



Indian Hospitality: A Strategic Shift...

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Though it has felt the impact of the economic crisis, hospitality has emerged as one of the key service sector industries in India. It accounts for 2% of GDP; 1% of capital investment and 3% of private consumption nationally. The industry increased its GDP contribution 2.5 times between 2002 and 2008, with a corresponding increase of over 2 times in both investment and consumption.

Source: QS Consultants Research

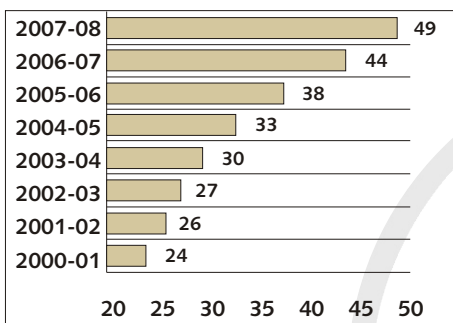


Figure 1: GDP Contribution (in *000 Rs. Crore)

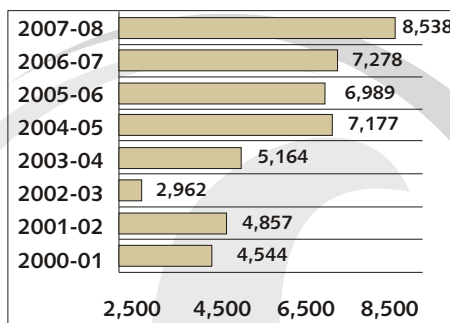


Figure 2: Capital Investment (in Rs. Crore)

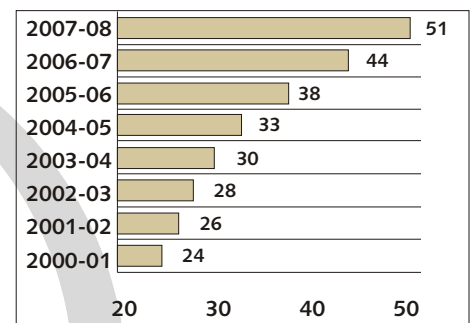


Figure 3: Private Consumption (in *000 Rs. Crore)

While the global recession caused hotel vacancies to rise and eroded revenues, stabilization in both consumption and absorption trends are now evident. The hospitality sector has shown exponential growth over the last decade, moving from 7.9% in 2001-02 to 11.5% in 2007-08, consistently exceeding India's GDP growth every year. Despite the economic downturn, with a GDP growth at 6.7% in 2008-09, India's potential outweighs the downturn, indicating a revival by 2011 within this sector.

Source: QS Consultants Research

Y-O-Y Growth at Factor Cost (India)	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Gross Domestic Product	5.8%	3.8%	8.5%	7.5%	9.5%	9.7%	9.0%
Hospitality (Hotels & Restaurants)	7.9%	5.7%	8.6%	11.4%	14.6%	15.9%	11.5%

The growth potential of this sector hinges on the economic activity and continued GDP growth both nationally and globally on a macroeconomic or strategic level; and on room availability within cities and product value perception on a microeconomic or operational level. Qualitative worth becomes increasingly important as global lifestyles, brands and products ensure increased consumption spending based on greater comfort, lifestyle choices and perceived status. Sectoral expansion is focused towards both an absolute capacity augmentation as well as enhanced brand evolution within different segments.

Increased hotel investment and development would primarily include: (a) development of new properties based on current brand criteria; or (b) acquisition and rebranding of existing properties in line with brand strategy. The decision to "create or rebrand" is aimed at optimization of hotel valuation development investment vs. replacement costs. While rebranding has been embraced as a complete business strategy by several global luxury brands, it is a newer concept in India, gaining ground due to high development costs and paucity of landmark locations for newer hotels coupled with heightened brand perception, particularly in the luxury segment. Hospitality investment has been traditionally focused on the luxury segment 5 star/ 5 star deluxe hotels, with brand recall limited to top luxury brands only. Ironically, this segment constitutes only 38% of the total rooms across India.

However, while the industry witnessed a revival across most segments, the emphasis has now shifted to the mid-market segment (constitutes around 38% of total rooms across India with a significant expansion potential). Increased hotel investment and development of over 50% in both the luxury and mid-market segments by known brands over the last five years alone highlight increased brand perception in India. While the luxury segment witnessed significant brand development (24%), absolute expansion was limited (2%). On the contrary, increases in mid-market segment were both absolute (16%) and qualitative (35%).

Room Segmentation Analysis-India	Luxury	Mid-market	Budget	Others	Total
Total Rooms in 2008	32,352	32,080	8,411	10,938	83,781
Room Segment Share	38.6%	38.3%	10%	13.1%	100%
Absolute Growth in Rooms	2%	16%	16%	18%	10%
Relative Growth in Branded Rooms	24%	35%	20%	5%	20%

The luxury segment continues to be one of the most established segments in India by far with several historic properties scattered across the country. As rationalization sets in, revenue optimization has been focused on maintaining high hotel values to compensate for lower occupancies that require distinct brand identity and quality assurance. While increased business activities and diplomatic interactions ensure a steady performance for this segment, the availability of international luxury brands commands both brand loyalty and recall. With new developments at landmark locations being restricted by significant capital outlays and limited availability, viable investment alternatives include (a) acquisition and rebranding of existing properties as and when they are available; or (b) new developments at equally attractive tier II locations that have the potential to become landmark locations in the future.

The mid-market segment has witnessed a steady growth due to a significant supply gap. New projects including future developments comprise of several quality hotels utilizing the management capabilities of large or upcoming hotel brands leading to evolution of brand standards and hotel chains within this segment. This has created a niche within this segment for quality hotels at a reasonable price for the mid-segment price sensitive tourist. An increasing absolute demand entails necessary development of new hotels across the country rather than rebranding existing capacity. As both the hospitality and real estate sectors moderate in their performance due to economic volatility, investors need to focus on development of new potentially viable projects (adjacent to the new hubs of economic activity) within this segment.

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In conclusion, while there has been a degree of moderation in the performance of the hospitality sector due to the recent global crisis, a revival within this sector is eminent as economic activity picks up both nationally and globally. At the heart of the leading growth centers in the world, Indian hospitality is expected to receive a much deserved boost. While rebranding and new development will to dominate respective segments, the common underlying highlight is the entry of several large global hospitality brands into India thus establishing intrinsic standards for business optimization and brand/ segment differentiation.

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