



Eight hotels in New Delhi offer five-star deluxe service at a three-star price, thanks to a relatively favorable operating environment. Here is an analysis of the operations at the top of the New Delhi market

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THE LUXURY hotel segment of the New Delhi market is well developed, with eight hotels offering more than 3,350 rooms. Although they are comparable operationally to luxury hotels in other countries, these five-star deluxe hotels offer travelers a considerable bargain. This article profiles these luxury hotels.

Such hotels as the Oberoi and the Ashoka have been in operation for 20 years or more, but in recent years the market for five-star deluxe hotels in New Delhi has become crowded. The initial impetus for the construction of additional luxury hotels in New Delhi was the Asian Games held in 1982. In interviews with us, Jawahar Ghadiok,

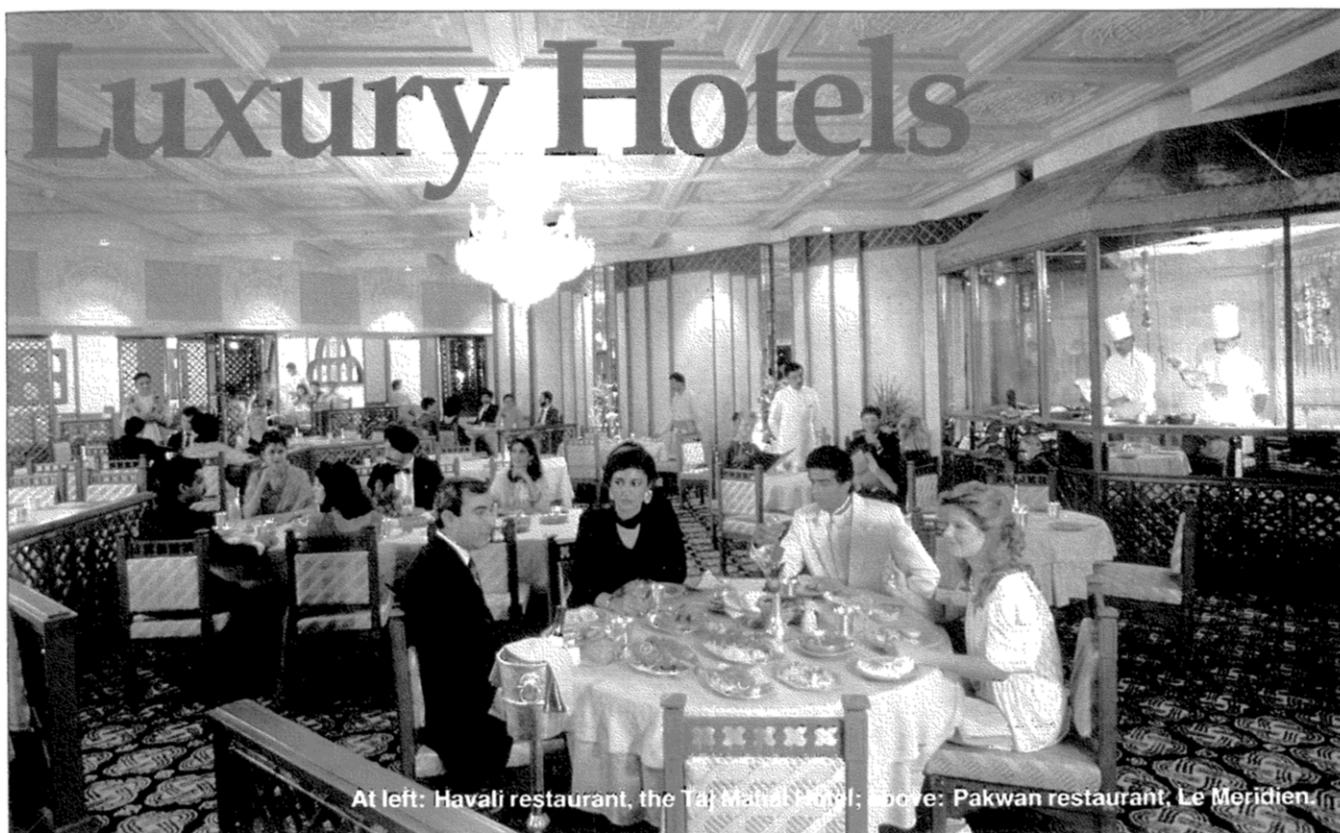
general manager of the Ashoka hotel, and Major Rehman, general manager of the Maurya Sheraton, explained that government policy and economic development have encouraged luxury hotels' growth since that time.

The chief spur to growth has been the measures undertaken by the Rajiv Gandhi government to liberalize the treatment of hotels. Incentives given the hotel industry have helped stimulate rapid growth in construction. These changes, explained in the accompanying article, include reduction of duties on equipment imported for new hotels and favorable tax treatment for hotel profits.

Second, India's political leadership in the non-aligned movement and other global involvements have led to increased international activ-

ity. As a result, there are more foreign embassies and delegations (both political and business) traveling to New Delhi than ever before. At the same time, India is becoming a popular tourist and convention destination for people from all over the world. New Delhi has also evolved from a city dominated by the government bureaucracy to one that is equally well known as an industrial city. Many of these international travelers, business people, and political attachés prefer to stay at luxury hotels. The exchange rate in India makes it possible to stay at luxury hotels for relatively reasonable rates.

Facilities. The characteristics of New Delhi's eight luxury hotels are shown in Exhibit I. All eight are owned by Indian principals, although some have franchise or



At left: Havali restaurant, the Taj Mahal Hotel; above: Pakwan restaurant, Le Meridien.

EXHIBIT 1

New Delhi's great eight

Hotel	Number of rooms/ Single rate (US\$)	F&B Facilities	Conference Facilities	Other Facilities	Ownership
Ashoka	576/\$83	5 Restaurants; Bar; 24-hour coffee shop; 350-seat banquets	Convention hall (seats 2,500); 6 Conference rooms (seat 50 to 300)	Mini-golf course; Tennis court; Secretarial service	Indian Tourism Development Corporation (ITDC)
Holiday Inn	500/\$97	4 Restaurants; 2 Bars; Pool café; Pastry shop	Ballroom (seats 700); 6 Function rooms (seat 30 to 250)	Non-smoking floor; Discotheque; Business center	Bharat Hotels Ltd.
Hyatt Regency	535/\$97	4 Restaurants; Bar; 24-hour coffee shop; Snack bar	Banquet hall (seats 1,050); 7 Conference rooms (seat 500 to 1,300)	Discotheque; Regency Club; Computerized guest-services center	Asian Hotels
Le Meridien	375/\$110	4 Restaurants; 2 Bars; 24-hour coffee shop; 2 Snack bars	Banquet hall (seats 525); 4 Conference rooms (seat 300 to 1,200)	Discotheque; Business center; Health club; Atrium lobby	Pure Drinks Ltd.
Maurya Sheraton	500/\$97	4 Restaurants; Bar; Ice-cream parlor; 24-hour coffee shop	Banquet hall (seats 800); Conference room (seats 70)	Discotheque; Business center; Sheraton Towers; Executive club	Indian Tobacco Company Ltd.
Oberoi	288/\$120	4 Restaurants; Bar; 24-hour coffee shop	8 Conference rooms (seat up to 500)	24-hour butler service; 24-hour executive center	East India Hotels Ltd.
Taj Mahal	300/\$103	4 Restaurants; 2 Bars; Snack bar; 24-hour coffee shop	5 Conference rooms (seat 25 to 600)	Discotheque; Executive club; Car rental	Indian Hotels Company Ltd.
Taj Palace Inter-Continental	431/\$92	3 Restaurants; Bar; 24-hour coffee shop	8 Meeting rooms (seat up to 1,600)	24-hour valet service; Sauna and health club; Business center	Indian Hotels Company Ltd.

Sources: *New Delhi Hotel Handbook*, 1989; individual hotel brochures. Rates quoted are European plan.

EXHIBIT 2

Financial ratios for selected hotels

Hotel	Date of Construction	Constr. Costs/Room*	F&B Rev.: Rooms Rev.	Labor Costs/ Total Rev.	F&B Costs/ F&B Rev.	G.O.P./ Total Rev.
Ashoka	1956	\$ 3,234	53:47	35%	34%	31%
Hyatt Regency	1983	53,333	40:60	N.A.	32%	43%
Maurya Sheraton	1977	26,667	45:55	20%	28%	40%
Oberoi	1965	8,571	39:61	40%	35%	42%
Taj Mahal	1978	66,667	45:55	20%	32%	46%

N.A. — Not Available

*Does not include the cost of land.

management agreements with international hotel companies. "The facilities and services offered by the luxury hotels of New Delhi are world-class," said Rajiv Kaul, general manager of the Oberoi. "But we can provide these facilities at room rates 30 to 50 percent lower than luxury hotels in other major cities around the world due to lower operating costs." New Delhi's hotel operators view their lower costs as a competitive advantage for attracting the discriminating international traveler, who would find that the city's hotels are a bargain.

Financial Factors

As one might expect, the cost of constructing a hotel in New Delhi has grown considerably in the past two decades. On a per-room basis, the Hyatt Regency was more than six times as expensive to build as the Oberoi, which was completed 18 years earlier. The Taj Mahal hotel, constructed in 1978, is an anomaly. Although it was built virtually at the same time as the Maurya Sheraton, it cost almost three times as much per room. The additional expense resulted from the Taj Group's focus on the revival of extinct Indian arts and crafts. This hotel is a living showpiece of the nation's arts, crafts, and traditions. Nevertheless, compared to a luxury hotel in the U.S., which might cost \$150,000 per room to build, the Taj Mahal (at \$66,667 per room, excluding land) was not overwhelmingly expensive.

Sales mix. The mix of F&B revenue to rooms revenue varies greatly among the five hotels for which we have figures, but with the exception of the Oberoi, New Delhi's hotels generally have a higher F&B component than luxury hotels in the U.S.¹ The average for the five hotels is 44 percent F&B to 56 percent rooms revenue. By comparison, the average U.S. hotel's ratio is 40 to 60. Functioning almost as freestanding restaurants, Indian hotel outlets have strong local patronage in addition to their in-house sales. The hotels' food outlets benefit from the fact that New Delhi has fewer freestanding restaurants than the typical major U.S. city.

Labor costs. India's labor costs are low, so the amount of service offered for the price is high. For US\$120, the Oberoi offers 24-hour butler service, but still it enjoys a labor cost that is lower than most U.S. luxury hotels. The Ashoka Hotel, which has a loyal staff composed of long-time employees, maintains a ratio of 2.6 employees per room.

F&B costs. On average, New Delhi hotels' food costs are just over three percent higher than the typical U.S. luxury hotel. Although labor costs are substantially lower, the hotels must pay high taxes on alcohol and other "luxury" items sold on the premises.

GOP. The average New Delhi luxury hotel has a gross operating profit of 40.4 percent, which is

¹U.S. averages from Laventhol & Horwath.

more than half again that of the average U.S. luxury hotel. This result is due to a combination of higher overall occupancies, higher F&B revenues, and lower labor costs.

Personnel

Human-resources management has become a priority area for the Indian hotel industry. While there is an abundance of inexpensive labor for entry-level jobs (e.g., dishwasher), the hotels have difficulty finding competent semi-skilled employees for middle-level positions. Said Divya Chavda, a vice president of the Taj Group, "There is a tremendous shortage of trained staff, both at the craft level and the managerial level." New hotels often recruit managerial staff from other hotels. There is no pool of skilled managerial labor for hotels to hire from, and the management-employee shortage is expected to worsen as new hotels enter the market.

Training programs. Not surprisingly, all of the major hotel companies have their own management-training programs. Initially developed for business managers, these programs have expanded to incorporate training for chefs, housekeepers, and sales and marketing people, among others.

Ticket to ride. Local competitors are not the only contenders for these trained employees. Vijai Kapur, director of development for Oberoi Hotels, explained that the company loses much of its trained staff to overseas hotels, because salaries and benefits offered by the hotel industry in India are below the levels offered in other countries. Yet, in comparison to other service workers in India, hotel employees are paid quite well.

The Welcomgroup chain operates a hotel-management school that has two divisions. One deals with management, kitchen operation, marketing, and other specific

training for individual hotels. The other division is a degree-granting college for graduate students. Furthermore, the Maurya Sheraton (Welcomgroup's New Delhi property) has an in-house training team comprising two managers and four levels of supervisors. This group conducts continuous training programs for new and continuing employees, supervisors, and managers.

The Ashoka hotel, part of the government-owned ITDC chain, also runs its own training school for all levels of employees. The management-training program includes one year of classroom education followed by one year of on-the-job training in different departments. The trainees are promoted to assistant manager when they complete their training program.

Catering institutes. India has 12 institutes of hotel catering, management, and nutrition, which offer a three-year undergraduate diploma program. Two of these institutes offer specialized 18-month courses in management or production that are complemented by six months in training. Most of the hotels hire graduates from these institutes for supervisory, training, and some managerial positions. The country also has 12 Foodcraft Institutions that train large numbers of workers in such areas as cooking, housekeeping, and bookkeeping.

Marketing Strategies

As we indicated at the beginning of this article, India's luxury hotels promote a strong product with personalized service at much lower rates than most other international hotels. This unique position is emphasized by New Delhi's luxury hotels in their advertising and promotions around the world. Most of these hotels have positioned themselves as a "business person's"

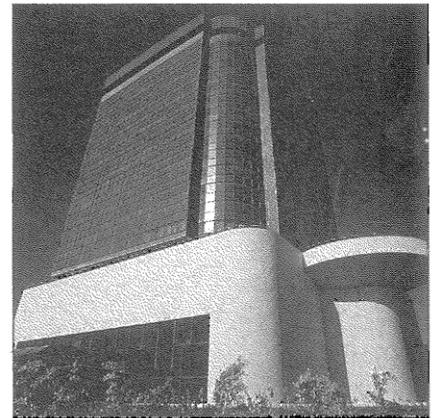


The Maurya Sheraton, part of the Welcomgroup chain, contributes 500 deluxe rooms and suites to New Delhi's lodging supply.

hotel—a position that is justified by an average of 72 percent of their clientele staying in the hotel on business or for work-related purposes. Moreover, these hotels have a substantial proportion of international guests.

Price. Although the New Delhi luxury hotels as a group are less expensive than hotels in other locations, each pursues a slightly different pricing policy. The Taj Mahal hotel, for instance, maintains a top-of-the-market position of price leadership. To maintain its exclusive image, the hotel takes no airline crews or large groups and gives no discounts. Sales manager Deepa Misra explained that the Taj Mahal's philosophy is to price its product reasonably and get every client to pay full rate. As often happens in a crowded market, however, the Taj Group tried discounting in the summer of 1989 to boost off-peak occupancies. The Taj is offering a package vacation that gives room discounts of up to 15 percent in peak season and 25 percent in off-season.

The Maurya Sheraton has differentiated its product within the hotel complex. It offers three different prices for three different facilities, the main hotel, the



Le Meridien

Maurya Sheraton Towers, and the Executive Club. During the off-season, the hotel offers volume discounts to encourage business groups, travel agents, airlines, and domestic corporations to purchase rooms.

Distribution. All eight hotels rely heavily on such distribution channels as travel agents and reservations systems. The Hyatt Regency, for instance, gets a fair number of bookings from the world-wide service offices and Hyatt International network. To encourage travel agents to book the property, the hotel offers a commission incentive for every booking. The Hyatt also offers a commission to airlines that bring passengers to the hotel.

Indian hotel restaurants have strong local patronage in addition to in-house sales.

The Taj's popular Chinese restaurant, the House of Ming (right), serves authentic Szechwan food on Ming porcelain.

There is no flatware in evidence in the Maurya's Indian restaurant, the Bukhara (bottom left). Diners don large bibs provided by the establishment and eat with their fingers.

Valentino's, at the Hyatt (bottom right), offers fine Italian cuisine in an elegant setting.



The Taj Group's international marketing effort includes internal departments that generate business, travel agents abroad that bring in F.I.T. business, and booking agencies like Utell and HRI. Although it is a member of Leading Hotels of the World, the Taj Mahal doesn't receive a substantial number of reservations from this source. It does, however, receive considerable business from the Taj Hotel Group's reservation system, which is tied into the Inter-Continental system and features some of the world's top luxury properties.

The Maurya Sheraton receives about 20 percent of its reservations from the Sheraton network. The hotel deals with domestic commercial trade organizations to get the business of visitors from collaborat-

ing overseas agencies. The Maurya's marketing manager, Ajay Mehra, said that the hotel promotes itself to business leaders and is aggressive about following up every possible lead.

Primarily a foreign business traveler's hotel, the Oberoi has international offices that conduct direct sales programs aimed at various international organizations. The Oberoi also participates in various fairs targeted to the incentive and corporate-travel markets. Domestically, the Oberoi uses personal sales calls to convince corporate travelers and Indian companies with foreign partners to use its hotel.

Benefiting from its government connection, the Ashoka is involved in a promotional arrangement with the Indian Tourist Office and Air

India in New York. The promotion includes special advertising supplements in such magazines as *Newsweek* and *Institutional Investor*, coupled with public-relations efforts to increase awareness and improve the image of India as a destination.

The luxury hotels of New Delhi benefit greatly from their location in India's capital city. But the measure of any great hotel is that guests will return because their stay at the hotel was a good one, and not merely because of its location. We believe the service standards of the deluxe hotels of New Delhi place them in the world-executive class. As word spreads that these hotels offer top service levels at mid-range prices, their business will grow and they will prosper. □