

Hospitality Industry: a Key Revenue Generator to Indian Economy as a Part of Tourism Industry



Management

KEYWORDS: Hospitality- Industry, Occupancy-Rate, Demand & Supply, Hotel- Classification

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ABSTRACT

Hotel Industry is one of the important component of tourism industry. The definition of tourism industry can't be completed without mentioning the presence of a hotel. A hotel is a place which provide a space to stay , some food & beverages to eat and drink , and some facilities to enjoy . Hotel industry is playing a vital role in earning millions of dollars from foreigners and thus contributing towards revenue generation and increasing employment opportunities to the host community. Present paper highlights the significance of hotel industry in Indian economy, their demand and supply scenario ,various challenges before hotel Industry and Government efforts to remove the problem associated with this industry. To obtain all said objectives data has been gathered through secondary sources specially with the help of books, magazines, e-journals, and websites . After analyzing all the facts it may be concluded that the Indian Hospitality sector is expected to show a healthy growth in the coming years. Strong economic growth, increased FDI, greater emphasis on tourism development, favorable Government policies, impending 2010 Commonwealth games, 2011 Cricket World Cup and other international events, have proved as a major drivers for the growth of this sector.

INTRODUCTION:-HOSPITALITY INDUSTRY AS A KEY REVENUE GENERATOR

Hotel Industry is witnessing continued momentum due to the increased number of foreign tourist arrivals together with the growth of domestic tourism in the country. The Indian Hospitality industry contributes around 2.2 percent of India's GDP. The Industry is expected to reach INR 230 billion growing at a compound growth rate of 12.2 percent. The Industry also witnessed an increase in the number of hotel rooms with a growth 5% during the last three to four years. In the next two years, a total investment of US\$12.2 billion (INR545.2 billion) is expected that will add over 20 new international brands in the hospitality sector. To attract budget tourist in india government is planning to develop budget hotels in the country. In this series various budget category hotels like Ginger Hotels, Lemon Tree Hotels, Sarovar Hotels, and Fortune hotels have been established.

The growth of the Hotel Industry is largely due to the rising business opportunities, strong economic performance and cross border investments. India has currently base of 110,000 hotels rooms and still face the shortage of 150,000 rooms. There is a mismatch between demand and supply, leading to higher occupancies and average room rates. Occupancy rates across India have improved from 52 percent in 2005 to 67 percent in 2009-2010. Average Room Rates across cities have improved from USD 51.6 to USD 76.4 in the same period. Over the years the demand for the five stars- deluxe hotels have been increasing.

OBJECTIVES OF THE STUDY

To analyze all the relevant facts related to hotel industry certain objectives has been laid down which are as follows:-

1. To study the growth of visitors and increasing demand of rooms and beds.
2. To explore the demand & Supply scenario of hotels in India.
3. To know the role of hotel- industry in revenue generation
4. To find out the challenges before hotel-industry.

RESEARCH METHODOLOGY

Research methodology is partly descriptive, partly exploratory and partly casual .For this study data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, UNWTO Report, Report of Ministry of Tourism, Report of World Travel and Tourism Council.

ANALYSIS AND DISCUSSION

Hospitality industry in India is gradually gaining importance as employment provider industry and attracting thousands of young people to be a part of this glamorous industry . To tap the potential of this industry as a foreign exchange earner Indian Government is launching various mega-projects in different states of India to improve the infrastructure, in order to attract

millions of international tourist. Further government of India is granting various rebates and tax exemptions to various foreign and private investors to invest in developing numerous private hotels and restaurant in India.

As Tourism Industry is flourishing day by day the importance of hotel term in tourism literature is increasing simultaneously and the need for more and more hotel's room and hotel's chain is taking place to meet the required demand of beds for national and international tourists. The arising demand for hotels and rooms is clear from the following table.

TABLE- 1: DEMAND FOR HOTELS AND ROOMS WITH THEIR CLASSIFICATION (2010)

Star Category	No. of Hotels	No. of Rooms
5-Star Deluxe	82	18764
5-Star Superior	92	11332
5-Star	132	9401
4-Star	132	9401
3-Star	704	31039
2-Star	587	19031
1-Star	212	695
Heritage	83	2216
To be Classified	50	5127
Total	1934	103973

Source- Report of Ministry of Tourism

Various International companies are coming forward for making collaboration with Indian hoteliers to enhance the standard of service industry and to fill the gap of rooms and beds in different hotels to meet the demand and supply ratio of them for the tourist. Currently, according to an industry estimates, there are only 1,05,000 hotel rooms in India. The growth for hotels is also likely to come from proliferation of Special Economic Zones.

According to ICRA it is expected that the shortage of rooms in India will remain same atleast for next five years due to higher occupancy levels and increase in Average Room Rates (ARR). As the number of visitors in Indian hotels is increasing day by day the Government of India is planning to develop several budget hotels and heritage hotels to meet the required demand of beds and rooms to satisfy our visitors. The following table-2 and table-3 rightly depicts the growth of visitors and available number of hotels in India.

TABLE- 2: GROWTH OF VISITORS IN HOTELS

Year	International Visitors	Domestic Visitors
2007	9.1	9.2
2008	6.1	5.0
2009	-1.3	0.8
2010	1.9	7.2
2011	5.7	9.1
2021F	7.1	8.3

Source- Report of Ministry of Tourism, 2007-2011

In the above table it is rightly depicted that the growth of visitors in hotels is increasing gradually. In the year 2011 an average ratio of international tourist arrival in a hotel was 5.7% which is expected to rise upto 7.1% by the year 2021, and in the same year the domestic visitors arrival was 9.1% which is expected to fall upto 8.3% by the year 2021 due to some external forces.

FIGURE-1



Figure:2

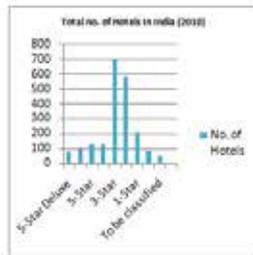
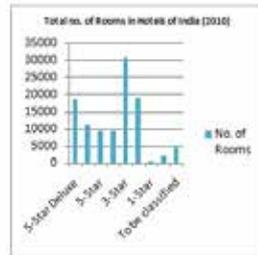


Figure: 3



In the figure-1 and figure- 2, the trends show that the total number of rooms and the total number of hotels are maximum at the three star classifications i.e. 704 and 31039. The same is minimum in the one star hotel i.e.212 and 695 and heritage hotel classification i.e. 83 and 2216.

The above figure shows the growth and demand for hotels in India. These visitors are inclusive of international as well as domestic tourists. The figure shows the contribution of the hotel industry to the GDP of India. The Indian Hospitality sector is expected to show a healthy growth in the medium term. Strong economic growth, increased FDI, greater emphasis on tourism development, favourable Government policies, impending 2010 Commonwealth games, 2011 Cricket World Cup and other international events, have been a major drivers for the growth. There exists a lot of scope for growth in tourism sector. According to the Ministry of Tourism, the contribution of tourism to India's GDP is only 5.9 per cent as compared to the worldwide average of 11 per cent.

DEMAND & SUPPLY SCENARIO FOREIGN AND DOMESTIC TOURIST ARRIVAL

The Foreign tourist arrival and Foreign exchange earning is increasing day by day in India. In the year 2009 the total foreign tourist arrival was 516 million which has reached up to 629 million in the year 2011. Whereas the foreign exchange earning in the year 2009 was 54960 crore which has reached up to 77591

crore in the year 2011. The reasons which are responsible for increasing foreign tourist traffic and foreign exchange business cum pleasure destination, opening of the sectors of economy to private sectors, attracting foreign investment, open skies policies of aviation sector which has led to better connectivity with many countries with India, liberal government policies and tourism promotion measures initiated by tourism organizations. earnings in India may be described as, India is considered as a economical as well as

Not only foreigners but also millions of domestic tourist are attracted towards different tourist destinations of India and are travelling to different states and union territories to explore culture, to seek knowledge and for medical treatment. In the year 2009 about 668.8 million domestic tourist have visited different states of India. This figure has rose up to 740.21 million in the year 2010. In the year 2010 the state Maharashtra is visited by maximum number (28.5%) of total foreign tourist. Then Tamil Nadu and Delhi have received 15.7% and 10.6% of total foreign tourist respectively. In the case of domestic tourist arrival the state Andhra Pradesh has received 21.0% of total domestic tourist arrival. Then comes the Uttar Pradesh and Tamil Nadu which has received 19.6% and 15.1% of total Domestic tourist arrival in the year 2010 respectively. This increase has been seen as a direct outcome of rapidly increasing purchasing power of the middle class , better road connectivity, evolving life style, hike in salaries and liberal government policies.

Further reforms in aviation industry has helped in having better connectivity with many countries (such as ASEAN) and created additional capacity on existing routes (for e.g. USA, Middle East).The aviation sector has undergone a significant structural transformation over the past decade,with the birth of a new airline model,the low-cost carrier(LCC).With their focus on no-frills, point-to-point services, LCCs have had a significant impact on the demand for airline travel, making it affordable for a much wider segment of the population in all key world regions. To make Tourism sector in India more attractive the Government has launched a scheme of 'Visa on Arrival' from January 2010 for citizens of five countries, namely Cambodia, Indonesia, Vietnam Philippines, Laos and Myanmar from January 2011.

The Readers Travel Awards 2006 has placed India at number four (from number nine in 2003) among the world's must-see countries which has helped boost its image as a pleasure destination. This is clear from the following table :-

TABLE-3

FOREIGN TOURIST ARRIVALS (FTAS) AND FOREIGN EXCHANGE EARNINGS (FEE) FROM TOURISM IN INDIA DURING 2011 AND COMPARATIVE FIGURES OF 2010 AND 2009					
Month	Foreign Tourist Arrivals (Nos.)			Percentage Change	
	2009	2010 (R)	2011	2010/09	2011/10
January	481308	568719	623885	18.20%	9.70%
February	489787	552152	635527	12.70%	15.10%
March	442062	512152	550051	15.90%	7.40%
April	347544	371956	437792	7.00%	17.70%
May	305183	332087	355333	8.80%	7.00%
June	352353	384642	412336	9.20%	7.20%
July	432900	466715	513853	7.80%	10.10%
August	369707	422173	444548	14.20%	5.30%
September	330707	369821	401995	11.80%	8.70%
October	458849	507093	562873	10.50%	11.00%
November	541524	608178	636762	12.30%	4.70%
December	615775	680004	715364	10.40%	5.20%
Total	5167699	5775692	6290319	11.80%	8.90%
Foreign Exchange Earnings (in Rs. Crore)					
Month	Foreign Exchange Earnings (in Rs. Crore)			Percentage Change	
	2009 #	2010 #	2011 #	2010/09	2011/10
January	4598	5593	5777	21.60%	3.30%

February	4547	6646	7653	46.20%	15.20%
March	4437	5507	5522	24.10%	0.30%
April	4061	4518	5724	11.30%	26.70%
May	3249	4358	5047	34.10%	15.80%
June	3801	4751	5440	25.00%	14.50%
July	4983	5444	7116	9.30%	30.70%
Foreign Exchange Earnings(in US\$ million)					
Month	Foreign Exchange Earnings (in US\$ million)			Percentage Change	
	2009 #	2010 #	2011 #	2010/09	
January	941	1215	1273	29.1%	
February	923	1434	1684	55.4%	
March	867	1209	1227	39.4%	
April	811	1013	1290	24.9%	
May	669	951	1124	42.2%	
June	796	1020	1213	28.1%	
July	1028	1163	1603	13.1%	
August	851	992	1264	16.6%	
September	785	1015	1208	29.3%	
October	1028	1175	1424	14.3%	
November	1185	1448	1566	22.2%	
December	1510	1558	1688	3.2%	
Total	11394	14193	16564	24.6%	
@ Provisional Estimates # Advance Estimates R: Revised					

The above table shows that the number of international and domestic tourist arrival is increasing day by day which is giving birth to the increasing demand for more hotels and rooms in India. According to an estimates around 10,856 hotel rooms in 2006, 9,318 rooms in 2007, 7,794 rooms in 2008 and 7,408 rooms in 2010 have been added to meet the required demand of tourist, as the rate of tourist arrival in India is increasing rapidly due to various events like commonwealth games, Auto-Expo and Trade- Fair. This ratio has been increased from 8.7% in 2006 to 13.6% in 2010.

India in world is known as a land of charismatic heritage . Here one not only enjoy the culture and spiritual values but also hospitality which motivates them to visit India again and again. As the movement of travelers is increasing rapidly into India, the demand for rooms, across segments, has skyrocketed. Hotels in the luxury and business traveler segment are recording nearly 100 per cent occupancy. Acknowledging the increasing demand of more rooms and hotels Government of India has made provisions to add around 10,856 hotel rooms in Delhi, 9,318 rooms in Mumbai, 7,794 rooms in Bangalore and 7,408 rooms in Hyderabad by the end of 2012.

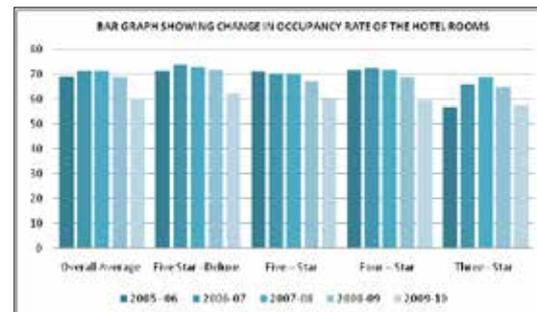
MARKET TRENDS:

Table-4 : Hotels Classification - Occupancy

Particular	2005 - 06	2006- 07	2007- 08	2008- 09	2009-10
Overall Average	69.0	71.5	71.4	68.8	60.3
Five Star - Deluxe	71.4	73.8	73.0	71.7	62.3
Five - Star	71.1	70.4	70.2	67.2	59.9
Four - Star	71.8	72.7	71.7	68.9	59.5
Three - Star	56.7	65.9	68.9	64.7	57.5

Source: www.ministryoftourism.com

FIGURE-4



Source: www.ministryoftourism.com

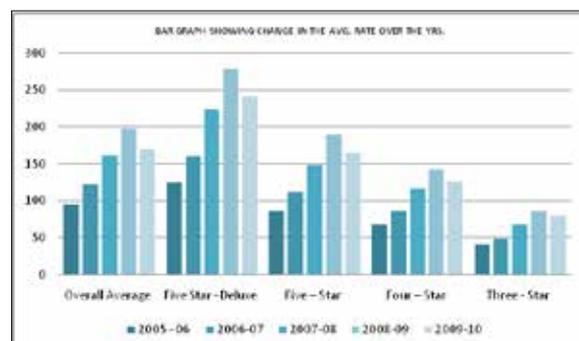
Above bar graph showing the change in occupancy rate of the hotel's room of the different classified hotels. In the year 2009-10, five-star deluxe had the highest occupancy rate. The lowest occupancy rate was in the year 2005-06, in the three star classifications.

TABLE-5 HOTEL CLASSIFICATION - AVERAGE RATE (US DOLLARS)

Particular	2005 - 06	2006-07	2007-08	2008-09	2009-10
Overall Average	95.73	122.34	162.17	198.52	170.71
Five Star - Deluxe	124.86	161.08	224.26	278.33	241.05
Five - Star	86.79	112.03	149.22	190.16	165.29
Four - Star	68.78	86.45	117.23	142.20	126.35
Three - Star	40.71	49.71	69.09	86.67	79.83

Source: www.ministryoftourism.com

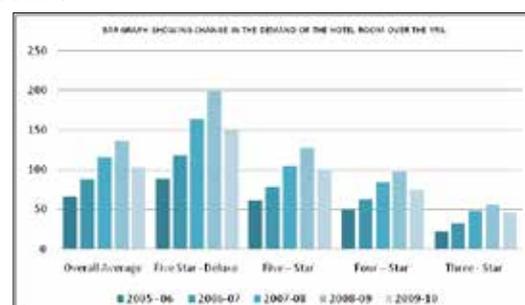
FIGURE-5



Source: www.ministryoftourism.com

The above bar graph shows the change in the average rate of the different classified hotels. In the year 2008-09, five-star deluxe had the highest change in the average rate. The lowest was in the year 2005-06, in the three star classifications.

FIGURE-6



It is clearly stated in the above bar graph that the demand for 5-Star deluxe hotel room was highest in the year 2008-09 and was lowest in the 2005-06. The reason responsible for increasing this is that earlier only aristocrat class was able to go for a pleasure trips and to avail the facility of 5-Star Hotel, but now liberal government policies regarding granting leaves and a hike in salary has made budgetary class more affluent, mobile, internet savvy and more sophisticated. Now they are capable enough to hire expensive goods and services, and to afford high standard facilities including comforts of 5-Star category hotels.

To tap this opportunity Government of India is launching several tax exemption schemes, and granting permission for availing more and more bar and liquor -licenses to private and foreign investors, to develop high standard as well as budget category hotels in India. Indian Government in its Union-Budget 2011-12 have made various provisions to exempt this sector from various kind of direct and indirect taxes.

FINDINGS OF THE RESEARCH

The growth of the Hotel Industry is largely due to the rising business opportunities, strong economic performance and cross border investments. India has currently base of 110,000 hotels rooms and still face the shortage of 150,000 rooms. There is a mismatch between demand and supply, leading to higher occupancies and average room rates. The key findings of the research are as follows:-

- Occupancy rates across India have improved from 52 percent in 2005 to 67 percent in 2009-2010. Average Room Rates across cities have improved from USD 51.6 to USD 76.4 in the same period. Over the years the demand for the five stars- deluxe hotels have been increasing.
- Despite the global economic recession, foreign tourist arrival increased to 5.37 million in 2010 from 4.98 million in 2009.
- Sports events like IPL and the Commonwealth games have a potential to create demand for both Tourism and Hospitality industry in India.
- Acknowledging the increasing demand of more rooms and hotels Government of India has made provisions to add around 10,856 hotel rooms in Delhi, 9,318 rooms in Mumbai, 7,794 rooms in Bangalore and 7,408 rooms in Hyderabad by the end of 2012.
- The growth of visitors in hotels is increasing gradually. In the year 2011 an average ratio of international tourist arrival in a hotel was 5.7% which is expected to rise upto 7.1% by the year 2021, and in the same year the domestic visitors arrival was 9.1% which is expected to fall upto 8.3% by the year 2021 due to some external forces.
- In the year 2009-10, five-star deluxe had the highest occupancy rate. The lowest occupancy rate was in the year 2005-06, in the three star classifications.
- In the year 2008-09, five-star deluxe had the highest change in the average rate. The lowest was in the year 2005-06, in the three star classifications.
- The Industry is expected to reach INR 230 billion growing at a compound growth rate of 12.2 percent.
- The Industry also witnessed an increase in the number of hotel rooms with a growth 5% during the last three to four years.
- In the next two years, a total investment of US\$12.2 billion (INR545.2 billion) is expected that will add over 20 new international brands in the hospitality sector.
- To attract budget tourist in india government is planning to develop budget hotels in the country. In this series various budget category hotels like Ginger Hotels, Lemon Tree Hotels, Sarovar Hotels, and Fortune hotels have been established.

CHALLENGES BEFORE HOSPITALITY INDUSTRY

Hospitality is growing day by day in the world and India is sharing a major part of world tourism receipts and world tourism traffic and has proved successful in maintaining its place on world tourism map. Though India shares only 1.24 % of international tourist receipts and 0.59% of international tourist traffic but this contribution can not be neglected. Hospitality Industry is sharing a large portion in total tourist receipt. But still we are lacking behind in gaining expected foreign exchange and international tourist traffic from this sector. The major constraint in the expansion of international tourist traffic to India is non-availability of adequate infrastructure including adequate air seat capacity, accessibility to tourist destinations, accommodation and trained manpower in sufficient number. Poor visitor experience, particularly, due to inadequate infrastructural facilities, poor hygienic conditions and incidents of touting and harassment of tourists in some places are factors that contribute to poor visitor experience.

The biggest challenge before hospitality industry is the entry of new players, difficulty in getting approval of the licenses, and poor demand and supply ratio of hospitality facilities. As the entry of international players like Aman Resorts, Shangri-la Hotels, Four Seasons Hotels and The Hilton group is increasing rapidly, leading to an increase in competitive intensity in this sector.

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