

News monitored for: Lemon Tree Hotels

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THE RIGHT ATTITUDE

SUCCESS, SAYS **PATU KESWANI**, CMD OF THE
LEMON TREE HOTEL COMPANY, COMES WHEN
YOU COMPLEMENT A GOOD BUSINESS MODEL
WITH SMART DECISIONS AT THE RIGHT TIME

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COVER STORY

THE RIGHT ATTITUDE

Success, says Patu Keswani, CMD of The Lemon Tree Hotel Company, comes when you complement a good business model with smart decisions at the right time

BY BABITA KRISHNAN

This is the closest to a fairy tale or a blockbuster movie that you can get in the hospitality industry! A journey that began on the proverbial 'road less travelled' (in this case 'not' travelled) and became one of the greatest success stories in the industry - a case study of sorts. The Lemon Tree Hotel Company, has grown from 2002 to becoming one of the strongest home grown mid-market brands in the country. "Way back then, there were only three categories in India - the five star, deluxe hotels dominated by domestic chains like Taj, Oberoi, ITC and The Leela; then there was the unbranded fragmented mid-market sector, comprising of hotels run by individuals all over India; and the third was a very large proliferation of guest houses, which was meeting the needs of the price-conscious business and leisure category," Patu Keswani (better known as Patu), chairman and managing director, The Lemon Tree Hotel Company, recalls.

So the big challenge was to tap the huge demand for mid-market hotels since there was no branded player in that segment and, then to put up a viable mid-market hotel. Understanding the way the business was run, the demand-supply disparity, and most importantly, the reason for it, Patu and his initial team (interestingly, almost all, even after 14 years, constitute the core team of the brand), came up with a business plan based on simple pillars. First was, to build hotels in the right location. "If we got a hotel in a cheaper location, while you could pass that financial benefit to the guest, the cost of transport and time would annul the advantage of checking into a cheaper hotel. So our location had to be as good as any five-star hotel," Patu explains. The increased land cost was balanced out by offering smaller rooms, which

reduced the product cost. Second, he was very clear that they would not be a manager of hotels, "At least till our brand is strong enough that people are willing to build hotels to our specification so that there is product consistency". Third was the costs embedded in five star hotels - those that were economically not viable would not be offered in Lemon Tree. "It was a simple calculation. We disaggregated what is offered in a five-star hotel and segregated those that a customer is willing to pay for in a mid-market hotel. So we were really targeting the value conscious five-star users and the aspirational guest house frequenters," he clarifies.

The lessons learnt from the experiences and guest feedback of the first property in 2004, lead to the evolution of the three brand verticals and their standards. "Red Fox, which is a two-star product at three-star service levels, is targeted at the guest house users getting a consistent grand experience. Lemon Tree, which is a three-star product with four-star service levels, is for the mid-market and Lemon Tree Premier, which is in the best locations, is a four-star product with four and half to five-star service levels," Patu elaborates.

With the brand operating in 18 cities, the time is right to look at an aggressive expansion strategy. For Patu, the strategy has three different aspects - geographic, segment-wise and price point. Patu vertically divides the country to explain why most of the presence thus far is on the western side of the map. "This is because most economic activity happens there. Since initially we were a very focused business hotel company, we went



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where there was demand." In the next 5 to 7 years, there will be a lot of economic activity in the east and thus, the brands business hotel development pipeline will move east. "We already are building a mid-sized 140-room hotel in Kolkata and are also looking at acquiring some other hotels there. So, 2022 we will have a significant percentage of our inventory in the eastern part of India," he shares.

Segments, according to him, are reason for use. Over the years, though it is a business traveller-focused hotel chain, Patu found that there is a certain GDP point at which Indians start treating holidays as important. As the per capita income of an average Indian household goes up, the family will have at least one maybe three holidays a year, of which one holiday will be an extended one. "So the time is ripe to move into the resort business. We have started doing that somewhat aggressively in the last one year and we now own four and manage one resort," he shares. Not only has the brand grown over the years but so has the business model evolved, Patu explains. "We have three types of ownership patterns. One, when we own 100%, second is when we have a 60-40% JV and the third is a simple management contract through Rattan Keswani's Carnation Hotels which is the management arm of the company". Going forward, Patu hopes to have equal number of owned and managed rooms by 2020 - over 10,000 each - with a large share of the resort business.

Talking of price points, while the brand operates in

1. The pool at Lemon Tree Amarante Beach Resort.



Vikramjit Singh
President & Chief Revenue Officer

Vikramjit Singh is an alumnus of the Shri Ram College of Commerce, Delhi, and a Post Graduate in Hospitality Management and Administration from the Taj Group of Hotels. He was an entrepreneur in Assam, where he ran his own hotel, before joining the Lemon Tree group. While being a part of Lemon Tree Hotels, Singh has played an important role in developing effective sales and marketing strategies and consolidating and expanding the network for the company. He is an avid reader and has a penchant for data analytics and out-of-the-box sales strategies that have held him in good stead over the years to expand the revenue base for the brand.

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the two, three and four-star space presently, it is looking at venturing into serviced apartments and creating a new brand which will be a basic five-star product with six-star service levels. "We want to expand because we think that as more Indians get wealthier and the per capita income grows, many of them, who are using us at the four-star point will be the natural customer for this. So we will be integrated in the next seven-eight years. We will operate across business, leisure and service apartments, from two to five star and will operate not only in the north, west and south, but also in the east. That's our game plan," he reveals.

As the media recently went amok with stories of a company seeking investments and funding, the conversation naturally moved in that direction, especially in the backdrop of the brand being fully funded for its entire growth. "If we want to grow more, then we will have to use internal accruals, but the hotel

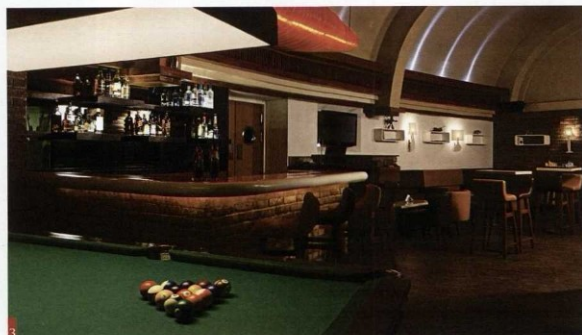
2. Lemon Tree Hotel Aurangabad Tangerine Grand.
3. Slounge at Lemon Tree Hotel Aurangabad.



Sumant Jaidka
Chief Operating Officer - North

Sumant Jaidka has had a rich career spanning 20 years and brings with him an operating business experience in the hospitality industry. A graduate from the Salzburger School of Hotel Management, Austria his last assignment was with Crowne Plaza, New Delhi. He has worked with the Taj Group of Hotels, Hilton, Maurya Sheraton and Hyatt Regency. He has been with Lemon Tree for the past eight years. He came on board as GM operations and has growing to become the COO of The Lemon Tree Hotels, its most popular midscale brand. Today he oversees the major chunk of hotels and inventory at Lemon Tree and is a key contributor in the group's growth story.

business has gone through a prolonged low period. So if we just continue the way we are, we don't need capital at least for the next year or two. But out international investor, Warburg Pincus, who owns nearly 25% of the company and has been with us for 10 years, needs an exit as their fund life is over. The IPO



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Prashant Mehrotra
Chief Operating Officer, South

An IIM graduate with a remarkable career graph, Prashant Mehrotra has over 13 years of operating business experience. A man with a rich pedigree, he has worked with prominent brands in the industry like The Trident, Radisson and The Oberoi hotels. He joined The Lemon Tree Hotel Company in 2006 as the hotel manager for their foremost property at Udyog Vihar and has been instrumental in contributing to the groups' speedy growth ever since. With sparkling operations, development, technology and sales acumen his expansive skills have exponentially taken him up the hierarchical ladder. With a penchant for MIS analytics, Mehrotra's strength lies in finding innovative ways to improve existing systems, procedures and practices, giving the organisation that much needed out-of-the-box perspective and edge.

4. Lemon Tree Premier-Delhi Airport lobby with the signature stained-glass design element.

Fact File

The brand has 29 hotels in 18 cities with over 3,200 rooms and 3,500 employees with venture capital participation from the US-based PE firm – Warburg Pincus, the Dutch Pension Fund Manager – APG and the Japanese financial institution – Shinsai Bank. This speedy growth has made the group, currently the 3rd largest hotel chain in India by owned rooms.

was a plan to monetise their investment, where, by 2017 end, we hope to become a public company and Warburg will be able to exit its investment. This, however is not for raising capital, it will be a sale of existing shares rather than new ones," Patu clarifies.

Never a big believer in advertising, Patu has a simple point of view for increasing brand awareness. In order to build a brand initially, he put up hotels in demand dense markets. And by virtue of its good location, service and reputation, built demand within that micro market which led to higher occupancies. "This worked very well for us for the first few hotels after which we found that customers were getting aware of our brand. So the more hotels we put up, the better we will be known, so why do I need to advertise. We saved around Rs100 crore of advertising and instead put up a 200-room hotel. That's good benefit," he says.

By just adding hotels and increasing the base of Lemon Tree Smiles (the loyalty programme that has about half a million members, making it one of the



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5. Red Fox Hotel Delhi Airport lobby.
6. Standard room at Red Fox Hotel Delhi Airport.

top two or three loyalty programmes in the country), the brand had gained tremendous traction in India. Now with the advent of Social media, the company is actively engaged there as well. "We found that it has worked well for us. The bottom line is that we have had a few million guys who stayed in Lemon Tree in the last few years. I think close to 40% of our guests are repeat. So obviously there is some credence in staying with us. Every time we open hotels now, we just send one email blast to maybe a million people and the hotel stabilises pretty fast," he quips.

What began as a random hiring of two speech and hearing impaired people in 2007, became one of the most important and central initiatives for the brand. Realising the difficulties people with disabilities face in earning a livelihood, the core team of The Lemon Tree Hotel Company decided to increase this number over time to hit a 100 in 2011, which by then had become a part of the brand's DNA.



Aradhana Lal

Vice-President, Sustainability Initiatives

She leads sustainability at Lemon Tree Hotels - "Planet"/environmentally friendly initiatives; "People"/inclusion and diversity, hiring EWD and EcoSoc. This includes speech and hearing impaired, orthopaedically handicapped, Down syndrome, visual impairment and Autism in the EWD segment and BPL, orphans, widows/abandoned/battered women and people belonging to backward states, etc. in the EcoSoc segment. She co-leads recruitment of these marginalised segments and leads new initiatives in the disability space. She was previously sales and operations manager at Hindustan Lever Network (formerly known as Aviance) and prior to that was with the Taj Group of Hotels.

"We had a lot of town halls as initially staff resisted getting people who are not like them. They felt that they would not be able to perform a full role. But we evaluated each person's disability and put them where the disability is irrelevant. Further, we sensitised our staff about it and over the next few years we found

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7. The signature Republic of Noodles at Lemon Tree Premier, City Center, Gurgaon.

Sareena Kochar
Vice-President, Housekeeping

A proven leader with a keen eye for detail, a flair for contemporary art and decor, and three decades of rich experience is what sets her apart. A creative problem solver, with a consistently successful track record in all aspects of housekeeping, she is an expert in new hotel openings. She has also launched many eco-friendly practices within the company and firmly believes that a good induction and comprehensive training is the key to high standards of delivery and service. A role model for many, she has nurtured and groomed a lot of talent within the organization and gifted several able housekeepers to the industry. A key member of the 'Swachya Bharat Swasthya Bharat' campaign, she also plays an important role in training and development of the Speech and Hearing Impaired (SHI's) team members in the housekeeping department.

that there was a welcome change. I think Indians see a lot of misery around and feel helpless about it as they can't do anything. So when they find that the company they work for is doing it, they become supportive. Today we have close to 500 people with physical or mental disabilities in the company and another 400 odd who are socially or economically disabled and this is a part of our intrusive strategy," he reveals. The plan is to increase their numbers to 4,000 in the next three years. The company is now hiring people who are speech and hearing impaired, orthopedically impaired, even some who are visually impaired and people who have Autism and Down syndrome. "We are gradually expanding this to reach out to the entire gamut of people who have some form of disability in India. In addition, we are also looking at people from the Northeast and from economically deprived states. We are trying to hire them and bring them into the mainstream," he adds.

Lemon Tree grew far bigger and faster than Patu had envisioned it. "I think that is due to a combination of circumstances - some thought through and some coincidental. What really helped us was that we stuck to our business plan and the assumptions we made on our business model that the customer would accept." Drawing parallels with the aviation industry, Patu elaborates, "When the first low cost carriers became operational in India, I believe a lot of customers would complain about having to pay for the sandwich. But over time, the customer got educated to what a low cost carrier is all about. Similarly, Indian customers have to be educated about what a mid-market hotel is. And since they didn't know what it was and we were a category creator in that sense, we had to make assumptions of what the customer would accept. Luckily for us, the business model assumptions turned out to be correct and found resonance with the customer," he analyses.

That the brand was also financially very successful and the P&L designed was very accurate (an 18% return on investment), attracted international capital and they got Warburg Pincus, one of the largest private equity funds of the US to invest a significant amount of capital in the company. "Our ability to raise capital in the hotel space in the last 10 years during the slowdown, was a differentiator. As was our ability to build hotels. It is no great strategy, some good fortune, a business model that worked and supportive employees that worked for us," he says.

Looking at the industry as a whole, Patu rues the fact that unlike the aviation industry that has a limited number of players, the hospitality industry is very fragmented. Looking back he points out how

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8. Lemon Tree Tarudhan Valley Resort has rooms overlooking the golf course.

Chef Rajeev Janveja

Corporate Chef

Chef Janveja is credited with expanding the focus of the brand from being a purely business hotels provider to including F&B into the services in a big way. He believes in including the local nuances to the food offerings at the various locations so that the guest experience a great culinary experience along with their stay. He started his culinary journey with the Taj Group of Hotels after completing his studies from IHM Lucknow. Over the years, he has honed his skills at various Taj hotels across the country as well as with some other leading retail food businesses. He has been a part of various high profile food promotions across the world and has participated in cookery sessions in countries like Switzerland, Singapore, Malaysia and France. He is playing a key role in revamping Lemon Tree Hotels' culinary strategy and will assist the group achieve the vision of being the dominant mid-market hotel chain in India by 2016.

Development pipeline

► **Owned (soon to open or under development)**

Bandhavgarh | Gurgaon (2 hotels) | Kolkata | Mumbai (2 hotels) | Pune | Shimla | Udaipur

► **Managed (soon to open or under development)**

Coimbatore | Chandigarh | Gangtok | Jammu | Katra | Noida | Purulia | Trichy | Thiruvanthapuram

Vision

By 2019, Lemon Tree will own and operate over 8,000 rooms in 60 hotels across 30 major cities of India including Ahmedabad, Aurangabad, Bengaluru, Chandigarh, Chennai, Coimbatore, Dehradun, Dahej, Gangtok, Ghaziabad, Gurgaon, Goa, Hyderabad, Indore, Jaipur, Jammu, Katra, Kolkata, Manesar, Muhamma (Kerala), Mumbai, New Delhi, Pune, Shimla, Siliguri, Srinagar, Trichy, Udaipur and Vadodara to name a few.

from 2005 to 2007, when the industry hit the top of the cycle, the industry saw a lot of investment and growth – a huge bunch of supply was planned and initiated – that has resulted in the supply of hotel rooms going up around four times. "Which means, on an annual basis 15-18% fresh supply has come, while the demand grew at 11%. This led to a lot of hotels becoming non-performing assets. If you look at the next five years, the supply pipeline has got clogged, but the demand will continue to grow at the same pace. What I see happening is that by 2018 or 2019, the demand-supply imbalance will reverse and the golden years of 2005 and 2008 will come back. That is when prices will go up. But the problem is that today nobody is willing to risk taking prices up unless they are sure of the demand. So, I foresee a great market for hotels in India only by 2019," comes the analysis of a seasoned hotelier.

Whatever the state of the industry, this is one brand that has moved at its own pace and followed its own rules. Whether it is the location, size and service that each of its properties offer, or the decision to have its team of "Happy People" render service to the guest, The Lemon Tree Hotel Company is absolutely focused on the one important thing (something that was said in various contexts by almost everyone!) – this is a business and "we are here to make money".

And that is probably the reason why, their programme for giving opportunities to the differently abled is "not a CSR" activity but a smart business decision, educating and winning over the guests is part of the business plan, and making money is mandatory. With most of their guests being repeat and one of the largest membership bases, they must be doing something right! ■