

The rise and rise of India's home-grown mid-segment hotel brands



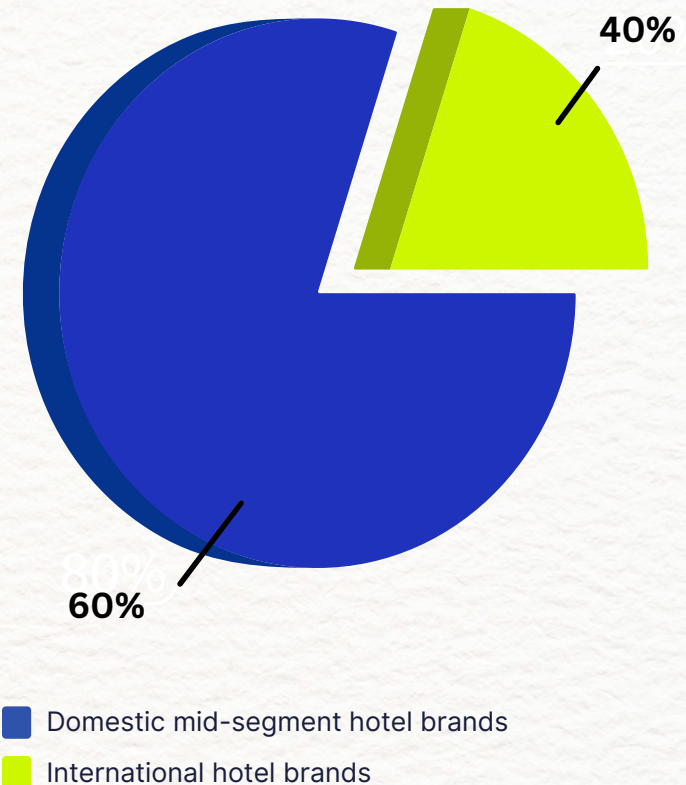
Opportunities and Challenges

This is the story of India's home-grown hotel brands.

Let's be a part of it.

They are small and young but no less popular than their larger, international counterparts. We are referring to India's home-grown mid-segment hotel brands, **which control about 60% of the total branded rooms available in the country.** Despite the allure of established international names, these hotels have survived and thrived in the last couple of years. Their journey, though challenging, is a testament to their resilience in the dynamic, competitive, and attractive Indian hotel industry. They continue to undergo significant course correction to effectively compete with international rivals, inspiring us with their determination.

This white paper aims to delve into the burgeoning trend of home-grown mid-tier hotel brands. Our meticulous examination of the challenges and opportunities that brands in this segment encounter will provide valuable insights for industry professionals and stakeholders, engaging them in the discourse about the future of the Indian hotel industry.





Aditya Sanghi

CEO, Hotelogix

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This white paper, dedicated to the challenges and opportunities home-grown mid-segment hotels face, results from our in-depth discussion with some leading hoteliers and thought leaders in the driving seat, who have reshaped and created a niche for this segment with their grit and experience.

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Hear it all from leaders



Aryavir Kumar

Managing Director of The Clarks Hotels & Resorts



Chandrakant Shetty

Chief Operating Officer of Suba Group Of Hotels



Kahraman Yigit

Co-Founder & CEO of Olive Living



Deepika Arora

Founder of Rosastays



Philip Logan

Chief Operating Officer of Royal Orchid Hotels



Akanksha Garg

Founder Director of Waxpol Hotels & Resorts



Ritwik Khare

Founder of Elivaas



Suresh Kumar

Seasoned Hotelier & Senior Consultant to many growing home-grown hotel brands



Gagandeep Bindra

National Sales Head of Amritara Hotels & Resorts



Jaideep Ahuja

Managing Director & CEO of Ahuja Residency



Rahul Banerjee

Chief Operating officer of The Clarks Hotels & Resorts



Vikramjit Singh

Founder & CMD of Alivaa Hotels and Resorts



OPPORTUNITIES

Expanding in tier 2, 3 and 4 cities

Home-grown mid-market brands with small inventory can experience rapid growth in tier 2, 3, and 4 cities, as it is exceedingly challenging for international brands to establish operational capabilities in those areas where 80%-85% of demand is domestic.

- Flexible management contracts with suppliers- They have also begun exploring management contracts and franchise models as a growth strategy, providing a significant competitive advantage over international chains.
- Being Indian brands, they understand local people, culture, and tradition better than their bigger international rivals.



“Additionally, in 2023, domestic mid-market brands accounted for about 66% of all hotels added. Of this, 53% were in tier 3 and 4 cities.”

Aryavir Kumar
Managing Director of The Clarks
Hotels & Resorts



"The advantage of home-grown mid-segment brands is their ability to deliver customized services instantly based on guest needs."

Akanksha Garg
Founder Director of Waxpol
Hotels & Resorts

Offering differential experience

They are well-positioned to offer differential experiences with a deeper understanding of regional market dynamics. They can quickly grasp the cultural and demographic characteristics of the area and blend them into their offerings. About 80% of travelers will likely return to a property that offers differential experiences via top-notch guest services.

- The advantage of home-grown mid-segment brands is their ability to deliver customized services instantly based on guest needs. This is a major advantage as international brands often offer cookie cutter experience owing to their sheer size and not so very flexible policies.
- Mid-scale home-grown hotel brands can easily blend local culture, cuisines, etc., to craft a compelling narrative around offering differential guest experiences.

Flexible contracts with suppliers

To some extent, home-grown brands score over bigger international players in this area of operation. How? Without complex policies, they can quickly draw up flexible and profitable contracts with local suppliers/hotels, leading to rapid expansion in tier 2,3 and 4 cities.

- Domestic brands have a better understanding of the local/regional ecosystem. By leveraging the local elements, they can quickly determine how to create value and profit for their hotel partner.
- Domestic brands' cost structures are far more competitive than international brands and are far more flexible on their contractual and exit terms. Additionally, international brands are keen on management contracts.
- Domestic hotel brands have lesser cost implications in terms of brand needs that the owners need to spend on for being compliant. Be it for the purpose of aesthetics or for the purpose of compliance like fire and safety etc.
- Property owners and travel agents in tier 3 and 4 cities are more likely to work with growing mid-segment domestic brands, which can offer domestic travelers personalized experiences. They are also flexible on service inclusions and amenities.



“In 2023, approximately 70% of hotels signed were domestic brands, with an average of 70 rooms per property.”

Vikramjit Singh

Founder & CMD of Alivaa Hotels
and Resorts



"Access to cost-effective cloud-based systems like Hotelogix is a big plus for home-grown mid-segment hotels."

Philip Logan

Chief Operating Officer of Royal
Orchid Hotels

Access to cost-effective cloud solution

Mid-market hotel brands now have easy access to cost-effective and modern cloud-based hospitality technology solutions. These solutions include a hotel property management system (Hotel PMS) with multi-property management features, a channel manager, booking engine, and revenue management system. It is a significant advantage for domestic midscale brands seeking to streamline operations and drive growth with cost-effective "Made in India" solutions. Most importantly, it allows domestic players to lower their Capex significantly.

- Domestic hospitality brands have enough flexibility to quickly adopt home-grown solutions that not only understand the requirements in the Indian context but are also popular internationally. However, international brands are restricted by their choice of technology due to policy uniformity, but may not be best suited and cost-effective.
- The easy availability of cloud-based solutions allows mid-market brands to leverage the power of modern technology to automate operations, sell more online, improve staff efficiency, and serve guests better.

Soft brand collaboration with international brands

Many international brands eyeing to expand in India are looking to execute soft brand collaboration with home-grown brands as they want to avoid getting into the whole operational complexities in tier 2, 3, and 4 cities. It's a win-win proposition for both - international and home-grown brands.

- The soft brand collaboration model is an excellent option for hotel owners who want to balance independence and brand affiliation without the significant costs associated with conforming to the traditional development standards of a global brand.
- An international brand that understands the nuances of navigating through the compliances and market dynamics of tier 2, 3, and 4 cities can leverage this as a business opportunity - making it a mutually beneficial situation for both International and domestic brands



"Suba Group of Hotels is a great example of how a domestic hotel brand, combined with elements of an international chain - Choice India, has expanded from a 14-hotel group to a 92-property group in just four years."

Chandrakant Shetty
Chief Operating Officer at Suba
Group Of Hotels



"For big international brands, capex per key in India is one of the biggest hurdles. For them, the ROI doesn't make sense. But this looks a lot better for home-grown brands."

Kahraman Yigit
Co-Founder & CEO of Olive
Living

Quicker ROI than international brands

In India, Capex—essentially the investment required for each hotel room—poses a significant challenge for international hotel brands. For these global players, the cost of setting up and operating hotels in India often doesn't align with their expected ROI. However, with localized strategies, lower costs, and greater agility, home-grown hotel brands can achieve quicker ROI and faster break even compared to larger, more rigid international chains.

- International brands need to maintain their global standards, which often involves higher construction, operational, and compliance costs. In India, land acquisition, regulatory approvals, and premium locations add to substantial financial burden.
- Domestic hotels can offer similar amenities at lower prices due to their understanding of the market and lower overhead costs. International brands struggle to match these prices while maintaining their global brand equity, reducing their ROI.



CHALLENGES

Attracting and retaining talent

About 67% of hotels today in India face staff shortage and 12% of them are severely understaffed. Domestic hotel brands often face challenges in attracting and retaining staff compared to international hotel brands. The allure of working for well-established international chains, higher pay scale, perceived career growth opportunities, and the appeal of a global work environment often make it difficult for home-grown brands to compete for top talent.

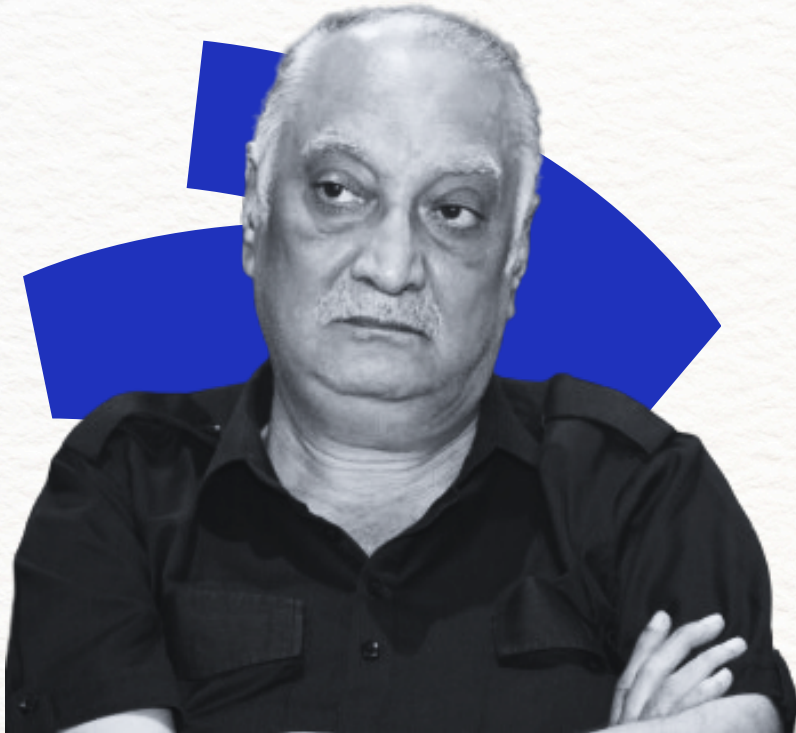
- Additionally, international brands may have more robust training and development programs, which can make them more attractive to potential employees.
- Retaining staff can also be challenging for home-grown brands due to the perceived stability, higher remuneration and benefits offered by international chains.



"People like the glamour that comes with a great international brand. Also, home-grown midscale brands may not offer the same growth opportunity career-wise."

Gagandeep Bindra

National Sales Head of Amritara
Hotels & Resorts



“The authorities must look at these issues and try to resolve them for entrepreneurs who are trying to create world-class properties out of India.”

Suresh Kumar
Seasoned Hotelier & Senior
Consultant to many growing
home-grown hotel brands

Complex regulatory policies

While the domestic midscale hotel segment has witnessed significant growth in the last couple of years, one of its biggest challenges is navigating the complex web of government norms and regulatory frameworks that vary from state to state.

- Hotels require trade licenses, fire safety NOC, health certificates, pollution control clearances, liquor licenses, etc. All of them vary from state to state. For example, some states have annual license renewals, while others may offer multi-year permits. This inconsistency complicates expansion planning.
- For example - a hotel in Karnataka may need different health and safety compliance standards than in Maharashtra, resulting in additional administrative overhead and resource consumption.

Expanding in tier 1 cities

Home-grown hotel brands in the mid-market segment often face significant challenges when trying to expand into tier 1 cities due to high real estate costs, skyrocketing property prices, labor costs along with intense competition from international rivals.

- International hotels wield significant brand power to secure large properties in tier 1 cities through management contracts. In contrast, domestic brands must contend with leasing the property that comes with high land costs and capital expenditures.
- Tier 1 cities are saturated with established international hotel chains that have a strong brand presence and customer loyalty. For mid-scale home-grown brands, competing with these well-known players can be overwhelming, especially when trying to attract high-value customers.



“Supply is an intrinsic problem for domestic midscale brands in this country. Setting up mid-scale hotels in tier 1 cities is not viable as land prices just don’t justify it.”

Jaideep Ahuja
Managing Director & CEO,
Ahuja Residences



In conclusion, domestic hotel brands are well-positioned for success, with numerous opportunities outweighing challenges. They excel in catering to religious, medical, leisure, domestic, and cultural tourism, demonstrating consistent growth and improvement year over year. These hotel chains are forming partnerships with independent hotel proprietors and developers to expand their presence across tier 2, 3, and 4 cities. However, they still need to innovate to get bigger properties in tier 1 cities as hotels in these cities add the bulk of the revenue. Reports indicate that contracts in this hotel segment surged by an impressive 70% to 75% in 2022 compared to 2019. The India Hotel Market is projected to reach US\$ 47.50 Billion in 2030, and hotels in this segment are ready to capture their share of the market while competing head-to-head with bigger international brands.

The future looks bright...

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A compelling brand story is also a crucial growth factor for hotels in our category. It resonates with our guests."

Deepika Arora
Founder of Rosastays



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"Domestic mid-segment brands will win in the end, as they have a cost advantage, service advantage, and a deep understanding of the local culture. India is for Indians."

Philip Logan
Chief Operating Officer of Royal Orchid Hotels

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"We can transform our challenges into our advantages. We are small, young, and agile. It enables us to work harder, smarter, and in an empowered manner to succeed quickly."

Ritwik Khare
Founder of Elivaas



Thank You



Headquartered in Singapore, Hotelogix is a globally leading provider of cloud-based Hotel PMS, Multi-property Management System, Channel Manager, Revenue Management System, Rate Shopper, Booking Engine, Contactless Solutions, etc. It powers the operations of 12,000+ hotels, including 250+ growing hotel groups in 100+ countries. It serves a variety of properties, including independent properties, groups, resorts, boutique hotels, and others. Today, it enjoys the trust of hotels in South Asia, Southeast Asia, the Middle East, LATAM, Europe, and North America.

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