

Budget Hotels - What really is 'BUDGET' in India?

Murari Mohan Jha

Travel Trends Today, Monday, October 16, 2006



Every body knows that we need rooms in the budget segment. Does the hospitality industry have any norms to define budget hotels? T3 analyzes where we are in our quest to offer a larger range of accommodation and finds that we are not even close!

Hotel consultancy firm HVS International's managing director Manav Thadani, attributes tremendous potential for expansion in the budget hotel segment whose target customer would be the mid-level business traveller. India has a significant percentage of small and medium-sized businesses that cannot afford to accommodate their employees in premium hotels but, at the same time, are willing to pay for rooms in budget hotels. Not unnaturally then, the hotel industry has identified the potential of this segment and is going ahead with expansion.

According to Thadani, currently, the Indian hotel industry has around 100,000 rooms which includes 35,000 rooms in the branded segment (read star categories). Of these 35,000 rooms, only 6,000 rooms are in the budget 3-star category. By 2010, around 60,000 rooms will be added to the branded segment raising the number of rooms to 12,000 in the budget category. There will therefore, be around 18,000 rooms in this (budget) category by 2010. He also estimates that around 100 budget hotels in numerous tariff brackets are likely to come up in the next four years in the branded segment.

Several international companies are entering the market and those that are already there in this segment are either expanding or are atleast introducing their budget brands in the country.

Choice Hotels India, the master franchisee of Choice Hotels International, was perhaps the first in this segment to make a foray way back in 1987 with Quality Inn and Comfort Inn, both positioned as three-star. It plans to have 100 hotels by 2011.

Anil Madhok's Sarovar Hotels, currently India's largest hotel chain in the mid-market segment, joined the fray in 1994 and today manages some 35 properties in the 3- to 4-star category in India and overseas. The group's affiliation with Carlson Hospitality Worldwide makes it the master franchisee of Carlson's Park Plaza and Park Inn brands in India. Now the group is going ahead with its no-frills Homotel that offers all the basic facilities at an affordable price of Rs 1,500-3,000 per night.

Fortune Park hotels, a second-rung venture from ITC Welcomgroup was launched in 1995 currently has 25 hotels and is planning to grow to 75 by 2010 targeting the mid-level business and leisure segment. The company has signed up half a dozen hotels recently and is looking at some more for management contracts.

Even Carlson Hotel Worldwide, which owns 930 hotels with 146,284 rooms in 70 countries through various brands like Regent International, Radisson Hotels & Resorts, Park Plaza, Park Inn and Country Inns and Suites has outlined expansion of its Country Inns and Suites in India. "Apart from the six Country Inns and Suites which are operational, another six are under development in Durgapur, Guwahati, Ludhiana, Siliguri and Gurgaon," said KB Kachru, executive vice president for South Asia of Carlson Hotels Asia Pacific.

Among the new entrants is UK-based Dawnay Day Hotels, the newly-formed hospitality arm of the UK-based financial services and real estate major Dawnay, Day Group, which has entered the market with a blueprint to develop 30 properties in India in the first phase by 2010-11. MD Mandeep Lamba who quit as president of ITC's mid-market brand Fortune Hotels has taken over as managing director at Dawnay, Day Hotels, India. "Today, all our major cities have substantial demand of quality 4-star accommodation which is currently not available," he says. Lemon Tree came in quietly some time ago. An indigenous brand, before we knew it there were two Lemon Trees in Gurgaon itself and now the group has plans for 30 hotels across the country. Promoted by Patu Keswani, their hotels are again in the upper-end budget segment.

The statement from Prabhat Pani, CEO, Root Corporation Ltd, the wholly-owned subsidiary of Indian Hotel Corporation Ltd which manages the 'Ginger' brand corroborates the need for more definition. He says that the new-found economic upsurge in the middle class has spawned a new market of more-travelled and knowledgeable customers who is not willing to compromise even though he might be on a budget. Throwing more light on the definition of 'budget' he says: "Budget hotels fall in the 2- 3-star category offering clean, secure, hygienic hotels that have an inventory of about 150 rooms priced under Rs 2,500." According to him, the new budget or value-for-money hotels coming up from branded stables fall in this category.

But, the specs have still not been implemented. Rahul Pandit, vice president, Operations and People at Lemon Tree Hotels feels that budget hotels need to be designed and operated very differently from their full-service counterparts. "Budget hotels are about consistently good service, value-for-money pricing, low capex per room and reduced opex (fewer staff, no-frills)," he says.

Lemon Tree Hotels recently announced the launch of Red Fox Hotels - their limited-service

budget hotel chain.

Gurgaon has been the hotbed for budget-hotel activity for the last two years or so. It saw a surge of 'budget' hotels in this period, except that they are not really budget. Therein lies the problem. Hotels like Sarovar Park Plaza, Fortune Select and Lemon Tree were conceived as alternative accommodation but were soon lured out of it into a whole new segment - the upper-end budget. No problem with that except that these hotels cost a whopping Rs 5,000 to Rs 6,000 plus taxes - a far cry from the range they were meant to service.

So, that's where we are and budget hotels, as far as we are concerned, are as elusive as ever. The aberration though is Taj Group-promoted Ginger hotels (formerly inDione) which have stuck to the Rs 1,200-plus-taxes rate.

There has been, and possibly still is, a lack of clarity in the segmentation of hotels in India. Currently, there are only two segmentations that the media refers to - luxury and budget. All five-star hotels are considered luxury and everything else is budget. This is, however, hardly the way it should be. The segmentation internationally consists of luxury, mid-scale, budget and economy hotels. Brands within the 'real' budget and economy segment are just emerging in India with the likes of Ginger (Taj group), Hometel (Sarovar Hotels), Red Fox (Lemon Tree) amongst others where there is emphasis on no-frills, self-service facility with smaller inventory of rooms as also a control on pricing.

The profitability of the budget hotel is also decided by the cost of land, which should not exceed 15-20 per cent of the total project cost, Thadani says.

The segmentation in the budget category into mid-scale, budget and economy hotels is imperative to maintain some standardization. The debut of international budget chains will perhaps regularize this.

While the definition is clearer than ever before, there is still confusion in the market. The Trident Hilton in Gurgaon cannot be in the second rung even if it tried; the name though suggests that it is!

October 16, 2006