



STATUS OF INDIAN HOTEL INDUSTRY IN A GLOBALISATION SCENARIO

Dr.N.Thyagaraju

Vice-Principal &Head, Department of Commerce, Sri VSSC Government Degree Sullurpet, SPSR Nellore.

Introduction

The service sector in India play an important role in contributing to gross domestic product (GDP) in India. The service sector comprises of a number of sub-sectors like Finance, Education, Tourism, Travel, Hospital, Hospitality etc., with the rise in the income levels of people associated with the changes in technology, the expectations of the people have been increasing from different sectors. This has resulted in the planning and implementation of marketing mix strategies. It is in this context a study on any sector of service industry assumes significance.

Basic Concepts of “Service”, “Hotel”

Concept of Services: Kotler¹, defines service as “any activity or benefit that one party can offer to another that is essentially intangible and does not resulting the ownership of anything” its production may or may not be tied to a physical product”. W.J. Stanton² views “services as fulfilling certain wants and states that services are those separately identifiable, essentially intangible activities which provide want satisfaction and are not necessarily tied to the sale of a product of another service. To produce or service may or may not require the use of tangible goods. However, when such use is required there is no transfer of permanent ownership to these tangible goods”. Zeithami V.A. and Bitner M.J³ define services “ as deeds, processes and performances”. According to another definition⁴, “services can also be defined as a human effort which provides succor to the needy. It may be food to a hungry person, water to a thirsty person, medical services to an ailing one and education to a student, loan to a farmer, and transport to consumer, communication aid to two persons who want to share a thought, pleasure or plain”.

Hotel- Definition

The word “hotel” is derived from the French “hotel” (coming from hôte meaning host), which referred to a French version of a “Townhouse” or any other building seeing frequent visitors, rather than a place offering accommodation. A hotel is an establishment that provides “lodging” Paid on a short-term basis. The provision of basic accommodation, in times past, consisting only of a room with a bed, a cupboard, a small table and a washstand has largely been replaced by rooms with modern facilities, including en-suite bathrooms and air conditioning or climate control. Additional common features found in hotel rooms and facilities for making tea and coffee. Larger hotels may provide additional guest facilities such as a swimming pool, fitness center, business center, childcare, conference facilities and social functional services. Hotel rooms are usually numbered (or named in some smaller hotels and B&Bs) to allow guests to identify their room. Some hotels offer meals as part of a room and board arrangement. A Hotel has been regarded as place for food and accommodation on payment since long time. According to several authors, the word hotel is derived from the Latin “hospitale” and old French “osterie”. Several dictionaries, encyclopedia and acts related to hotels have all defined ‘hotel’ in terms of its core activity- providing paid accommodation to guests/ travellers, with or without board or other services. In nutshell, hotel is a commercial establishment intended to provide travellers/ guests with lodging, food and related services. Government of India policy statements define the term “hotel” to include restaurants, beach resorts, and other tourist complexes providing accommodation and/ or catering and food facilities to tourist. “A hospitality service is a bundle of features and benefits”. For the above discussion it becomes obvious that the hospitality covers a wide range of services offered to travellers/ guests-these services include all forms of food, accommodation, dinning, transport entertainment. Hospitality Management is the academic study of the hospitality industry..

Hospitality Service- Concept

From Wikipedia, the free encyclopedia, the concept of hospitality exchange, also known as "accommodation sharing", "hospitality services" (short "hospex"), and "home stay networks", "home hospitality" ("hoho"), refers to centrally organized social networks of individuals, generally travelers, who offer or seek accommodation without

monetary exchange. These services generally connect users via the internet. It was recognized in the Manila Declaration on World Tourism of 1980 as "an activity essential to the life of nations because of its direct effects on the social, cultural, educational, and economic sectors of national societies and on their international relations."⁵ Tourism brings in large amounts of income in payment for goods and services available, accounting for 30% of the world's exports of services, and 6% of overall exports of goods and services⁶ It also creates opportunities for employment in the service sector of the economy, associated with tourism.⁷ These service industries include transportation services, such as airlines, cruise ships, and taxicabs; hospitality services, such as accommodations, including hotels and resorts; and entertainment venues, such as amusement parks, casinos, shopping malls, music venues, and theatres.

Growing Importance of Service Sector in India

The hospitality industry is apart of larger group of industries that collectively make up the service sector of the economy. The service sector also includes other enterprises covering a broad range of occupations such as Law, Medicine, Trade, Transport, Banking, Insurance, Accounting, Consultancy, Electronic and electrical repairs, Nursing and Hair dressing to name a few. Among the services, the leading upsurge was Trade, Hotels, Transport and Communications. One of the major trends in Indian economy has been the dramatic growth of services. Services jobs now account for 70 percent of total employment and 50 percent of the GNP, and services will provide 90 percent of all new jobs in the next 10 years. The economies of developed countries were initially dominated by agriculture; the dominance passed on to industry, and finally to services. Thus, most developed economies today are service dominated. India is no exception into this global trend.(Table: I.1). As a result of rising affluence, more leisure time, and the growing complexity of products that require servicing, service sector has been witnessing phenomenal growth in recent years.

Table I.1, Showing Sectoral Composition: % Shares In Real Gross Domestic Product (GDP)

S. No	Sector	2011-12	2010-11	2009-10	2000-2001 TO 2008-09 Average
01.	Agriculture and Allied activities	17.8	20.7	22.0	27.5
02.	Industry	26.6	25.6	25.0	24.0
03.	Services	55.6	53.7	53.0	48.5
04.	Grand Total	100	100	100	100

Source: Annual Reports of RBI, 2009-2010; 2010-2011; 2011-2012;

The share of services sector in the GDP at 55.6 percent during 2011-2012 was higher than in other developing countries, as group. The growth of the service sector at 9.4 percent was higher than the average growth of 7.8 percent during the last five years. Among the services, leading the upsurge was "Trade, Hotels, Transport and Communications"

(Table: I.2 & I.3)

Table: I.2, Showing Growth of Real Gross Domestic Product (Gdp) – Sector Wise

S.No.	Sector	2011-12	2010-11	2009-10	2000-2001, To 2008-09 Average
01	Agriculture and Allied Activities	1.1	9.6	-5.2	3.4
02	Industry	8.3	6.5	6.2	6.3
03	Services:	8.6	8.9	7.2	7.5
	3.1 Trade, Hotels, Restaurants, Transport, Storage and Communication.	12.4	11.8	7.0	8.4
	3.2 Financing, Insurance, Real Estate and Business Services.	7.1	7.1	8.8	7.8
	3.3 Community, Social and Personal Services	5.9	5.8	5.8	7.1
	3.4 Construction	5.2	7.0	7.3	5.2

Source: Annual Reports of RBI, 2009-10;2010-11; 2011-12;

Table: I.3, Showing Share in Services Gross Domestic Product (GDP)

S. No.	Sector	2011-12	2010-11	2009-10
01	Trade, Hotels, Transportation and Communication	53.3	48.1	44.0
02.	Growth Rate	11.4	11.8	7.0

Source: Annual Reports of RBI, 2009-10; 2010-11; 2011-12

Significance of Hotel Industry in India

Of the many and diverse components of tourist industry, hotels constitute the most important segment. Hotels form the core of tourism infrastructure. It is said **“No hotels, No tourism”**. Hotel industry is so closely linked with the tourism industry that it is responsible for about 50 percent of foreign exchange earnings of our tourism. Tourism has emerged as the fastest growing industry and second largest foreign exchange earner for the country. The reasons for India’s impressive growth in this sector and the massive potential it holds lies in the general economic progress in the country marked by unparalleled growth of information technology improved transportation, better and widespread education, rising disposable income, increased leisure time, emerging corporate culture and changing the life styles, Increasing preference of foreign investors and tourists for business and pleasure in the country.

The growth and development of travel and tourism will inevitably bring about the development of the hotel industry. The officials on deputation, the business magnets on trade promotion mission, the foreign representative on peace mission, the domestic or foreign tourists interested in visiting a place for pleasure or for enriching the knowledge bank, the national and international events etc., are some of the important clientele responsible for the development of hotel industry. Nearly 60 percent of tourist/ traveller expenditure is for Boarding and Lodging. Though the hotel industry is capital intensive needing large amount of investment initially, being a service industry it is also labour intensive in the sense that, it provides substantial employment opportunities, both direct and indirect, through its backward and forward linkages.

It employs the educated, uneducated, skilled, semiskilled and unskilled persons simultaneously, the most important need of a country like India. Hotels have a direct impact on several other industries, providing market for their products. Food stuffs, machinery and equipment, furniture and fixtures, furnishings, air-conditioning equipments, breweries, crockery and cutlery, handicrafts, computers are some of the industries which directly benefit from the development of hotel industry. The industry also requires the services of professional i.e., architects, contractors, interior decorators, accountants, bankers etc. The development of these industries has in turn concomitant effect upon other industries. It is said that with each unit of hotel investment and activity turn over, the multiplier impact will generate and extra 4-5 units of economic activity.

Major Features of Hotel Industry in India

Major characteristics of the Indian hospitality industry are:

An understanding⁸ of the basic features of hotel industry will help us analyze the industry, its customers etc., in detail. They are:

- **Perishability:** A hotel’s service i.e., the availability of its rooms, is perishable, which implies that if a certain number of rooms remain vacant for a day, their capacity goes unutilized. The capacity lost or wasted on that day cannot be utilized on another day. Therefore, the revenue from those vacant rooms for the day is lost and can never be gained again.
- **Fixed Location:** The location of a hotel is fixed and cannot be changed immediately or frequently. Therefore, hotel owners should choose places that are strategically placed and convenient of customers to visit.
- **Seasonal:** Hotels occupancy rates vary according to the seasons and the type of hotel. For example, a business hotel will have low occupancy on weekends as corporate houses do not work on weekends, while a holiday resort has high occupancy rates during weekends as families are free for short trips.

- **Derived Demand:** The demand for its products is derived demand. A visitor goes to a particular destination and spends hotel nights, because it helps in the satisfaction of certain of his wants like sight seeing, pilgrimage or business contacts, training etc. The income elasticity of demand and as well as price elasticity of demand for its product is very high. The demand for its services is not subject to law of diminishing utility”⁹
- **Shorter Exposure to Services:** The customer’s exposure to the most hospitality services is usually shorter. In many cases, services including trips to fast food restaurants, short commuter flights and visits to travel agencies are consumed within an hour or less. There is a little time to make a good or bad impression on customers.
- **High seasonality:** The Indian hotel industry normally experiences high demand during October–April, followed which the monsoon months entail low demand. Usually the December and March quarters bring in 60% of the year’s turnover for India’s hoteliers. However, this trend is seeing a change over the recent few years. Hotels have introduced various offerings to improve performance (occupancy) during the lean months. These include targeting the conferencing segment and offering lucrative packages during the lean period.
- **Greater role for Intermediaries:** Hospitality services cannot be distributed physically. Instead the industry has a unique set of travel intermediaries, including travel agents and tour operators that put together vacation packages. They greatly influence what the customer buys as customers see them as experts and depend on them for advice on destination, hotels, attractions, vacation packages, tours and transportation and take their recommendations seriously.
- **Easier coping of services:** Most hospitality and travel services are easy to copy as competitors can not be avoided who may visit the hotel as a customer and copy the style of functioning and services. As most of the services of the hospitality industry can’t be patented unlike products that are difficult to replicate. Without detailed knowledge of production process and materials, they can be imitated by others easily”¹⁰.
- **Fragmented:** The Indian hotel industry is highly fragmented with a large number of small and unorganized players accounting for a lion’s share. The major players in the organized segment include The Taj, Oberoi, ITC Hotels, and East India Hotels. The fragmented nature of the Indian hospitality industry is reflected in the fin Dahl Index of Concentration, which was at 0.062 in Financial Year 2007.
- **More emphasis on off- peak promotion:** In the hospitality industry, heavy off peak promotion is the rule, rather than the exception, as customers make a huge emotional investment in their vacations which is their precious time away from work and other every day responsibilities. The capacity being fixed, there is more pressure to use available capacity in full in off-peak periods also.

In the hotel sector, a number of multinationals have strengthened their presence. Players like Four Seasons are also likely to enter the Indian market in the near future. Moreover, Indian hotel chains are also expanding internationally. A combination of all these factors could result in a strong emergence of budget hotels, which could potentially lower the cost of travel and related costs.

Various Factors Influencing Growth and Profitability of Hotel Industry in India

Tourism: This is the primary factor for the hotel industry. India has great potential of becoming a major stop for tourists. However, lack of infrastructure has kept the foreign tourist at bay. The Government has been actively participating in propagating India as an oasis for global travellers. India has always conjured up a fascinating image in the mind of foreign tourists. India has an advantage of having diverse cultures, languages and religions, which makes it an exciting tourist destination for people all over the world.

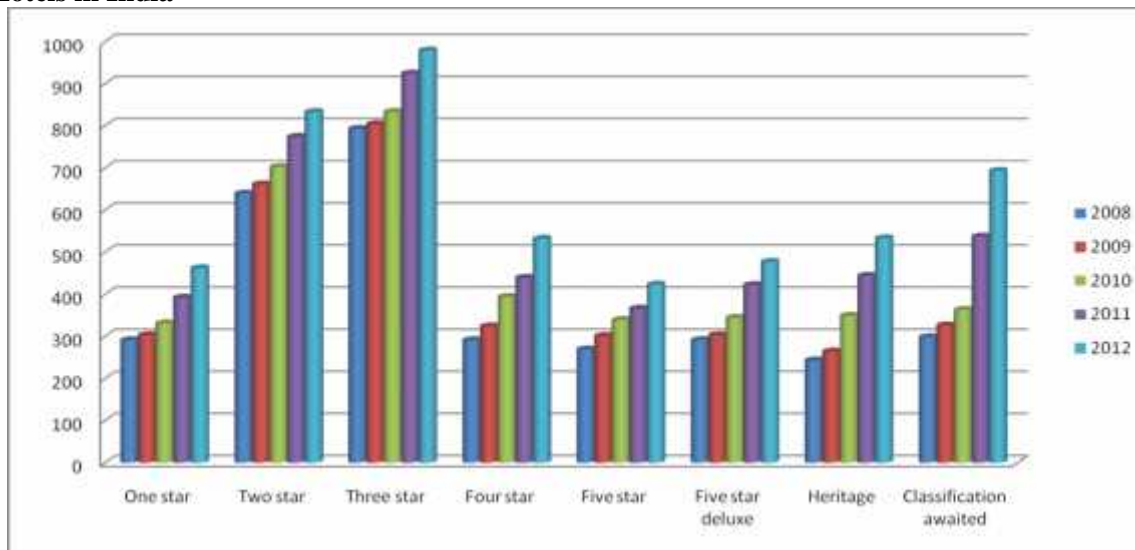
A record increase in tourist inflows and higher occupancy provided an impetus to the growth of hotel industry (**Table – I.4**) India’s share in world tourist earnings stands at 5.77 percent in 2012 and Indian rank in world tourist earnings is 27th in 2012, Foreign exchange earnings from tourist earnings stands at 2,91,720 in 2012 and rate of increase of earnings is stood 26.5 % in 2012. The recent revival in tourist interest in India, liberalized exchanged and payment rules and expanding business travel on account of globalization have contributed to the recent buoyancy in travel and tourism.

Table I.4, Showing No.of Approved Hotels & Availability of Rooms in India

Category	No. of Hotels					No. of Rooms				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
One star	291	303	331	392	462	8337	8994	9636	10237	12337
Two star	639	661	702	774	833	19337	21396	23396	25346	26764
Three star	793	804	833	924	979	29366	34333	36444	39365	42396
Four star	291	324	394	439	532	10397	11462	12593	13967	16392
Five star	269	301	339	366	423	14393	16276	17644	18374	20392
Five star deluxe	291	303	344	422	477	19347	22333	23394	25392	28149
Heritage	243	264	349	444	533	4336	6694	8937	10364	13341
Classification awaited	298	326	363	537	693	13337	16694	18394	21364	24396
	3115	3286	3655	4298	4932	118850	138182	150438	164499	186167

Source:- FHRAI, New Delhi

No. of Hotels in India



Room Occupancy: The ARR and occupancy are the other critical factors that determine profitability. These, in turn, depend on the location, star rating, amenities and quality of service. The occupancy of Indian hotels and the ARR has been on the rise for the past three to four years after the turbulent socio- political environment in the nation and the East Asian economic crisis.(**Table I.5**)

Table: I.5showing Occupancy Rates of Different Category of Hotel by Domestic and Foreign Tourists in India

Category	Domestic			Foreign			Total		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
1 Star	34.2	40.1	38.2	19.9	18.8	22.4	54.1	58.9	60.6
2 Star	40.9	37.8	40.4	8.1	12.7	12.7	49.0	50.5	53.1
3 Star	46.9	52.8	52.9	8.6	9.3	11.3	55.5	62.1	64.2
4 Star	33.6	42.4	51.9	16.6	23.4	19.6	50.2	65.8	71.5
5 Star	36.6	37.8	39.2	22.2	28.8	30.8	58.8	66.6	70.5
5 Star Deluxe	23.5	30.8	32.2	35.3	29.4	35.1	58.8	60.2	67.3
Heritage	23.3	22.8	20.3	19.1	32.6	46.8	42.4	55.4	67.1
Others	37.8	44.8	49.8	10.2	5.5	5.4	48.0	50.3	55.2
Overall	33.7	40.1	41.8	21.7	20.6	23.3	55.4	60.7	65.1

Source: Department of Tourism, Government of India.



Growth Drivers

The fortunes of the hospitality industry are closely linked to the tourism industry and hence tourism is one of the most important growth drivers. In addition, all factors that aid growth in the tourism industry also apply to the hospitality industry. The Indian hospitality industry has recorded healthy growth in recent years owing to a number of factors,

Seasonality

India being a tropical nation witnesses an inflow of leisure tourist, mainly during the winter months of October to March. Hence the hotel industry has a better second half. In the first half of the year, local tourists prefer April to May and October in the second half due to summer and Diwali vacations respectively. Other months being off season periods, many hotels offer heavy discounts on room tariff to ensure repeat customers such as corporates, Airline crewmembers and tour groups.

Business Factor

Liberalization has brought home a new class of MNCs, which has increased the number of corporate travellers visiting India. Other than metros, developing cities have also come into the limelight and hence there has been an increase in demand for hotels in various places. This trend has enthused many hoteliers to set up corporate hotels. This class of business travelers has reduced their dependence on seasonal tourism.

Increased Tourist Movement

Increased FTAs and tourist movement within the country has aided growth in the hospitality industry. Healthy corporate profits and higher disposable incomes with easier access to finance have driven the rise in leisure and business tourism, thus having a positive impact on the hospitality industry.

Economic growth

India is one of the fastest growing economies in the world. It recorded healthy growth in the past few years, at more than 9% each during FY06-FY08. Despite the global economic slowdown, the Indian economy clocked growth of 6.7% and 7.4% in FY09 and FY10 respectively. Attractiveness of India has encouraged foreign players to set up their operational facilities in the country. Domestic industries have also made heavy investments to expand their facilities through green field and brown field projects.

Differential Pricing

Hotels in India typically offer discounts on published room tariffs to many clients. As a result, though the occupancy rate of these hotels increases, the ARR does not increase proportionally. However, the magnitude of discounts varies depending on the nature of the client location and size of the hotel. But they gain more from dollar rates.

Future of Hotel Industry in India

In Asia pacific the Indian hotel industry is only second to that of China's. According to the predictions of The World Travel Organization the hospitality industry will assume a huge shape by the year 2020 becoming almost triple in size. The growth rate is projected at 8.8% in the year 2016 with more than 4 million estimated tourists visiting here.

Indian Hospitality Industry- Future

- Hospitality industry is expected to be one of the major employers in India
- Tendency to promote of Indian values and tradition to attract more tourists
- Growth of Premium and luxury hotels
- More innovations in services including accommodation, food, beverages etc

Policy of the government towards prosperity of the Hotel industry

The Ministry of Tourism, Government of India, has consistently been working on improving India as a prime destination for tourists. It further aims at promoting various Indian tourism products vis-à-vis competition faced from various destinations and to increase India's share of the global tourism market. Various policy measures undertaken by the Ministry of Tourism and tax incentives have also aided growth of the hospitality industry; some of them include:

- Allowance of 100% FDI in the hotel industry (including construction of hotels, resorts, and recreational facilities) through the automatic route. The Government of India allows 100 per cent foreign direct investment (FDI) in the hotel sector on automated basis.
- Introduction of 'Medical Visa' for tourists coming into the country for medical treatment
- Issuance of visa-on-arrival for tourists from select countries, which include Japan, New Zealand, and Finland 8.8% growth, is expected between years 2007-2016.
- Promotion of rural tourism by the Ministry of Tourism in collaboration with the United Nations Development Programme.
- Elimination of customs duty for import of raw materials, equipment, liquor etc
- Exemption of Fringe Benefit Tax on crèches, employee sports, and guest house facilities.
- Five-year income tax holidays for 2-4 star hotels established in specified districts having UNESCO-declared 'World Heritage Sites'.
- The Ministry of Tourism, Government of India, has consistently been working on improving India as a prime destination for tourists. It further aims at promoting various Indian tourism products vis-à-vis competition faced from various destinations and to increase India's share of the global tourism market.
- The allocation for Ministry of Tourism in the Union Budget 2013-14 has been increased by Rs 87.66 crore (US\$ 16.03 million) to Rs 1,297.66 crore (US\$ 237.23 million).
- The fourth meeting of ASEAN and India Tourism Ministers was held in Vientiane, Lao People's Democratic Republic (PDR). A protocol to amend the memorandum of understanding (MoU) between ASEAN and India to strengthen tourism cooperation was also signed.
- Government of India, has complimented the Government of Madhya Pradesh for becoming the first State in the country to fully utilise plan funds released to them by the Ministry of Tourism, Government of India for the development of tourism infrastructure at various tourist sites in the State.
- In a bid to give a boost to tourism in Uttarakhand, the State Government has identified 21 places endowed with natural beauty to develop them into major tourist destinations.
- The Ministry of Tourism has also sanctioned central finance assistance (CFA) worth Rs 43.87 crore (US\$ 8.02 million) for the development of Sholapur mega circuit in Maharashtra.
- The year 2015 is expected to be the milestone year for the Indian Hotel Industry touching INR 230 billion and a CAGR of around 12%.

Conclusion

The tourism sector can also be considered as the backbone for allied sectors, like hospitality, civil aviation, and transport. Domestic tourism is very huge in the country, promoted by various intents. Pilgrim and leisure tourism are two very important sectors. The Ministry of Tourism has also played an important role in the development of the industry, initiating advertising campaigns such as the 'Incredible India' campaign, which promoted India's culture and tourist attractions in a fresh and memorable way. The industry has been witnessing an upswing for last few years partially due to an excellent 'Incredible India' campaign and is expected to increase up to US\$ 431.7 billion by the end of 2020. On the other front, India has the potential to develop the rural tourism industry. This can benefit the local community economically and socially, and enable interaction between tourists and locals for a mutually enriching experience.



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