How Tourism is Driving Hotel Industry

The World Travel and Tourism Council has named India as one of the fastest growing tourism industries for the next 10 to 15 years. The booming tourism industry has had a cascading effect on the hospitality sector with an increase in the occupancy ratios and average room rates.

The Indian tourism and hospitality industries account for around 6.23 per cent of the national GDP and 8.78 per cent of the total employment. Continual transformation has improved the Indian hotel industry making it on par with global standards, particularly in the luxury segment. The standards of facilities and services offered have evolved over the last decade through the extensive use of technology, environment-friendly services, pricing, market segmentation, regional preferences, etc. The Indian hotel industry has also seen a significant growth in room inventory across categories—from upscale luxury to limited services, as well as boutique and budget hotels. There has been continued growth in both occupancy and room rates, from the domestic and the international travellers in the business and leisure segment.

The global scenario

Travel and tourism is one of the fastest-growing industries and a leading contributor to GDP in many countries. It generated around 9.4 per cent of world GDP and accounted for 8.2 per of total employment in 2009. The contribution of the industry to the global economy remains high despite a 4.38 per cent decline in 2009. During the year 2011-12, travel and tourism investment, too, declined by more than 12 per cent.

The Indian scenario

India is one of the fastest growing economies in the world, having recorded a healthy growth of 9 per cent during 2006-08. Despite the global economic slowdown, the Indian economy clocked a growth of 6.7 per cent and 7.4 per cent in 2009 and 2010, respectively. The attractiveness of India’s hospitality sector as an investment destina-
tion 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 greenfield and brownfield projects. It has evolved into an industry that is sensitive to the needs and desires of people.

Fortunes of the hospitality industry have always been linked to the prospects of the tourism industry, which is the prime demand driver of the industry. The Indian hospitality industry has recorded healthy growth fuelled by robust inflow of foreign tourists as well as increased tourist movement within the country. India’s rich cultural heritage and history, varied regional cuisines and friendly people are positive aspects that promote its tourism sector.

**Promotional measures undertaken by the government**

Various policy measures undertaken by the Ministry of Tourism, and the tax incentives offered, have also aided the growth of the hospitality industry. With a view to stimulating domestic and international investments in this sector, the government has taken the following initiatives:

1. 100 per cent FDI under the automatic route is now permitted in all construction development projects including construction of hotels and resorts, recreational facilities, and city- and regional-level infrastructure

2. Introduction of ‘Medical Visa’ for tourists coming to the country for medical treatment

3. 100 per cent FDI is now permitted in all airport development projects subject to the condition that FDI for upgradation of existing airports requires FIPB (Foreign Investment Promotion Board) approval beyond 74 per cent

4. Issuance of visa-on-arrival for tourists from select countries, which include Japan, New Zealand and Finland

5. Promotion of rural tourism by the Ministry of Tourism in collaboration with the United Nations Development Programme

6. Elimination of customs duty on the import of raw materials, equipment, liquor, etc

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### SWOT Analysis of the Indian Hotel Industry

#### Strengths

1. There are a very wide variety of hotels in the country that can fulfil the current demand.
2. Apart from India-based global players in the market, such as Taj and Oberoi, many foreign international chains have bought properties in the country. Thus the needs of international tourists are met while they are on a visit to India.
3. Manpower costs in the Indian hotel industry are one of the lowest in the world. This helps in better margins for the Indian hotel industry.
4. India’s cultural heritage offers countless readymade tourist destinations. Thus the magnet to pull customers already exists and has potential to grow.

#### Weaknesses

1. The cost of land in India is high at 50 per cent of the total project cost as against 15 per cent abroad. This acts as a major deterrent to the Indian hotel industry.
2. The hotel industry in India is heavily staffed. Indian hotel companies have a staff-to-room ratio of 3:1, as against 1:1 for international hotel companies.
3. The high tax structure puts Indian hotels at a disadvantage compared to their international counterparts. In India the expenditure tax, luxury tax and sales tax inflate the hotel bill by over 30 per cent. The effective tax in South East Asian countries works out to only 4-5 per cent.
4. Only 97,000 hotel rooms are available in India today, which is less than Bangkok’s hotel capacity.
5. The services currently offered by hotels in India have only limited value-added services. These are not comparable to the prevalent world standards.

#### Opportunities

1. The demand from national and the inbound tourists can be easily managed due to the different holiday periods. For international tourists, the peak season for arrival is September to March when the climatic conditions are suitable, whereas national tourists wait for school holidays, which are in the summer months.
2. In the long-term, the hotel industry in India has latent potential for growth. This is because India is an ideal destination for tourists as it is the only country with the most diverse topography. Inbound tourists in India account for a mere 0.49 per cent of the global total. This number is expected to increase at a phenomenal rate, thus pushing up the demand for rooms in the hotel industry.
3. Unique experiences can be offered at heritage hotels.

#### Threats

1. Guest houses are replacing hotels. This is a growing trend in the west that is now catching up in India too, thus diverting the hotel traffic.
2. Political turbulence in certain areas such as Jammu & Kashmir reduces tourist traffic and thus the business of hotels.
3. Changing trends in the west demand similar changes in India, which are difficult to implement due to high project costs.
4. There is a lack of trained manpower in the hotel industry.
5. Hotel is a mature industry marked by intense competition.

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**SWOT Analysis of the Indian Hotel Industry**
7. A capital subsidy programme for budget hotels
8. A five-year tax holiday has been extended to companies that set up hotels, resorts and convention centres at specified destinations, subject to compliance with the prescribed conditions.
9. Plans for substantial upgradation of 28 regional airports in smaller towns. Plans for privatisation and expansion of Delhi and Mumbai airports have already been executed.

**Hospitality industry**

The Indian hospitality industry is projected to grow at a rate of 8.8 per cent from now through to 2016, placing India as the second-fastest growing tourism market in the world. According to industry data, India is expected to double the number of branded hotel rooms in just three years from 100,000 now. Leading the pack are the global hotel chains, which will add over 300 hotel properties (an estimated 55,000 rooms) in the country by the end of 2013, as per data compiled from the companies.

To encourage the tourism sector, the Centre and the states are also working out a public-private partnership (PPP) model to increase hotel capacity.

In the long term, the demand-supply gap in India will continue and there is a need for more hotels in most cities. The shortage is especially felt in the budget and the mid-market segment, since travellers look for safe and affordable accommodation. Various domestic and international brands have made significant inroads into this space and more are expected to follow, as the potential within this segment of hotels has become more obvious.

India’s travel and tourism sector is expected to be the second largest employer in the world. It is also projected to become the fifth fastest-growing business travel destination from now, through to 2020.

**Classifications of hotels**

1. **Commercial hotels.** These cater mainly to business clients and usually offer room service, coffee shops, dining rooms, cocktail loung-
es, laundry and a valet service, as well as access to computers and fax services.

2. **Airport hotels.** These are conveniently located to provide any level of service from just a clean room to room service. They may also provide bus or limousine services to the airport.

3. **Conference centres.** These are specifically designed to provide a meeting space for large groups; they provide all the services and equipment necessary to handle conventions.

4. **Economy hotels.** These provide limited services and are known for clean rooms at low prices meeting just the basic needs of travellers.

5. **All-suite hotels.** These offer a spacious layout and design. Business people like such settings, which provide space to work and entertain, separate from the bedroom.

6. **Residential hotels.** These used to be very popular. Typically, they offer long-term accommodation.

7. **Casino hotels.** These are often quite luxurious. Their main purpose is to support the gambling operations. Casino hotels often offer big-name entertainment and excellent restaurants.

8. **Resort hotels.** These are usually located at the seaside or in the mountains, away from inner cities. They may offer any form of entertainment to keep their guests happy and busy.

**Medical tourism in India**

Medical tourism has done exceptionally well in India and the number of medical tourists coming to the country increased considerably in 2012-13. Rising healthcare costs in developed economies, especially the US and the UK, are forcing patients from the region to look for cost-effective and alternative forms of treatment. India, with its pool of highly trained and specialised doctors, good healthcare infrastructure facilities, relatively lower cost of treatment and the availability of alternative forms of treatment such as Ayurveda, Yoga, Siddha, and Naturopathy, is seeing strong growth in this sector. Medical tourism is promoted through suitable packaging of good hospitals and price banding, as per treatment requirements.

Medical costs in India are 20 per cent lower than the costs in Europe and US. Medical tourism has grown swiftly despite the economic slowdown. The industry is still at a nascent stage and holds immense potential. Various medical treatments that can be availed in India include knee replacement, hip replacement, cosmetic surgery, dental treatment and cardiac care.

The government is taking several measures to promote medical tourism in the country. This includes issuance of Medical Visa for patients and their attendants coming to India for treatment. The
Centre has also requested state governments to promote healthcare packages. Under the Market Development Assistance Scheme, financial assistance would be provided to medical tourism service providers, i.e., accredited hospitals and medical tourism facilitators (travel agents and tour operators approved by the Ministry of Tourism and engaged in medical tourism).

Rural tourism in India

The concept of rural tourism evolved in 2000-03 with the objective of showcasing rural life, art and culture, particularly in villages that have core competence in art and craft, handlooms, and also those whose chief attraction is the local natural environment. With this, the government hopes the local community will benefit both economically and socially, as it will enable interaction between tourists and the local population for a mutually enriching experience. Under this scheme, the development and strengthening of physical infrastructure at the identified spot will help the local population to develop the site as a rural tourism product.

Rural tourism projects at 186 villages in 29 states and Union Territories have been started. Fifty-six of these sites are located in the North-Eastern region. A total amount of Rs 554 million was sanctioned for Rural Tourism Projects during the 11th Five Year Plan. Projects at 90 sites had been completed by December 2012. During the 12th Five Year Plan, the present scheme of Rural Tourism is being replaced with the scheme of Rural Tourism Clusters. The modified scheme aims at developing a cluster of villages as a tourism product.

The road ahead

Tourism has now become a significant industry in India. As per the World Travel & Tourism Council, the tourism industry in India is likely to generate $121.4 billion of economic activity by 2015, and the hospitality sector has the potential to earn $24 billion in foreign exchange by 2015. The booming tourism industry has had a cascading effect on the hospitality sector with an increase in the occupancy ratios and average room rates. While the occupancy ratio is around 80-85 per cent—up nearly 10 per cent from three years ago—the average increase in room rates over the last one year has hovered around 22-25 per cent. According to recent estimates, there is almost a 2:1 demand-supply ratio for rooms in India, demonstrating the untapped potential that continues to exist in this industry.

Outlook for tourism and hotel industries

With the continued growth in India’s GDP, improvement in the per capita income, and increased aspirational spending, the Indian hospitality sector is expected to grow faster than most countries around the world. According to the Consolidated FDI Policy released by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, the government of India has allowed 100 per cent foreign investment under automatic route in the hotel and tourism related industry. The inherent strength of the Indian economy has led to increased international business traveller arrivals to India. For foreigners, the period of stay has increased to three-five days for business travel and seven-10 days for leisure travel.

India ranks 42nd in the world in terms of foreign tourist arrivals, according to a report titled ‘Competitiveness of Tourism Sector in India with Selected Other Countries of the World’ by the Ministry of Tourism. The World Travel and Tourism Council has named India as one of the fastest growing tourism industries for the next 10 to 15 years.

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