

Revenue Management in India: The Pioneering Story of Implementation in the Taj Group of Hotels in India

1. Introduction

It was the middle of the year 1800. It was the time when the British were occupying India by force. India was under foreign rule and the humiliation of Indians was a common practice. A young and wealthy industrialist was looking for a hotel to stay in for a night. He was refused admission to a second-rate Bombay hotel which was reserved “for Europeans only”. Miffed at the sign, out of self-respect and a deep love for Bombay, a city he was proud of, the young and wealthy industrialist decided to build his own hotel. From the day it opened, the Taj Mahal Hotel was recognized as one of the best in the world. His work became one of the best groups of hotels in south-east Asia.

The Taj venture was distinct from his other schemes. Unlike his other enterprises he did not calculate what it would cost. By the time it was completed in 1903, the total cost of the project was Rs. 42.1 million. The hotel had many accomplishments to its credit - it was the first building in Bombay to use electricity. It held the record for bringing several innovative delights; for example, it was the first hotel in India to have American fans, German elevators, Turkish baths, and English butlers.

He also had a vision of a modern India with an industrial base with steel, automobiles, chemicals, computers, and many others, competing with the best in the world. What he planned a hundred years ago is a reality today.

The industrialist, the hotel, and the group that manages the business are well-known names in India today. The Industrialist was J. N. Tata, the hotel was The Taj Mahal Palace & Tower, and the group is currently known as the Tata Group. It is one of the oldest, largest, and most respected business houses in India.

As the hotel progressed for a century, so did the practice of management in the twentieth century. The management of the front office changed, and sales and marketing also underwent a dramatic change. The practice of management changed at different points of time and so did the way the Taj did business.

At the end of 20th century, research conducted at MIT by Peter Belobaba in the transportation industry changed the way the airlines were managing in the USA. The most noticeable impact of Revenue Management was in the transportation industry as well as the hospitality industry. Looking at the successful implementation of the revenue management concept in the hospitality industry, and in order to remain competitive, the Taj group of hotels decided to implement revenue management principles in the later part of the 20th century and the early part of the 21st century. In the context of hotels, Revenue Management is the art and science of selling the right service (hotel room) at the right price to the right

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customer. What follows in this case study is an illustration of what was done, how it was done, and how it benefited the Taj group of hotels.

2. Introduction of Taj Hotels and Resorts

Taj Hotels and Resorts (source: www.tajhotels.com), formally known as Indian Hotels Company Limited is one of the largest chain of hotels in India with a very strong international presence. It is one of the largest and most respected hospitality groups in South Asia. The group owns and operates an inventory size of 77 hotels and 8635 rooms and more than 200 food and beverage outlets over 52 destinations and 17 international hotels spread in 12 countries. Some of the countries where it has a presence are the Maldives, Mauritius, Malaysia, Australia, the UK, the USA, Bhutan, Sri Lanka, Africa, and the Middle East. Over the years, the Taj has won international acclaim for its quality hotels and its excellence in dining, business facilities, interiors, and world-class, personalized service. It is owned by the Tatas, a highly respected group with various interests operating in several countries. Incorporated by the founder of the Tata Group, Jamsetji N. Tata, the company opened its first property, The Taj Mahal Palace & Tower, Bombay, in 1903. Details of the hotel are provided in Annexure 1

3. Background: The Need for RM

With progress over time, the group had undertaken a number of initiatives to enhance service levels to be in line with the best in class. The group had constantly benchmarked itself with international luxury chains, and invested in technology. To provide consistency across different hotels and standardize processes, it invested in an application called the Central Reservation System (CRS) in 2000. The CRS application maintained the data of the customer profile as well as the stay information in each of the 77 locations of the Taj group of hotels (source: www.tata.com). CRS was linked to the central server located in Mumbai, where there were two applications - Central Reservation System (CRS) and Customer Information System (CIS) - that provided information on special and long staying customers from the time of booking to the guests' spending pattern and communication needs. Both the CRS and CIS were interfaced via Taj's own Wide Area Network to a property based transactional system called the Property Management System (PMS).

It was in 1997 that Taj's key executives took cognizance of the growing impact and influence of the concept of Revenue Management or Yield Management. India liberalized its economy in 1991 and the service sector started growing at a fast rate. The senior management at the Taj wanted to know how they could apply Revenue Management in the Taj Groups of Hotels in order to facilitate a more scientific and systematic way of managing yields and maximizing revenues. Hence started Taj's quest to find and determine the most appropriate application of Revenue Management, whilst analyzing the impact of such an application on internal processes, and more importantly, on customers. After an initial analysis, the Taj decided to implement the process and initiated the hiring of resources from premier business schools across India - the very first set of dedicated "Revenue Managers in India".

In 1997, the Hotel Revenue Management process was still in its nascent stage - not only in India but across the world, and very few text books and references were available at that time. The only published book available for reference was "Revenue Management" by Robert Cross. Hence, in order to arm the resources with the necessary know-how of the process, Taj brought in an independent Revenue Management consultant to oversee the implementation process of Revenue Management. Soon enough, it was clear to the Taj that

Revenue Management was not only about a set of algorithms/systems, but a process of complete change, and first it required a change in the mindset at the organizational level. It was deemed most suitable, therefore, to form a cross-functional team to ensure that all avenues being impacted by such a change were well understood and thought of before any such implementation. This led to the formation of a Project Team, "Genesis", which represented individuals from Reservations, Sales and Marketing, Front Office, Training, and Information Technology, under the expert guidance of the independent Revenue Management Consultant.

Soon after the formation and subsequent analysis, the team set itself some key priorities and objectives. The objectives emanated from the fact that Revenue Management implementation would require certain pre-requisites to be met even before the foundation of the overall Revenue Management process could be established. These are given below.

- a) Standardization of key Reservation Sales Processes
- b) Configuration of Property Transactional Systems to be able to capture data that could be later processed and synthesized for analysis
- c) Information Analysis Tools, infrastructure and compliance standards
- d) Human Resources and training

In order to achieve the above, the team spent endless hours in debating, developing, and testing:

- a) Standard codes and configuration of transactional systems
- b) Standard processes and checklists
- c) Standard revenue management tools
- d) Standard reports
- e) Structured training and recruitment
- f) Regular audits and feedback systems/processes
- g) Complete documentation of all of the above

Figure 1: Revenue Management System Tools



Source: Taj Group of Hotels

Between 1999 and 2000, the team focused on the deployment of the above processes, and extensive training across all Taj Hotels. This was not an easy task since this required significant change in the hotel transactional system configuration (mainly PMS). At the same time, the hotel teams including operations, sales, and finance had to be trained. Moreover, a robust implementation of Reservation Sales processes required a change in mind-set, that is, the approach towards conducting business. A lot of training modules were aimed at facilitating such a behavioral change. Some of the key implementation deliverables included:

Forms

- a) to ensure accurate and complete data input

Checklists

- a) to ensure that the processes were done at the right time, in the right order
- b) to minimize human dependency

Reports

- a) Forecast Reports, which drive revenue
- b) Production Reports, which convey status

Spreadsheet Modules

- a) to support room inventory decisions
- b) to demonstrate and forecast trends
 - i. Booking Curves Analysis Tool
 - ii. Rate and Availability Management Grids
 - iii. Historical Data Analysis
 - iv. Forecast Modules
 - v. Month-end Report Pack
 - vi. Yield Plan
 - vii. Mid-stage Plans

Training Modules

- a) to ensure consistent and accurate training
- b) to create a self-reliant training structure

The standardization of processes across all hotels now presented the opportunity for the Taj to integrate all hotels on to one common Central Systems Platform that would enable the implementation of a Central Reservation System, Customer Information System, and Data warehouse. The Taj had always utilized technology to improve its business processes whilst enabling an enhanced customer experience from a Revenue Management point-of-view, this meant a move towards a more synergistic pricing and inventory strategy across channels. This also meant ensuring a single image of rate and availability across various channels. The period between 2001 and 2002 saw the implementation of Central Systems and further enhancement and consolidation of the Revenue Management process.

The Corporate Director of Revenue Management recalls the period between 1999 and 2000 – “The biggest challenge we faced was to convince all stakeholders that Revenue Management

as a process worked and especially since it involved a change in the overall approach towards business and across departments. I believe, today the challenge still remains, since not many organizations have been able to fully integrate the process across departments. In the Taj, we have been extremely fortunate.”

In 2001-02 the Genesis Team members were split into functional areas integrated with the rest of the organization to drive the process of continuous improvement.

- a) Corporate Revenue Management – to drive and monitor the RM Process
- b) Central Reservation Operations – to oversee the Central Reservation System related processes and to drive the formation of the Central Reservation Office
- c) Customer Relationship Management – To oversee the Customer Interfacing Processes and more importantly, engage the customers in a more personalized manner

One of the first success stories of a more formalized Corporate Revenue Management role was the conceptualization of Cluster Revenue Management whereby the Revenue Management Process including the reservations function was enhanced for the management of a cluster of hotels in a city, which in simple words, meant implementation of a single point control of reservations, rate and availability, to result in the following:

- a) Optimize inventory across the city’s hotels with tremendous opportunity to cross-sell. The success should be gauged by the performance of all three hotels consolidated, and not by measuring individual hotel performances.
- b) Reduce rate integrity between hotels
- c) Provide a one-point contact for the potential customer to make bookings in any of the Taj hotels and the Taj within and outside the city
- d) Avoid inconvenience to the caller in case of unavailability of rooms in a particular hotel.

Like any other business process enhancement, a successfully deployed revenue management process must result in a positive impact, that is, an organization must be able to optimize its revenue generation potential. The next step that the Taj took was to understand the impact and extent of Revenue Management across its various hotels.

In 2002, a professional consultancy firm was recruited to objectively analyze the impact of the Revenue Management process and at the same time focus on areas that needed further improvement. TOP (Total Overdrive for Performance) was launched in July 2002 as part of this initiative. Apart from assessing the positive impact of the overall Revenue Management process (especially in areas of Incremental Revenue and CRM), the TOP also identified several new ideas or initiatives across areas like Rooms, Banquets, Wines, Mini-bar, In-room dining, etc. The TOP team was subsequently mandated by the organization to develop a similar cross functional team like Genesis to ensure implementation of all identified improvements/ideas.

The following seven tasks were identified to increase the effectiveness of the revenue management system.

1. Upgrades

Initially the hotel had no accurate information on how the upgrades were done in the organization. These upgrades were provided as a complimentary benefit to some of the customers who were considered valuable to the organization, and brought no additional revenue. The upgrades were provided at the request of senior persons in the organization like the Vice President (Sales and Marketing). The team decided to collect information and follow a predefined procedure so that the upgrades could be made more systematic. By doing this they ensured that the maximum upgrade was restricted to only 7% of the request for upgrades.

2. Multiple Booking

In order to ensure that they would have a confirmed booking, some customers used to make multiple bookings in the same name. They would have one or more travel agents and more than one booking was done for the same person in the same hotel for the same night of the stay. This used to create loss of revenue. Inbuilt check points were needed in the system to eliminate multiple bookings.

3. Up-selling and Cross selling

Up-selling is a process by which a customer is given a choice of booking in a higher class than the class which he or she has requested. They needed to create a system by which customers were provided with the choice of higher class booking; this resulted in a revenue increase of about 3% of the base level values.

Cross selling is a process by which the choice is given to a customer for booking in a different hotel of the same group in the same city if a room was not available in the desired hotel. For example, a customer would like to book a room in the Taj Mahal Hotel. However, if no room is available in the Taj Mahal Hotel, he would be given a choice to book a room in the Taj President Hotel. By ensuring this, the Taj created incremental revenue of 0.5%.

4. Late checkout

It was observed that many customers were staying in the hotel after the check out time (12.00 noon) and this was disrupting the booking of rooms for the customers who wanted to check in. Many times customers stayed up to 4 p.m. This was creating a loss of revenue for the Taj and by charging extra for late check out, the revenue leakage was prevented.

5. Early check-in

Sometimes, it was found that customers were coming to the hotel much before the scheduled check-in time (12.00 noon). This was again creating a disruption in the management of the rooms. Strict controls were implemented so that there was no loss of revenue in this regard.

6. Length-of-stay control

The two important points in this respect were the concept of Peak Night and Shoulder Nights. Peak nights are those days of the year which have more than 90% occupancy. Suppose the President of the USA is visiting India on a particular day (15 February, 2005) there will be heavy demand on this particular day for a room in the hotel. It was decided that for the peak nights, the Taj should increase the rates significantly.

The shoulder nights are those nights which have about 70% occupancy. A peak night of 15 February is preceded by a shoulder night (14 February, 2005) and followed by a shoulder night (16 February, 2005). The general idea is to increase the occupancy level of the shoulder night.

The problem becomes complicated when you have a peak night in between two shoulder nights. Should you reject a customer who wants to come for three days at a price of Rs. 5000 per night or accept a customer who wants to come only for a day on a peak night at Rs. 12000 per night?

This is a debatable question and cannot be solved without a computerized revenue management system which can solve a linear programming model and find a dual price. In a hotel RM system, this dual price is called the hurdle rate. Hurdle rates are the opportunity cost (price) for the last available room.

In order to understand the demand pattern by customer market segment and to scientifically generate future forecasts, the Taj, over the years, had generated several home-grown and Excel-based tools. One such tool was the conventional booking curve model. The concept of booking curve is a very simple one. The booking curve module plots the booking pick-up trend for a period of 90 days prior to day of arrival. For example, for a property size of 580, let us assume that the total booking may be 100 for D_{-90} , 145 for D_{-60} and 501 in D_{-10} . This means ninety days before the day of arrival (D_{-90}), the total number of bookings is 100, sixty days before the day of arrival (D_{-60}), the total number of bookings is 145, and ten days before the day of arrival (D_{-10}), the total number of bookings is 501. In other words, 45 customers have been booked between D_{-90} to D_{-60} .

However, this is just the tip of the iceberg. The actual process of transforming this booking curve and pick-up data into logical forecasts can be quite a challenge and if manually done, an extremely time consuming exercise. Though technological advancements in the airline industry had automated a large aspect of the overall process of forecasting, in the hospitality sector, the emergence of the concept of automated Revenue Management Software (RMS) was new. Taking a cue from the airline sector, the Taj started evaluating the option of automated RMS.

4. Revenue Management System (RMS)

An automated RMS stores detailed past and future reservation-related information for a hotel or cluster of hotels, if used across multiple hotels. This information can be used to support sales, marketing, and financial processes. The system generates projections of future demand, making suggestions on how to price rooms and manage availability so as to maximize yield. The basic premise being - selling the right room, at the right time, at the right price, to the right customer (Ref: Video <http://video.mit.edu/watch/american-airlines-decision-technologies-1991-winner-5859/>).

4.1 The Inventory Optimization Module

The optimization module works on the basic principle of allocating rooms in an uncertain demand situation, with an objective of maximizing the total expected revenue. The work is based on maximizing the expected network revenue of a room for n-days given the demand forecast and room availability.

4.2 Forecasting Module

Good demand forecasting is an essential part of revenue management. Improvements in the demand forecasts used as inputs to the inventory allocation process translate directly into increased revenue in the form of higher average rates per customer.

The issues that were important for forecasting for the Taj are given below:

- a) Trend, seasonality
- b) Management of uncertainty
- c) Estimating unconstrained demand
- d) No show forecasting
- e) Group forecasting
- f) Special event forecasting

An efficient demand forecasting for a RMS (Revenue Management System) should have high accuracy and a low error of forecasting. This provides high opportunity for optimal utilization of the inventory and provides higher scope for revenue maximization. An efficient RMS provides greater opportunity for additional functions such as supply ordering, staffing, and supply chain management for food related products in a restaurant.

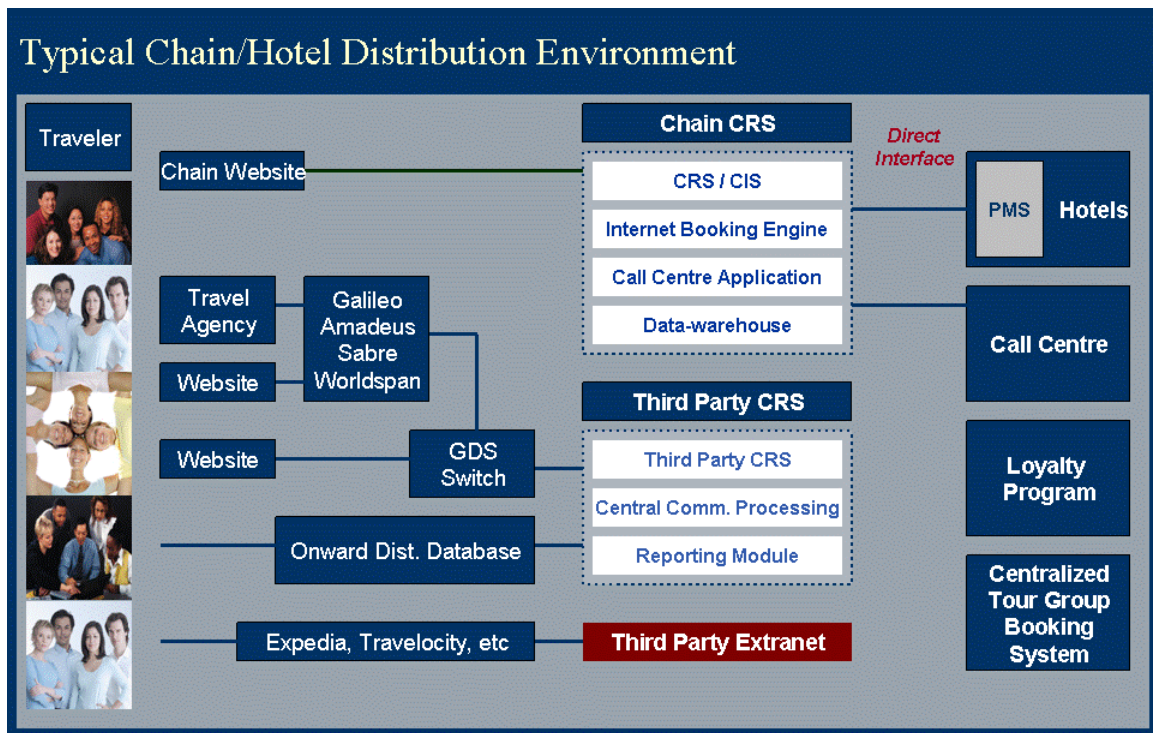
As indicated earlier; the Taj had already initiated a study on assessing the viability of investing in an Automated RMS. However, there were several questions that they were faced with during this assignment.

- 1) What objective benefits could the Taj draw from Automated Revenue Management Software?
- 2) What elements should they look for in selecting an RMS Vendor? How could they objectively evaluate each RMS product and be able to gauge the relevance to their business model?
- 3) Should they consider software vendors specializing in hotel revenue management or should they go for a software vendor who had a proven track record in other related businesses like airlines?
- 4) How would an automated RMS be used to optimize rate and availability across multiple distribution channels?
- 5) Should forecasting be 100% automatic? Or should there be manual intervention?
- 6) How would the RM staff be trained?

- 7) What impact would such automated optimization have on customers? Was the Indian Hospitality Sector/Market ready for differentiated pricing models?

We can think about all the possible repercussions of adopting an automated Revenue Management Software. There are many questions that companies like the Taj may encounter in their aspiration to adopt the latest in Revenue Management technology. There is a need for an objective assessment model that clearly indicates all pre-requisites that need to be met for adopting such a technology and subsequent models for evaluation of such a technology adaptation.

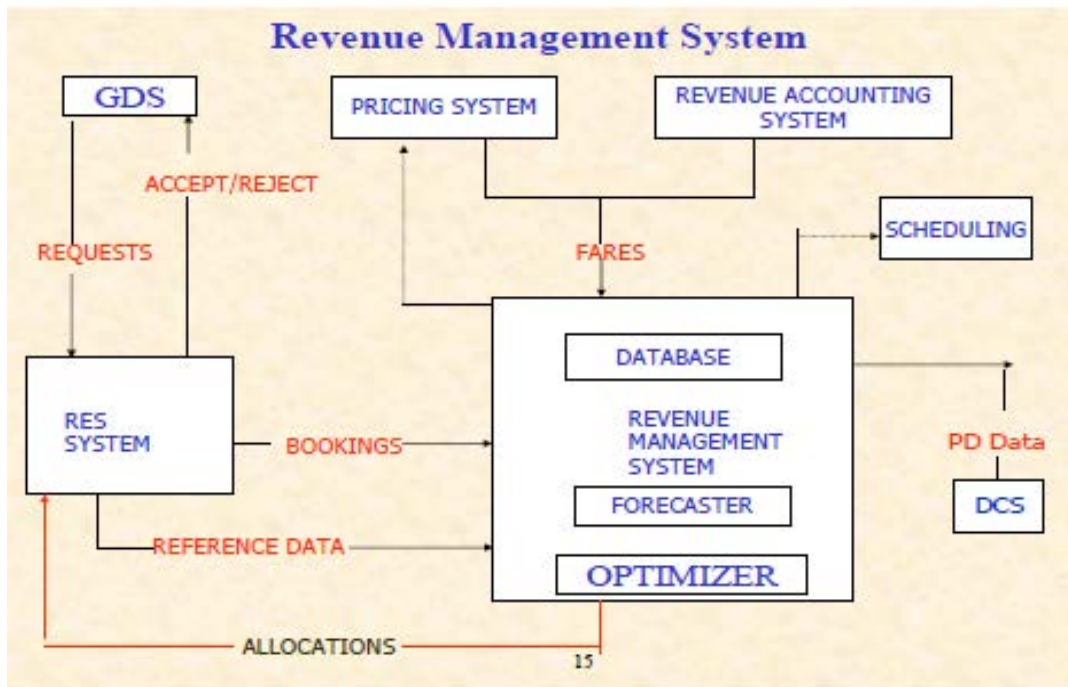
Appendix – 1



The Distribution Environment

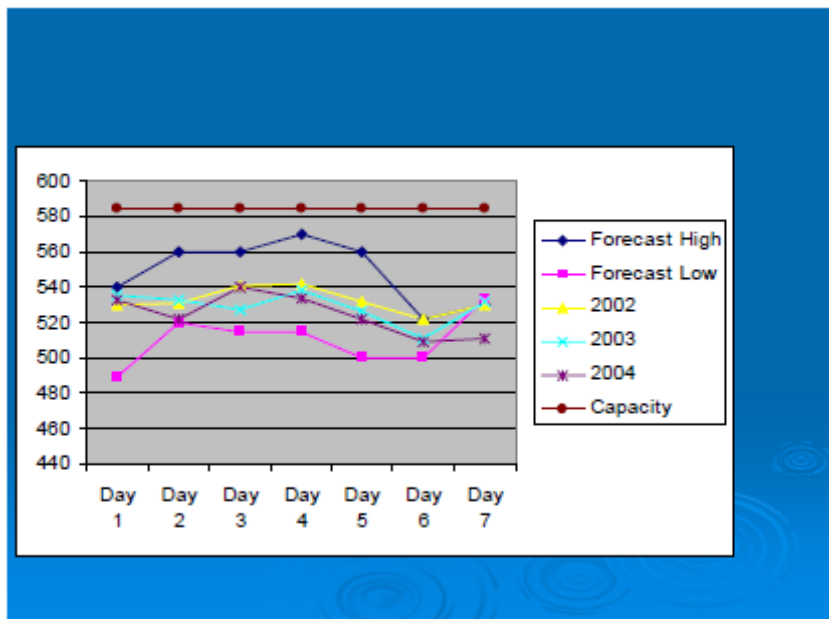
Source: Taj Hotels

Appendix 2
A Generic Revenue Management system



Source: Taj Hotels

Appendix 3 Forecasting Method



The forecasting algorithm gives five values.

- Minimum value of the forecast
- Maximum value of the forecast
- Actual values occupancy of 2003
- Actual values occupancy of 2004
- Actual values occupancy of 2005

The forecasting has two components

- Long term forecast (F_1)
- Short term forecast (F_2)

Weighted average forecast = $\alpha F_1 + (1-\alpha) F_2$

Appendix 4
IHCL Profit and Loss Account Summary

Rs. Crore

Indian Hotels Co. Ltd.	Mar 2001	Mar 2002	Mar 2003	Mar 2004	Mar 2005	Mar 2006
Income						
Operating income	707.28	600.8	585.54	700.96	886.35	1125.78
Other income	34.14	31.72	40.64	31.41	42.87	64.07
Change in stocks	0	0	0	0	0	0
Non-recurring income	21.28	100.49	34.57	37.79	22.99	4.92
-						
Expenditure						
Operating expenses	148.49	127.95	134.09	156.5	192.01	237.11
Purchase of finished goods	0	0	0	0	0	0
Energy (power & fuel)	66.22	61.98	64.1	67.26	70.86	75.68
Salaries & wages	156.58	144.2	137.41	183.32	207.48	231.09
VRS expenses	3.53	0	0	0.38	0.52	0.51
Indirect taxes	13.38	12.12	16.03	14.34	16.73	27.7
Other expenses	138.29	177.71	154.22	191.51	206.2	236.32
Less: expenses capitalised	1.75	14.97	10.97	20.67	0.01	8.1
Non-recurring expenses	0.27	9.28	6.49	5.23	0.19	0
-						
Profits / Losses						
PBDIT	241.22	214.76	159.38	172.67	258.75	394.97
Financial charges	58.77	63.57	56.21	43.89	60.3	54.76
PBDT	182.45	151.19	103.17	128.78	198.45	340.21
Depreciation	45.16	47.49	46.59	48.58	56.77	65.9
PBT	137.29	103.7	56.58	80.2	141.68	274.31
Tax provision	20.5	23	16.1	19.55	35.82	90.53
PAT	116.79	80.7	40.48	60.65	105.86	183.78
-						
Appropriation of Profits						
Dividends	49.72	36.09	35.63	40.71	57.3	88.88
Retained earnings	67.07	44.61	4.85	19.94	48.56	94.9

Source: Taj Hotels

Annexure 1 Taj Hotels and Resorts

Taj Hotels and Resorts, formally known as Indian Hotels Company Limited is one of the largest chain of hotels in India with a very strong international presence. It is one of South Asia's largest and finest hospitality groups. The group owns, operates and manages 77 hotels and 8635 rooms and more than 200 food and beverage outlets. Over 52 destinations and 17 international hotels spread in 12 countries including Maldives, Mauritius, Malaysia, Australia, UK, USA, Bhutan, Sri Lanka, Africa and the Middle East. Over the years, Taj has won international acclaim for its quality hotels and its excellence in dining, business facilities, interiors, and world-class, personalized service. It is owned by Tatas, a highly respected group with various interests operating in several countries. It was incorporated by the founder of the Tata Group, Jamsetji N Tata. The company opened its first property, The Taj Mahal Palace & Tower, Bombay, in 1903.

Taj Hotels Resorts and Palaces is grouped into Luxury, Leisure and Business categories to provide consistency across the different hotels and standardize products and services.

As early as 1974, the Taj opened India's first international beach resort - Fort Aguada Beach Resort - in Goa. Today, Goa is one of South Asia's most popular beach resort destinations.

The presence of Taj Hotels Resorts and Palaces internationally has been developed through a network of Taj regional sales and PR offices in the United Kingdom, France, Germany, Italy, Dubai, Singapore, Sydney, Tokyo and the USA.

During the recent past, Taj Hotels strengthened its presence in the Indian Ocean rim. Taj Exotica Resort & Spa, Mauritius, opened its doors to guests in 2002. The new Taj Exotica Resort & Spa within six months of its launch, was awarded the title of "The Best Resort in the World" in the first ever Harpers and Queen Travel Awards.

Taj Hotels further expanded its global footprint by securing management contracts at Palm Island, Jumeirah in Dubai, Langkawi in Malaysia and Thimpu in Bhutan. The most significant additions to the portfolio have been The Pierre, the iconic landmark hotel on New York's Fifth Avenue, Taj Boston (former Ritz Carlton) and Campton Place, San Francisco.

Taj Hotels and Resorts operates in other areas of business like catering, luxury jets and apartments and travel.

TajAir- Private Luxury Jets

It operates TajAir, a luxury private jet operation with state-of-the-art Falcon 2000 aircrafts designed by Dassault Aviation of France and Taj Yachts, two 3-bedroom luxury yachts which can be used by guests in Mumbai and Kochi, in Kerala.

TajSATS - Air Catering

It also operates TajSATS, the largest airline catering service in South Asia, as a joint venture with Singapore Airport Terminal Services (SATS), a subsidiary of Singapore Airlines. It operates out of the 4 major metros in India, viz. Mumbai, Delhi, Chennai and Kolkata. Currently, TajSATS caters to over 26 international and domestic airlines, and is the leader in the Indian flight catering market.

Taj Luxury Residences

Taj Wellington Mews, Mumbai, Taj Palace Hotel Dubai and 51 Buckingham Gate London offer luxuriously furnished apartments for short visits or extended stays.

Inditravel – Travel Services

Inditravel provides total travel management solutions and was formed in 2002, post the acquisition of the 18 year old agency Stallion Travel Services Pvt. Ltd. by The Indian Hotels Company Limited.

Others

Additionally, Taj Hotels Resorts and Palaces established the Indian Institute of Hotel Management, Aurangabad in 1993. The institute offers a three-year diploma, designed with the help of international faculty and has affiliations with several American and European programme

Source: www.tajhotels.com, retrieved on August 11, 2008.

Annexure 2 The Indian Hotel Industry

Indian tourism has a share of 0.44 Percent of the global pie in terms of visitors and 0.74 share in terms of receipts. Prior to the 1980's, the Indian hotel industry was a nascent and slow growing industry and worked as an oligopoly. However, Asian games in 1982 and the subsequent partial liberalization of the Indian economy generated tourism interest in India with significant benefits accruing to the hotel and tourism sector in terms of improved demand patterns.

The slowdown since 1997 put a spanner in the works of the industry. The collapse of the South East Asian economy and the domestic political instability added fuel to the fire. In March 2001, after a gap of four years, the industry started to show signs of a revival. This growth has been due to certain external factors as follows:

Increase in foreign tourist arrivals: With the geo-political situation going good the international tourist arrivals are expected to rise further which is likely to have a positive impact on the Indian hotel industry.

Entry of MNCs into the market: With North American and European hospitality industry saturating, the avenues for growth and dominance has shifted to new geographies- Asia. The world's biggest chains planned massive expansion all over Asia, mainly in China and India.

Demand Supply mismatch getting closer: With business on the charts looking good and demand-supply mismatch getting closer the Indian hotel companies were hopeful of selling the rooms at increased rates and fresh supplies are expected to hit the market in the near future.

Strong recovery of the Indian economy: This is for the first time in close to a decade that that economic growth has exceeded the 8 per cent mark. The favorable combination of stronger consumer demand and cheaper credit will boost corporate earnings and this in turn will lead to increased private sector investment. In 2000-01, the hotel industry posted its highest growth rate in 10 years, at 18%. Demand grew on the back of the software boom during this period.

Industry Structure

The hotel industry in India can be classified on the basis of the service to the target clientele as

- Premium segment (5 star deluxe, 5 star),
- Mid-market segment (3 and 4 star hotels),
- Budget segment (2 star and below) and
- Heritage segment.

There are an estimated 95,772 rooms in India, of which around 25.82% are in premium segment, 30% in mid-market segment, 23.34% in the budget segment, 2.35% in the heritage segment and remaining 18.49% in the un-approved segment.

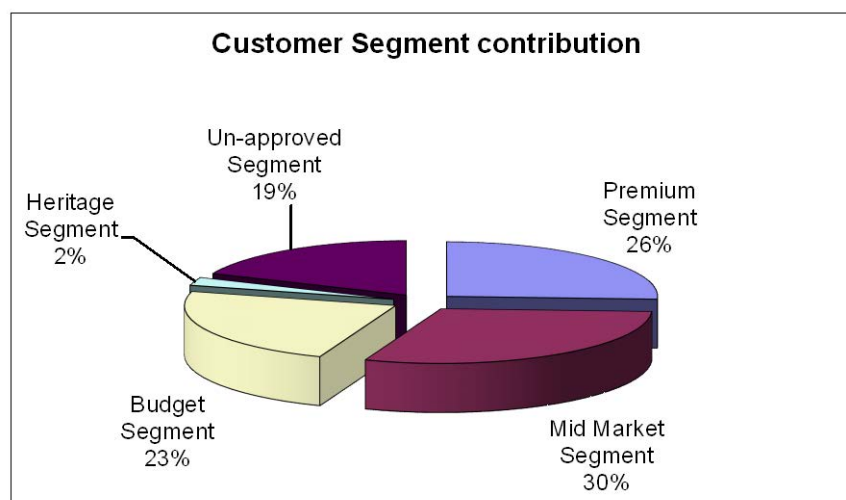


Figure: Customer segmentation

The Indian hotel industry also derives around 65% of its revenues from premium segments which has a share of just 25.82% in terms of number of rooms. The hotel industry is metro dependent as around 75% of their incomes come from the metros only. A comparison of the rates, occupancy and room supply in the metros is given below.

Comparison of the Metros in terms of Room Supply, Occupancy rates and Average Room Revenues

City	Occupancy			Average Room Revenue			Rooms occupied per day		
	2001-02	2002-03	Change	Apr-Aug 2002	Apr-Aug 2003	Change	Apr-Aug 2002	Apr-Aug 2003	Change
Bangalore	64.30%	72%	12.0%	2583	3871	49.9%	760	1080	42.1%
Chennai	56.50%	58.30%	3.2%	1704	1997	17.2%	610	810	32.8%
New Delhi	53.30%	60.40%	13.3%	1938	2304	18.9%	2365	2975	25.8%
Goa	53.60%	60.50%	12.9%	1090	1130	3.7%	425	533	25.4%
Hyderabad	68%	68.90%	1.3%	1432	1883	31.6%	645	690	7.0%
Kolkata	66.40%	65.40%	1.5%	2012	1735	13.8%	436	630	44.5%
Mumbai	52%	63.40%	21.9%	2352	2782	16.0%	1895	2680	41.4%

The major players in the Indian Hotel Industry are as follows:

- a) Indian Hotels Company (IHCL)
- b) EIH Limited (Oberois)
- c) ITC Hotels
- d) Asian Hotels
- e) Hotel Leela Venture Limited

The profile of the tourists into India constitutes

- a) Corporate travelers,
- b) Leisure travelers,
- c) Conference delegates,
- d) Airline crew and
- e) Specific interest groups, such as, religious travelers.

Till 1991-92, nearly 58% of the traffic was leisure travelers as against business travelers who constituted only 23%. Now, around 33% of the tourists comprise business travelers, and, therefore, are not price sensitive. Leisure travelers are seasonal in nature and sensitive to political and social upheavals. Normally, the arrivals would be more in the months of October-March. Business arrivals are not seasonal.

Demand in the Indian Hotel Industry is primarily derived from tourism and business activities. Thus, the key driving forces vital for demand creation in this industry is the rise in tourism, a sustainable economic and industrial growth and the domestic tourists.

Future Outlook

Due to the combined effect of waning demand, economy slowdown and increased supply of hotel rooms companies in the hotel industry witnessed falling revenues and margins in the late 1990s and early 2000. However the Indian hotel industry started 2003 on a positive note due to continuously growing economy. In addition to that there were huge inflow of tourist inflows and outsourcing boom resulting increased occupancy rates. During FY03, there was a substantial increase in the international tourist arrivals (15%) and domestic travel.

1. According to the World Tourism Organisation (WTO), international tourist influx in India is expected to grow at CAGR of 6.5%, which means an increase in the tourist arrivals from the present 2.75 million to 6 million in 2010, and 10million by 2020. This will make the Indian tourism industry fastest growing, second only to China. To cater to this huge demand, the hotel room base of the country would need to increase from the present 95,722 to 130,000, indicative of the growth potential of this industry. In the context of this potential, **India is vastly under-roomed** even in comparison with its much smaller neighbours in East Asia. The above mentioned is going to have a positive effect on the Indian hotel industry.
2. The recent growth witnessed in the hotel industry has **encouraged the international hotel chains** to expand their presence in India. With the aggressive entry of foreign hotel chains into India, **franchising arrangements** are becoming increasingly popular route to expansion as opposed to ownership of properties. Brand positioning, international networks, aggressive marketing and superior service will be critical for the industry.
3. Globally, leisure is seen to be growing industry. Stable socio-political and economic conditions, coupled with an improvement in infrastructure facilities (like roads and airports), will **improve the sentiments of the tourists towards India**. If the above conditions are met, tourist arrivals can increase substantially from the present levels. In such a situation, there will be a surge in demand for rooms in tourist destinations.

Source: Cygnus Economic and Business Research, "Industry Insight – Indian Hotels", February 2004, www.cygnusindia.com, retrieved on March 2, 2005.