

HVS Monday Musings: Indian Hotel Sector – Crystal Gazing Into 2022

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2022 will be a critical year for the Indian hotel sector as it continues its uphill journey on the long road to post-COVID recovery. We expect the strong rebound in domestic leisure demand to continue, as people have embraced the new 'normal' of travel in the COVID-world, even if Omicron or other variants that may emerge from time-to-time act as temporary bottlenecks in the sector's recovery. Similarly, the Indian hotel sector has also learned to adapt quickly, think outside the box and embrace new ideas faster than before -

the few upsides of the instability caused by the pandemic in the last two years. We expect India-wide occupancy to reach pre-pandemic levels in 2022, with average rates approaching pre-pandemic levels towards the end of the year.

As the sector continues to rebound in 2022 and beyond, here are ten trends we expect will pick up steam in the year ahead.

1. Exploring the underserved leisure segment: Hotel companies are already expanding their presence in Indian leisure destinations as leisure travel bounces back faster than business travel during a crisis. We expect this trend to gain momentum in the coming years, as the domestic leisure segment continues to be underserved, with several emerging tourist places in India still lagging adequate infrastructure, including good quality branded accommodation. The government has planned major investments in the country's road and rail networks, along with plans to privatize airports in Tier 2 & 3 cities, which will help improve the regional and last-mile connectivity to several emerging tourist places and encourage hoteliers to tap further into this underserved segment.



2. Corporate travel will take off: Domestic corporate travel is slowly gaining traction, as in-person meetings are finally making a comeback after several months of virtual meetings and video conferencing. Corporate travel is already accounting for 20-25% of hotel revenue in certain cases, which is a positive sign for the sector. Demand from sectors such as manufacturing, healthcare, pharma, FMCG, consumer durables, and financial services, is witnessing a considerable recovery, but demand from IT & ITES is regaining at a slower pace. While

Summary

2022 will be a crucial year for the Indian hotel sector as it continues its uphill journey on the long road to post-COVID recovery. As we enter the new year, let us look at the top trends that are likely to shape the sector in the year ahead.

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the increasing travel restrictions due to Omicron may prompt companies to focus on critical and crucial travel in the short term, we expect the situation to stabilize and domestic corporate travel to pick up significantly in the coming year.

3. Unlocking ancillary revenue streams: The hotel sector has generally trailed behind other travel-related industries when it comes to unlocking ancillary revenue streams by focusing mainly on a few additional services such as F&B and spas. However, when room revenue plummeted during the pandemic, the hotel sector was forced to find new ways to utilize their assets, in the process creating a slew of ancillary revenue streams such as food delivery, laundry services, and DIY meals to name a few. Having realized the true potential of ancillary revenues in increasing the top line, hoteliers should now take advantage of the vast untapped opportunity by utilizing existing infrastructure for newer business opportunities. This could include having a dedicated area for co-working spaces, monetizing car parking spaces, deploying electric vehicle (EV) charging stations, leasing kitchens for cloud kitchen requirements during non-peak hours, and other similar space and service optimization. This strategy will enhance customer engagement and brand loyalty while increasing real estate revenue per square foot.

4. Rise of smart tech will fundamentally change hotel design: After adopting digital keys and menus during the crisis, several hotel companies are now evaluating other technological aspects to revamp their properties to remain relevant in today's fast-changing world. Smart tech is poised to play a greater role in future hotels, as it gives hoteliers endless possibilities to differentiate themselves from the competition and exceed the expectations of the guests of tomorrow. It will also help in reducing costs, streamlining processes, optimizing operational efficiency, and enhancing staff productivity, all of which will help in improving the sector's profitability. However, as hotels start handling and storing vast amounts of guest data, the sector will be faced with a new set of challenges. Customer privacy, data security, and cybersecurity will become critical considerations as the sector becomes increasingly data-driven in the future.



5. Adopting leaner operations: We expect hotels to continue to function with lower staff ratios, albeit we can already see the temptation to revert to the previous ratios and labor strength, particularly in the economy segment, where ratios are already lower. However, hoteliers have discovered that the prior staffing ratio may not be necessary for efficient operation and will work to attain the best ratio for their property in the future, focusing on revising SOPs to account for the lower staffing ratio, as well as employee reskilling and training, to ensure that service quality does not suffer.

6. Third-party management will gain prominence: Franchising is slowly but steadily gaining traction in the Indian hotel sector, as it provides owners the flexibility to run their own properties. Making the franchise or base fee equally appealing in both management and franchising agreements, as well as allowing flexibility in the franchise period with shorter durations of 8-10 years, can help to promote franchising in the country. As franchising gains more prominence, we expect the role of a third-party manager, which has traditionally been underplayed in India, to become more important, as both hotel owners and operators realize the true benefits and potential of working with professional asset managers to review and improve their hotel performance,

especially in the post-COVID era. Moreover, as the Indian hotel sector evolves, an increasing number of hotels will be owned by institutional investors, making ROI crucial; third-party management is likely to gain significant traction in this scenario.

7. Partnering with branded restaurants: Hoteliers should reimagine F&B by leasing spaces to standalone marquee restaurant brands on a revenue-share model, which can be beneficial for both parties. Restaurant operators can benefit from the hotel's captive clientele, location benefits, and brand image, while hotels get an opportunity to elevate the customer experience by becoming a 'destination' for both hotel guests and locals, resulting in higher F&B revenues and profitability.



8. Evaluating hotel-branded residences: Branded residences, which are still a niche idea in India, is another opportunity that hospitality players should seriously consider in the post-COVID era to diversify their risks and revenue streams. By leveraging its brand through affiliation, the hotel operator can not only receive royalty/licensing fees, but also diversify income streams by providing end-to-end property management and a full range of services such as concierge services, housekeeping, laundry, maintenance, and F&B services. This is a lucrative model as hotel operators get to leverage their brand equity towards premium housing projects and earn not only from the royalty licensing and services provided but also from the commission earned from the sale of each home.

9. Tapping into the popularity of alternative accommodation: Traveller preferences have changed considerably since the onset of the pandemic, resulting in a growing preference for vacation home rentals and homestays as alternatives to hotels and resorts among many domestic travelers. These segments provide travelers the best of both worlds – privacy, security, flexibility, and convenience of a private lodging combined with the pleasures and comfort of a hotel, especially for those traveling in small groups or with families and pets. However, these segments are still highly unorganized with the presence of very few branded hospitality players, especially in the upscale and luxury segments. As a result, new players are likely to enter these segments with lucrative investment models, particularly for expansion in underserved leisure destinations, due to lower overhead costs and higher profitability than a hotel. IHCL, for instance, has introduced the brand amā Stays & Trails to foray into the country's fast-growing homestays market. Similarly, leading international hotel companies have already diversified into the vacation rental space globally and it is only a matter of time before they do so in India as well

10. Sustainability will become more than lip service: India pledged to become carbon-neutral by 2070 at the recently concluded COP26 Summit, a goal that will need unprecedented collaboration across industries, including tourism & hospitality, which are not only victims of the climate crisis, but also major emitters and contributors to global warming. As the sector continues its recovery from the COVID crisis, it has an opportunity to step up climate action to move toward a greener, more sustainable future. The government and the private sector should make a determined effort to put all necessary measures in place to turn climate-change-related

ambitions into reality since lip service is no longer enough.

About **Mandeep S Lamba**



Mandeep S. Lamba, President – South Asia, oversees the HVS global hospitality practice for South Asia. He has spent over 30 years in the hospitality industry of which the last 19 have been in CEO positions. Having worked with leading International and domestic Hotel Companies such as IHG, Radisson & ITC Hotels, he also set up joint venture companies with Dawney Day Group UK and Onyx Hospitality, Thailand to own and operate hotels in India giving him a broader exposure to the hospitality business.

An established industry leader, Mandeep has won several awards and recognitions in India and abroad for his accomplishments and contribution to the hospitality industry. He is a Certified Hospitality Administrator from the American Hotels Association (CHA), a member of the Royal Institute of Chartered Surveyors, UK (MRICS) and a member of the Tourism Council of CII (Northern India). His views are often solicited for television and print media as a spokesperson for the hospitality & tourism sector.

Prior to joining HVS in 2018, Mandeep was the Managing Director, Hotels & Hospitality Group for JLL.

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