

# Tourism in India: Growth and Opportunity

**India presents a great window of opportunity for hotel operators seeking to expand into Asia. Although the government wants to encourage tourism, the challenges of operating hotels in India can still be daunting for an international hotel company. Here are the opportunities, the challenges, and some advice**

by **Chekitan S. Dev**  
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INDIA IS an amazingly diverse, interesting country. No other country in the world offers a wider variety of sights, landscapes, cultures, or customs. India's famous attractions include the Taj Mahal, the carved temples of Khajuraho, the beaches of Goa, white-water rafting on the Ganges, and trekking in the Himalayas.

India offers tourists another considerable attraction—namely, favorable exchange rates. A trip to India is far less expensive than one to many other destinations. American travelers, for instance, can get a luxury hotel room for \$100, a two-mile taxi ride for under \$1, and dinner for two at a mid-scale restaurant for \$6. Consequently, a 15-

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day package tour to India (at \$3,000, including accommodation, air fare, domestic transportation, etc.) represents an excellent value.

India's diversity has long attracted tourists to the country. India's tourist authorities are predicting that the next decade will be one of great growth. International arrivals have grown substantially in the past few years. Between 1984 and 1988, international tourism to India grew 48 percent, topping 1.2 million arrivals. The government's target for 1990 is 1.5 million international tourists, and three million

tourists are expected by the turn of the century. In this article, we will explain the opportunities and challenges facing hotel operators in India and offer some suggestions for international companies looking to establish operations there.

## Relaxation

Acknowledging the importance of tourism as a means of earning hard currency, the Indian government has recognized the nation's tourism establishment as an industry. Such official recognition makes hotel operators eligible for financial incen-

**EXHIBIT 1**  
**Foreign visitors to India**

1987 Rank	Country of Origin	Arrivals 1986	Arrivals 1987	Change	% Change
1	U.K.	160,685	166,590	5,905	3.70
2	U.S.A.	125,364	134,876	9,512	7.60
3	Sri Lanka	75,631	74,351	-1,280	-1.70
4	West Germany	61,397	70,697	9,300	15.10
5	France	65,948	64,432	-1,516	-2.30
6	Japan	36,402	46,240	9,838	27.00
7	Italy	38,548	41,151	2,603	6.80
8	Canada	39,837	37,677	-2,160	-5.40
9	Australia	33,264	32,883	-381	-1.10
10	United Arab Emirates	28,084	31,180	3,096	11.00

Source: Department of Tourism, Government of India



The Taj Group's Taj Mahal Hotel in New Delhi—a showpiece of the nation's arts, crafts, and traditions—was built for less than half the cost of a luxury property in the United States. The modest cost of building materials and labor in India compensated for the expense of securing the authentic artwork that graces the property.

tives from national and state government agencies. With the potential tourist market for India having barely been scratched, the government is now taking a proactive approach to increasing tourism. Some of the steps taken by the government to encourage the tourism industry include the following: allowing foreign-flag airlines to operate charter flights to six Indian locations, granting permission to the industry to import luxury coaches and cars, and establishing a permanent subcommittee for tourism to monitor the effects of government policy and the industry's performance. Foreign hotel operators are now allowed to hold substantial equity in their ventures in India, and the government is providing low interest rates and tax concessions for hotel investors.<sup>1</sup>

The government's motivation, of course, is tourism's potential for remedying India's continuing trade imbalance. By one estimate, the country's hard-currency income derived from tourism will increase from its current level of \$1.267 billion to \$3.33 billion in the next ten

<sup>1</sup>Sudeep Chakravarti, "Tourism: Rolling Out the Carpet," *Sunday India*, December 25, 1988, p. 44.

years.<sup>2</sup> Moreover, in the view of Ravi Dubey, general manager of the Taj Mahal hotel, New Delhi, no other sector can have such a pronounced effect on the Indian economy with such a relatively low investment.

**Visitors.** The number of tourists from the United States is growing rapidly, and American tourists now constitute the second largest group of foreign visitors to India, following those from the United Kingdom (as shown in Exhibit 1). India should continue to be attractive to travelers from these two countries if only because there is no language barrier.

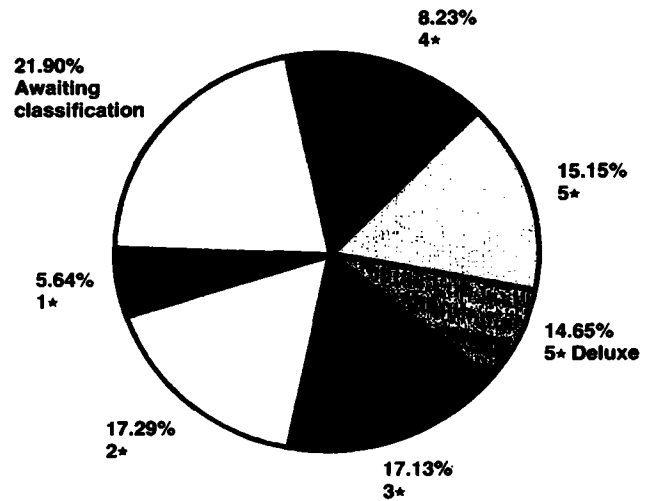
The number of arrivals doesn't tell the entire story of Indian tourism, however, due to the relatively long duration of stay in India. While the level of tourist arrivals in India (1.08 million) is less than half that of Singapore (2.19 million), the length of stay in India is 29.7 days, versus just 3.5 days in Singapore. Consequently, India's tourism receipts in 1987 were \$1.390 billion (US), compared to \$1.842 billion for Singapore.<sup>3</sup>

<sup>2</sup>Chakravarti, p. 45.

<sup>3</sup>India Department of Tourism figures.

## EXHIBIT 2

### Distribution of hotel rooms in India (1988)



Source: Department of Tourism, Government of India

The Department of Tourism reports that most visitors come for sight-seeing (62 percent), followed by those traveling on business (19 percent) and those meeting friends and relatives (10 percent). Tourism officials are working to foster growth in three tourism areas—the potentially large market of adventure-related tourism (mountain climbing, white-water rafting), culturally based tourism (visits to temples), and convention and conference travel. The high season for foreign visitors runs from October to February.

### The Industry

Large chains are major players in India's hotel industry. Of 534 known properties at the end of 1987, the government-owned Indian Tourism Development Corporation (ITDC) operated 42 hotels, the Taj Group had 21 hotels, the Oberoi Group had 13 properties, and Welcomgroup operated 20 hotels. Some of the hotel companies have ties with international companies that provide operating and marketing assistance.

India has a substantial number of world-class hotel rooms. Nearly

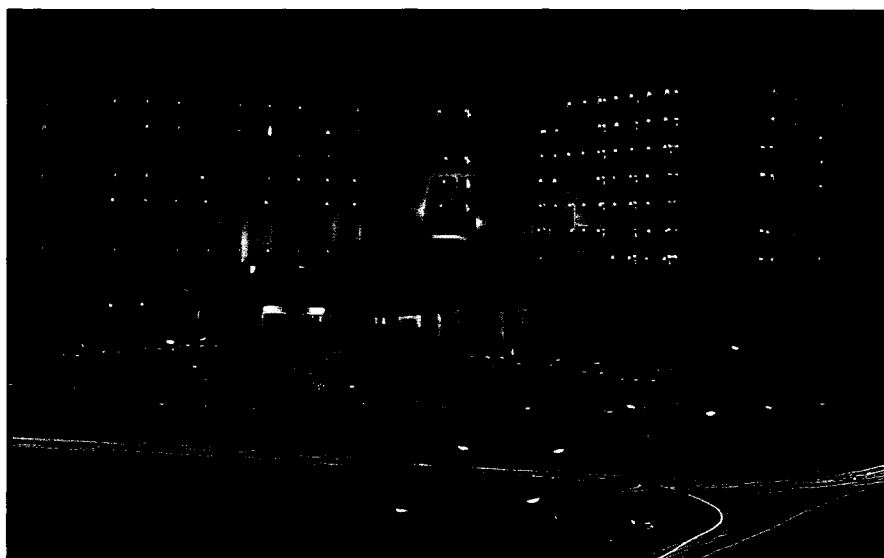
30 percent of the rooms supply is five-star or five-star deluxe, as shown in Exhibit 2. More than a third of the hotel rooms are rated two- or three-star, but travelers from the west would find many of these rooms to be inconsistent at best and of poor quality at worst.

Considering the inconsistent quality of the middle-level hotel rooms, the Taj Group operators expect that 59,000 hotel rooms will be needed, compared to an existing supply of 34,574. Half of the total room supply is located in four major cities: Bombay, Calcutta, Delhi, and Madras. State capitals and smaller towns of tourist and business interest face a shortage of hotel rooms. In general, there is a need for quality accommodations that are clean and comfortable and cater to the price-conscious traveler.

### Expansion and Extension

Indian hotel operators are ready to expand, often in partnership with international interests. In addition to engaging in joint ventures, the hotel companies in India are expanding via product extension. Most of the luxury chains are extending their product lines downward to cater to different segments of the traveling market. Most operators are aiming at the window of opportunity in the middle of the hotel market. Frederick Mosser, senior vice president of development for Quality International, recently noted that India is like many developing countries that have plentiful supply at the top and bottom of the market but lack a network of mid-scale hotels.

**Through the window.** Most major hotel companies plan rapid expansion into the middle market. The Taj Group has set up a new company called Gateway Hotels and Resorts to build 100 economy-class hotels in the large cities, tourist centers, and state capitals. These



**The New Delhi Hyatt Regency, a joint venture between Hyatt International and Asian Hotels, is operated by Hyatt managers according to Hyatt's standards.**

hotels will have approximately 50 guest rooms, one F&B outlet, and, most important, clean bedrooms and facilities. These properties are aimed at economy-class tourists and commercial travelers (both domestic and foreign).

Oberoi has agreed with Accor's Novotel chain to build 35 to 40 three-star hotels in all the state capitals and other towns of business and tourist interest. Oberoi's director of development, Vijai Kapur, explained that Novotel's expertise with economy hotels in developing countries will be the key for a successful launch of this venture in India. These hotels will have about 125 rooms and one F&B facility. Projected rooms rates are (US)\$30 to \$40 per night. The main target is the "commercial traveler who wants a clean, cheap, efficient place," Kapur said.

The government's ITDC is currently an exception to the expansion plans. ITDC already operates three-, four-, and five-star hotels throughout the country. In New Delhi, for instance, ITDC operates the Ashok Yatri Niwas, a budget hotel with 558 rooms that go for between \$8 and \$13. Its occupancy level averages in the 90s all year.

### Joint Ventures

The importance of international companies in India has grown considerably in recent years. As shown in Exhibit 3, several international hotel operators have signed contracts with domestic companies, not all of which are hotel firms. In addition to the joint ventures listed in Exhibit 3, Hyatt International recently signed a contract for its second hotel in India (in Bombay), and Hilton International is looking at various cities for potential hotel sites. Anup Israni, director of sales and marketing for New Delhi's Hyatt Regency, summed up the situation as follows: "You've got investors here who are willing to put up hotels. They need the expertise of well-established international hotel companies."

The format of international collaborations has evolved over the past 25 years. In 1965, the government limited Oberoi to entering into a technical-services agreement with Inter-Continental. Since then, franchise agreements have been allowed (e.g., with Sheraton). Management contracts, including those providing for controlling foreign equity positions, have recently been permitted. Consequently,

### EXHIBIT 3

#### International hotel ties in India

Segment	Local Operator	International Affiliation
<b>LUXURY HOTELS</b>		
Maurya Sheraton	Welcomgroup	Sheraton Hotels, U. S. A.
Taj Palace Intercontinental	Indian Hotels (Taj)	Inter-Continental Hotels, Japan
Hyatt Regency	Asian Hotels	Hyatt International, U. S. A.
Holiday Inn Connaught Plaza	Bharat Hotels	Holiday Inn International, U.K.
Le Meridien	Pure Drinks	Meridien Hotels, France
<b>ECONOMY HOTELS</b>		
Novotel	East India Hotels (Oberoi)	Groupe Accor, France
Mahindra Days	Mahindra Ugine Steel	Days Inns of America, U. S. A.
Quality	Quality Inns India	Quality International, U. S. A.
<b>RESORTS</b>		
	Indian Hotels (Taj)	Club Med, France

joint ventures now take several forms in India, including franchises, management contracts, and technical agreements. Hyatt International, for instance, has a management contract with Asian Hotels that gives Hyatt three percent of total revenue. Hyatt supplies the top management for the hotel, which is operated according to Hyatt's standards. In return, Asian Hotels receives a reasonable number of bookings from Hyatt's reservation system. In the agreement between Oberoi and Accor, Novotel will participate in project equity and provide systems, building plans, and the like, while Oberoi will be responsible for management.

**Training.** India's tourism department and hoteliers have already started developing human-resources programs to meet the inevitable need for additional workers. The Taj Group is setting up a college in Bombay to be staffed by overseas instructors.

The Department of Tourism has started post-graduate programs at the country's catering institutes. The curricula of these three-year diploma programs are periodically revised. This year, a revised version of the craft curriculum is being introduced. The department

expects to spend \$50 million on education over the next five years. Moreover, a new body, the National Council for Hotel Management and Catering Technology, has been set up to coordinate the activities of the different educational institutions and to maintain the quality and standards of training and education. The council plans to increase the capacity and number of craft and management institutes, introduce more post-graduate management programs, and set up an institute based on the model of the Culinary Institute of America.<sup>4</sup>

#### Opportunities

As we have already stated, the opportunities for international hotel companies investing in India are many. The market is expanding, there is a dearth of good-quality, economy hotel rooms in many tourist-oriented cities, and many restrictive regulations have been eased. Moreover, India is one of the few developing countries where most of the required equipment and supplies for hotel construction and operation are available locally at reasonable prices.

**Incentives.** In addition to permitting foreign equity of up to 50

<sup>4</sup>Background Note on Human-Resource Development for the Hotel and Catering Industry, Department of Tourism, 1988.

percent in current hotel deals, the government offers considerable incentives for constructing hotels. Operators in relatively undeveloped markets can shelter 20 percent of their profits from taxes for ten years. Hotels qualify for attractive depreciation write-offs in the first year of 50 percent of the plant and large machinery and 100 percent of equipment and machinery items costing less than \$400. Some states have created additional incentives to attract hotel growth, including subsidies, reduced financing rates, and state tax relief. Finally, all foreign-exchange earnings are tax exempt, if they are reinvested in the tourism sector.<sup>5</sup>

#### Drawbacks

India is a challenging operating environment. Hotel managers must deal with power shortages, maintenance problems in some markets arising from heat and dust, an overloaded communications network, and touchy labor-management relationships. Skilled managers and workers are in short supply. Although they have been eased considerably, government regulations are still a factor in any hotel development. Approval on 35 licenses is required to start a hotel project!<sup>6</sup>

India's transportation network is inadequate to handle the demand. Trains are overcrowded, airplane seats are hard to find (domestic air service is poor), and the highway system is in a state of disrepair. As explained by Lalit Nirula, president of the Northern India Hotel and Restaurant Association, the government allows importation of luxury motorcoaches, that staple of the tour business, only on a limited

<sup>5</sup>Har Govind, "Favorable Tax-Law Changes Make India a Profitable Site for Hotel Development," *Hotels and Restaurants International*, March 1987, p. 19.

<sup>6</sup>Pesi M. Shaw, in: "Measuring Social and Economic Impact," *Times of India*, Travel Supplement, November 28, 1988, p. 2.

basis. To build coaches, domestic manufacturers are mounting a customized body on a chassis designed for a ten-ton truck. Intended for 100 to 120 passengers, these vehicles can only handle 40 or 50 persons. They have navigation, comfort, and fuel-economy problems. Concludes Nirula, "Our coaches are worse than those of Cairo, where they also must import."

**Duties.** A moment ago, we stated that much of the equipment needed to start a hotel is readily available in India. Unfortunately, that does not apply to all equipment, and anything brought into the country faces stiff duties of 40 to 120 percent. Nirula outlined the duty rules as follows: equipment imports for new hotel projects are subject to the reduced 40-percent duty, but existing hotels must pay the full duty of 110 to 120 percent for needed equipment. A Jet Spray that would cost under \$900 in the U.S., for instance, ends up costing \$2,000 delivered in India. Such items as high-speed elevators, dishwashers, and convection ovens and other food-processing equipment are either in extremely short supply, or the local products are not of sufficient quality. India produces just three to four commercial dishwashers each year and eight to ten revolving ovens. Nirula is hopeful that a proposed collaboration with European manufacturers will improve both the quality and supply of this equipment.

**Real estate.** Land is expensive in the metropolitan cities and even in the smaller cities. Real-estate costs could be as high as 20 to 25 percent of the project total. Moreover, it is difficult to get a good location in major cities, and land use is often restricted by zoning laws.

### How to Proceed

On balance, we believe India's opportunities far outweigh its drawbacks. The key for any interna-

tional operator is to make a careful selection of a domestic partner. As Lalit Nirula so artfully put it, "India is not a usual country to operate in." Linking up with a domestic organization that has an established track record is almost a necessity. The ideal partner should have a track record that shows it can deal with the many issues involved in operating a hotel in India.

It is important, however, that the cultures of the two partners can mesh comfortably. For international companies, the culture of Indian hotel operators may come as a surprise. Some companies, particularly those that have been in business for a long time, have developed particular ways of getting things done that may be out of sync with the realities of their operating environment. Collaboration with a company whose managers have such an entrenched management style may not be wise.

It remains to be seen whether the marriage of Novotel and Oberoi will be successful, in view of the apparent mismatch of cultures between the two partners. Oberoi is in the business of managing luxury properties. Novotel, on the other hand, is well known for its economy-hotel operation. At this writing, it appears that this potential problem will be avoided by Oberoi's creation of a separate company for its economy chain.

**Linch pin.** A promising way to mesh two companies, particularly when one is not a hotel firm, is with a "linch pin," an individual who has experience in both cultures. The head of Mahindra-Days, the new firm created for the joint venture of Days Inns of America and Mahindra Ugin Steel, is Venkat Chandrasekar, a hotel management expert who has received education and experience in both India and the U.S. Chandrasekar combines an understanding of the Indian environment and the American ap-

proach to hotel management. In another case, Quality International awarded its master franchise for India to a senior executive with considerable experience in the hotel industry. This individual's son and associate has been educated in the U.S., so between them this pair has knowledge of two cultures. These may be exceptional examples, but the point remains that principals in the joint venture must have some appreciation for the cultures of both partners.

**Pre-opening.** Not surprisingly, the pre-opening phase of development should be scheduled to meet local conditions. The executive team should be in place and on site at least a year prior to opening. In some instances, it may be necessary to hire a substantial portion of key employees about six months prior to opening. The early hiring date is a result of the need to train or retrain these workers to meet new operating standards.

Despite the many drawbacks, this seems to be a favorable time to invest in hotel operation in India. Demand is expected to grow in all segments, and the middle market particularly offers great opportunity. The government has relaxed many of the barriers to hotel operation, and, indeed, has created incentives for hotel operators. At the same time, the government is making a concerted effort to increase both domestic and foreign tourism. Government tourist offices are being opened in different parts of the world. With improvements in infrastructure, the government is hoping to encourage tourism and hotel growth in small towns and to entice tourists away from the traditional locations—particularly the "golden triangle" of Delhi-Agra-Jaipur. We conclude that an international operator with the proper domestic partner should see strong profits in India for many years to come. □