet comprises narrow-body, or single-aisle planes, which are unable to provide direct flights to/from destinations more than six hours away. This adversely impacts inbound tourism to the country and prevents it from becoming a global aviation hub like Dubai or Singapore. Right now, most passengers flying to and from India are connected by hubs outside the country, i.e. they fly to their destination via a transit airport like Dubai or Singapore instead of taking a direct flight to/from India. It is unfortunate that despite being the fastest growing aviation market in the world, India lacks an airline hub, and even with our best intentions to do so, we are yet to plan and lay grounds for making it one.

Also, within the country, the surge in domestic air travel presents a strong case for the deployment of wide-body aircrafts. The ability to carry more passengers has the potential to increase the revenue per available seat mile and improve fuel efficiency. However, alongside this measure, the government needs to improve the airport infrastructure (including MRO) and the availability of skilled workforce (pilots, crew, MRO and ground handling staff) to support the use of wide-body aircrafts and subsequent growth in air traffic.

Simplifying the electronic visa (e-visa) process. Laudable progress has been made with the introduction of E-Tourist Visa on Arrival (E-TVoA) that allows nationals from 165 countries to enter India through 25 international airports and five seaports. However, India's peers and competitors in the region, such as Sri Lanka, Thailand and Indonesia, have attractive policies, like the exemption/waiver of visa fees that has directly impacted and increased international arrivals to these countries to the tune of 20%-40%. In contrast, our visa fee slabs, ranging from US$25 to US$100, can be prohibitive for many foreign tourists, adversely impacting inbound tourism to the country. We recommend the government to seriously consider a waiver of visa fees for select nationalities, as it is our belief that the incremental number of arrivals will result in higher foreign visitor spending, which will more than offset the loss of revenue from E-TVoA.

Improvements can also be made in terms of the awareness of E-TVoA, the online visa application channel as well as the processing of e-visa holders at immigration check posts on arrival. There have been several instances of technical glitches on the visa application website in addition to foreign nationals arriving into the country, only to realise that they needed to apply for a visa prior to travel.

Appointment of a global PR agency for India as part of the Incredible India 2.0 campaign. The Incredible India 2.0 campaign is a step forward for sure, shifting its previous generic focus to more targeted marketing and promotion campaigns for different segments of tourists and tourism products. However, India needs to appoint a global PR agency to aid in national branding and promote the country on the world tourism stage. We believe that the government has already been considering this; however, it is yet to be implemented. We urge for this process to be fast-tracked, as it will go a long way in improving the perception of the country as a world tourism destination.

Skills Development. As already established in this report, the number of lodging/accommodation rooms in India is anticipated to reach 3.3 million over the next five years, requiring close to 3.0 million employees. This is a significant leap from the present 2.4 million people directly employed by the industry. Our research indicates that only around 9,000 students graduate from various hospitality institutes and colleges in the country each year, resulting in a clear mismatch between demand and supply of talent. Hence, concrete steps need to be taken to increase and improve the level of skilled manpower for the hospitality sector in India.

Cleanliness and Safety of Tourist Spots and Civic Amenities. As highlighted previously, the World Economic Forum's Travel & Tourism Competitiveness Report ranks India 104 and 114 out of 136 countries in the Health and Hygiene and Safety and Security parameters, respectively. On the other hand, nearly all of the nation's peers, like Singapore, China, Malaysia, Thailand, Indonesia and Sri Lanka rank much better, making them more favourable destinations for international tourists. For a sustained tourism growth, the on-ground realities of cleanliness and safety of tourist spots need to change. Positive, concrete and visible steps have to be taken to rejuvenate India's image as a clean and safe destination.

In conclusion, Hotelivate has endeavoured to make The Ultimate Indian Travel & Hospitality Report a critical and comprehensive reference document for the Indian hospitality industry. Though we started off with the interest of determining the market size in terms of lodging/accommodation rooms in India, we have broadened our scope to establish the number of people employed and the tax revenue generated by these. Additionally, we have delved into other relevant aspects of the larger Travel & Tourism industry, such as inbound, domestic and outbound tourism trends, along with air, rail and coach/bus transportation statistics. All of these, together, help provide a more complete picture of various hospitality markets in the country. For instance, knowing the Top 15 airports in India by the number of cities they are connected to, does say something about the potential of the hospitality markets the airports are based in.

Overall, we hope that the industry finds this report useful, encouraging knowledge-sharing and collaboration on common objectives, for the larger purpose of moving forward in a positive direction.

Research and **Publications**

PERIODIC PUBLICATIONS & REPORTS

2019 India Hotel Manpower Study

The 2019 India Hotel Manpower Study surveys 204 hotels across 68 cities and several domestic and international hotel chains, providing a detailed analysis of payroll cost, employee productivity, room-to-manpower ratio and annual attrition percentages across key parameters.

The 2018 Indian Hospitality Trends & Opportunities Report

The 2018 Indian Hospitality Trends & Opportunities Report analyses the key hospitality trends, highlighting 13 major hotel markets in the country. The report also presents existing and future opportunities in the hospitality industry of interest to investors, developers and hotel operators. The next edition of this report will be released in July 2019.

Hotel Volatility Index

The Hotel Volatility Index tracks the annual performance of 80 well-established, stabilised hotels – 60 urban and 20 leisure properties – across positioning that have been operational since 2011 or earlier in the country. Enabling a like-to-like comparison of the same base of stabilised hotels year-on-year, the HVI serves as an important indicator of demand, and a reliable performance benchmark for the hotel industry.

India State Ranking Survey

The biennial India State Ranking Survey aims at assessing the relative competitiveness of India's 30 states, by analysing each individual state's potential for Travel and Tourism. The next edition of this report will be released in third quarter of 2019.

RECENT ARTICLES & RESEARCH

The Art and Science of Hotel Brand Valuation

The importance of not just the brand, but also patents and trademarks, technology and intellectual property as well as human capital is now being ascribed value, which in many cases, has caused a measurable shift in the market value of companies when compared to their book value. This article provides a broad overview of some of the prominent brand valuation methodologies employed by various industries and valuers, and how it may be applied in the hotel industry.

Defining Your Hotel's Competitive Set

Key performance indicators (KPIs) like the market penetration index, average rate index, and revenue generated index, are some of the most crucial statistics monitored by hoteliers. Hotel companies also set targets based on these indices and their respective percentage growths. That said, any benchmarking or analysis would be meaningless if you were comparing your hotel with the wrong comp-set. The article discusses the manner in which a relevant competitive set can be identified.

Why Resorts Make Commercial Sense

Will the next few years belong to resorts in leisure destinations or to big city hotels that are driven primarily by commercial demand? In an evolving hotel industry such as India's, such a question does not have one conclusive answer. This notwithstanding, some exciting trends have been observed in hotel development, operation and consumption, which point to the emergence of resorts as a credible investment class.

Testing the Hotel Operator's Abilities

An equitable performance test clause protects the hotel owner from an incompetent operator, while at the same time assuring the management company that it will not be terminated for circumstances beyond its control. But is the performance test clause the only way the operator's abilities can be verified during the life of a contract? As revealed in this article, the answer is no. There are several other techniques that owners can employ to safeguard their investments and interests.

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ABOUT HOTELIVATE

Hotelivate is a new-age hospitality consulting firm offering specialised services to clients across the Asia Pacific region. Its founding partners are renowned and sought-after hospitality business consultants with unparalleled professional consulting experience. Through its focused, empathetic and innovative approach, Hotelivate serves a wide range of industry stakeholders across all phases of hospitality lifecycle consulting, thereby eliminating the need for several different advisors. Its core practices include, Strategic Advisory (Feasibility Studies, Valuations, Management Contract Negotiation), Executive Search, Professional Skills Development, Investment Advisory, Asset Management, Revenue Management and Project Execution Planning and Advisory. Additionally, hosting the most sought-after hotel investment conferences in India, Sri Lanka and Indonesia, Hotelivate brings together the sector's biggest names on a consistent basis. Our core businesses and alliance partners make Hotelivate a unique firm that can truly serve as a one-stop-shop for all things hospitality.

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A serial entrepreneur, trusted advisor and a passionate hotelier, Manav has led and worked on numerous hospitality consulting assignments over the past two decades in the country. He brought HVS to South Asia in 1997, and in a market that hadn't yet recognised the need for professional consulting expertise, Manav grew HVS South Asia into a formidable consulting, valuation and executive search firm. Hotelivate is the next step in his vision to provide end-to-end solutions to the hospitality sector, with an eye on curating customised results that can assist hotel industry stakeholders throughout the lifecycle of a hotel. Manav also runs five conferences in the Asia Pacific region, namely, Hotel Investment Conference - South Asia (HICSA); Hotel Operations Summit India (HOSI); Tourism, Hotel Investment & Networking Conference (THINC) Indonesia; THINC Sri Lanka; and THINC Innovate.

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Juie has 14 years of experience in the hospitality industry, including over a decade in consulting. She is a global resource for complex research-based assignments and, operator search and management contract negotiations. Juie has authored numerous articles and publications, including the pioneering global hotel management contract survey that entailed reviewing close to 500 management agreements across the Americas, EMEA and APAC. She regularly supports the team on various assignments and also assists with Hotelivate conferences and workshops.

ACKNOWLEDGEMENTS

The authors acknowledge the critical inputs and support provided by the following team members in the creation of this report:

Achin Khanna, Managing Partner, Strategic Advisory
Diksha Chopra, Senior Associate, Strategic Advisory
Sanaya Jijina, Senior Associate, Strategic Advisory
Deepika Thadani, Senior Editor

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