Global Issues & Challenges in Hospitality Industry-
Overview of Hospitality Industry

AISHWARYA GOYAL
SR. LECTURER
CHANDIGARH BUSINESS SCHOOL, LANDRAN (MOHALI)
AMIT GOYAL
ASSISTANT PROFESSOR
NITTTR, SECTOR-26, CHANDIGARH

INTRODUCTION

Hospitality is about serving the guests to provide them with — feel-good-effect. — Athithi Devo Bhavha (Guest is God) has been one of central tenets of Indian culture since times immemorial. In India, the guest is treated with utmost warmth and respect and is provided the best services. Hospitality is all about offering warmth to someone who looks for help at a strange or unfriendly place. It refers to the process of receiving and entertaining a guest with goodwill. In recent times, the hospitality industry has found itself in the limelight owing to the spurt in the growth of India’s tourism industry and increasing economic activities. The Government of India has initiated the ‘incredible India’ campaign to promote the tourism industry and boost the upcoming hospitality sector. Today hospitality sector is one of the fastest growing sectors in India. It is expected to grow at the rate of 8% between 2007 and 2016.

The liberalization policy of the Government permits 100% foreign direct investment in the sector. Many global players in the industry have started investing in India by way of partnerships, mergers, acquisitions, franchising and through management contract. Many international hotels including Sheraton, Hyatt, Radisson, Meridian, Four Seasons Regent, and Marriott International are already established in the Indian markets and are still expanding.

The rising income levels and business ventures have also added the demand for hotel rooms across the country. The country is hosting the nineteenth Commonwealth Games scheduled to be held between October 3 and October 14, in 2010. A large number of sportspeople are expected to arrive at Delhi where the event is going to take place. Hotels (2, 3, 4 star hotels) in the NCR cities like Noida, Gurgaon and Ghaziabad are expected to benefit with the Government giving a tax.
holiday for five years under Section 80-ID (1) of the Income Tax Act. Technology innovations make advance reservations more convenient for the customers and also facilitate in effective advertising of the brand name.

**Some of the main features of the Indian hotel industry include the following:**

1. The industry is more dependent on metropolitan cities as they account for 75% to 80% of the revenues, with Delhi and Mumbai being on top.

2. The average room rate (ARR) and occupancy rate (OC) are the two most critical factors that determine profitability. ARR depends on location, brand image, star rating, quality of facilities and services offered. The occupancy rate depends on other seasonal factors.

3. India is an ideal destination for tourists. Approximately 4.4 million tourists visit India every year. Thus the growth prospects are very high.

4. In the hotel sector, a number of multinationals have strengthened their presence. Players like Four Seasons are also likely to enter the Indian market in the near future. Moreover, Indian hotel chains are also expanding internationally. A combination of all these factors could result in a strong emergence of budget hotels, which could potentially lower the cost of travel and related costs.

**TYPES**

Hospitality industry can be empirically divided into two parts: entertainment areas like clubs and bars, and accommodation. Accommodation takes the form of public houses, resorts, inn, campgrounds, hotels, hostels, serviced apartments, and motels. The clubs and bars category include restaurants fast foods, and nightclubs. The hospitality industry also includes tourism support commercial activities like airline cabin staff and travel agents. Travel technology like applied information technology (IT) and its workers in hospitality, travel and tourism are included in the hospitality industry. A hotel is an establishment that renders lodging in lieu of payment. This lodging is usually given in exchange for a specified predetermined amount of money. Modern hotel rooms come equipped with climate control and attached bathrooms. Higher end hotels offer guests internet connectivity within rooms and also throughout the premises. A combination of meals and accommodation comes as a package in most hospitality establishments. Hotels are usually managed by professionally qualified managers. Junior Nightclubs are entertainment venues where dancing is accompanied by light snacks and drinking. Apart from
service personnel like waiters and cooks, nightclubs employ disc jockeys (DJs) and stand up comedians as part its varied attractions. Fast-food restaurants now form a major part of the hospitality industry. These restaurants employ an optimal number of personnel for providing customer service. Food may also be sold from kiosks.

**The Top Players in Hospitality Sector**

The major players in the Indian hotel industry can be broadly classified into private players and public players. The major private players include Indian Hotels Company limited, East India Hotels Limited (The Oberoi group), Asian Hotels and ITC Hotels. ITDC and Hotel Corporation of India are the major public sector players.

**Public Sector Players:**
- ITDC hotels
- Hotel Corporation of India

**Private Sector Players:**
- ITC Hotels
- Indian Hotels Company Ltd.(The Taj Hotels Resorts & Palaces)
- Oberoi Hotels(East India Hotels)
- Hotel Leela Venture
- Asian Hotels Ltd.
- Radisson hotels & Resorts

**The industry can be classified into four segments:**

1. **5 Star and 5 Star Deluxe.** These are mainly situated in the business districts of metro cities and cater to business travelers and foreign tourists. These are considered to be very expensive. These account for about 30% of the industry.

2. **Heritage Hotels.** These are characterized by less capital expenditure and greater affordability and include running hotels in palaces, castles, forts, hunting lodges, etc.

3. **Budget Hotels:** Budget hotels cater mainly to domestic travelers who favor reasonably priced accommodations with limited luxury. These are characterized by special seasonal offers and good services.

4. **Unclassified:** These are low-priced motels spread throughout the country. A low-pricing policy is their only selling point. This segment accounts for about 19% of the industry.
PROBLEMS IN THE HOSPITALITY SECTOR:

1. **Shortage of skilled employees:** One of the greatest challenges plaguing the hospitality industry is the unavailability of quality workforce in different skill levels. The hospitality industry has failed to retain good professionals.

2. **Retaining quality workforce:** Retention of the workforce through training and development in the hotel industry is a problem and attrition levels are too high. One of the reasons for this is unattractive wage packages. Though there is boom in the service sector, most of the hotel management graduates are joining other sectors like retail and aviation.

3. **Shortage of rooms:** The hotel industry is facing heavy shortage of rooms. It is estimated that the current requirement is of 1, 50,000 rooms. Though the new investment plan would add 53,000 rooms by 2011, the shortage will still persist.

4. **Intense competition and image of India:** The industry is witnessing heightened competition with the arrival of new players, new products and new systems. The competition from neighboring countries and negative perceptions about Indian tourism product constrains the growth of tourism. The image of India as a country overrun by poverty, political instability, safety concerns and diseases also harms the tourism industry.

5. **Customer expectations:** As India is emerging as a destination on the global travel map, expectations of customers are rising. The companies have to focus on customer loyalty and repeat purchases.

6. **Manual back-end:** Though most reputed chains have IT enabled systems for property management, reservations, etc., almost all the data which actually make the company work are filled in manual log books or are simply not tracked.

7. **Human resource development:** Some of the services required in the tourism and hotel industries are highly personalized, and no amount of automation can substitute for personal service providers. India is focusing more on white collar jobs than blue collar jobs. The shortage of blue collar employees will pose various threats to the industry.

**Top ten issues which poses a biggest challenge for Hospitality Industry:**

1. **Global Uncertainty**

While the global hospitality industry continues to recover following the effects of the terrorist attacks of September 11, 2001, SARS, the war on terrorism in Afghanistan, and the war in Iraq, global uncertainty remains a major concern. Terror attacks are the most direct example of global uncertainty; however, there are other areas of concern such as geopolitical relations.
governmental travel restrictions and currency exchange rates. The industry needs to take a proactive approach in addressing these issues and their potential impact.

2. **Human Resources**

Human resources are an area that is growing in importance. As the industry continues to recover, it needs to focus on its employees and their roles as service providers. Increasing demand requires increased staffing levels at a time when the labour pool is shrinking. To address this issue, the industry must attempt to work with the unions as allies, devote more time and money to recruitment and training and educate politicians as to the impact of governmental economic and immigration policy on the industry.

3. **Branding Issues**

The society notes the following brand issues facing the industry in 2005:

- A proliferation of brands and branded hotels worldwide that is leading to the commoditization of the hotel product.
- Increased competition between the brands is leading to amenity creep, and diverging interests between owners and brands.
- Instilling authenticity of local culture into brand standards remains a challenge.

4. **Financial Viability**

There is a significant amount of capital currently flowing into the hospitality industry. Not only are investors betting on a strong recovery, but also in some cases they are not performing realistic projections and investment analyses. Should expectations not materialize, then sub-par returns could damage the overall financial credibility of the lodging industry.

5. **Technology**

The hospitality industry must do a better job of managing technology and addressing the challenges posed by new and changing technology. Specifically, the industry must align technology investment with business objectives, address aging and inadequate infrastructure (at both the corporate and the property levels); and learn to better utilize technology in marketing to guests, training employees, yield management, and meeting customer requirements.

6. **Customer Issues**

*Customer issues present a challenge to the industry in several ways:*

- Increasing loss of control over the customer - use of the Internet, homogenization of the hotel product and increased corporate oversight has reduced the amount of control that operators have over the customer.
• Changes in the customer - hotel customers are changing due to demographics (the aging of the baby boomer generation) and due to lower transportation costs that promote travel.

• Changes in customer expectations - these are changing as consumers become more sophisticated and better educated.

7. Operating Cost Creep

While the industry has experienced strong growth this past year, with revenues expected to approach 2000 levels, bottom line performance has eroded dramatically (i.e. over 30%) since 2000, due to escalating expenses.

In recent years —non-controllable‖ costs such as utilities, insurance and government regulation have increased significantly. These costs along with interest rates are expected to increase in 2005. In addition, there is the potential for increases in controllable costs such as payroll, staffing, brand requirements, and amenity creep. The industry must be cognizant of these increases, and take steps to address them.

8. Supply

There are three supply related issues facing the industry:

• Increasing alternative forms of supply such as time-share, fractional ownership, second homes, and camping, cruising and water parks.

• Under demolished (functionally obsolete) supply is, and will remain, a challenge for owners and operators, particularly in Europe where new construction is expensive and difficult.

• In the United States, the use of public funds to develop hotels and resorts presents a challenge for existing private owners and operators.

9. Safety and Security

The threat of terrorist attack remains a major concern for the industry. Hotel operators must make every effort to protect their guests while encouraging tourism.

10. Distribution Channel Management

In 2005, Distribution Channel Management as an issue must be viewed in a much broader context than in the past. Whereas most hospitality organizations have devoted extraordinary efforts to managing electronic channels, a broad-based distribution management strategy now must consider the following challenges. In 2005 it is expected that price sensitivity will continue to drive consumer buying behaviour in virtually every segment.

Pricing structures will need to demonstrate price integrity across all distribution channels-not just electronic ones. The potential challenges are formidable: lead times to booking continue to shrink; the move toward real time inventory becomes paramount, impacting technology, product
categories, segments and channels; and the desire to track and manage every revenue stream in every channel means that distribution channel management transitions to a focus on the most profitable customer.

11. Airlines in the 21st Century

It is important to closely monitor the fundamental changes occurring in the airline industry and their potential impact on the hotel industry for the viability of the hotel industry depends greatly on airline lift capacity, service and convenience in travel as well as the cost of airline travel. Traveling by air today is a major inconvenience for many travelers and security remains a huge challenge and very costly undertaking for the industry. Customers have become much more —value focused and most major airlines have experienced a substantial decline in revenues per passenger mile primarily due to the erosion in high end/priced business travel. In addition to the escalating cost of fuel, many airlines are also struggling to address labour issues. With several carriers worldwide in bankruptcy and/or severe financial distress it is an enormously challenging time for the airline industry. In light of these financial challenges we can anticipate that carriers of necessity will need to reevaluate route structures, lift capacity in certain markets and well as rethink pricing on certain routes - changes that can be expected to represent potential challenges for some hotels/markets and opportunities for others.

ISHC is a professional society of 175 members in 16 countries who are leading consultants in the hospitality industry. ISHC members have expertise in over 30 different specialty areas in the hospitality industry and collectively have experience with many leading independent hotels and over 100 brands worldwide.

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The current changes in the labour market present opportunities as well as challenges for the hospitality sector. Like other sectors, the hospitality sector must work to attract and retain skilled individuals and build the capability of their workforce.

IMPACT OF GLOBAL FINANCIAL CRISIS ON HOSPITALITY INDUSTRY:

It could be argued that the sector most hit by the global financial crisis is the entertainment and hospitality industry. This is because entertainment, leisure and tourism are very vulnerable to economic uncertainty and volatility. Most travel and tourism activities involve optional expenses. During times of economic recession, people like to conserve money to cover the essentials of life such as food, shelter and family necessities. This, however, does not mean that entertainment and tourism will be endangered specie. In almost all periods of economic crises or global tourism scare arising from events such as the 9/11 attack on the United States, people did not stop
travelling but they had travelled differently from the way they were used to in times of economic boom. Tourism and hospitality businesses which will survive in the months ahead, say observers of the industry, are those with ability to adapt to the new circumstances.

Between short and medium term, there will emerge travellers who will spend less on travel. Those tourism and hospitality businesses, which can adapt to service travellers on a tighter budget will do well, say analysts. The demand for the luxury end of the market is likely to decrease while demand for either low cost or perceived good value products and services is likely to grow. Airlines and hotels especially need to rapidly adapt to this trend.

Experts also predict that destinations with —favourable— exchange rates may benefit from the current credit squeeze. Ironically, the surge in value of the US dollar and the Euro may stimulate Americans, Europeans and Japanese to resume travelling overseas.

The growth of Chinese and Indian outbound travel may slow but will continue because these economies are still growing. There is likely to be a growth in domestic travel or short hauls international travel as people choose to stay closer to home. How has the global financial meltdown affected hotel businesses and tourism internationally and locally in Nigeria? Trevor J Ward, Managing Director, W Hospitality Group, told Business Day —there is very little effect on the hotel business in Nigeria. But in Europe, the USA and elsewhere, there has been a loss of confidence in the whole banking system, which has reduced lending to businesses and individuals, and this reduction in credit is affecting businesses and consumers alike. Coupled with the reduction in house prices, there has been a marked reduction in business activities and consumer spending, and this affects the hotel industry, as business travel slows, and discretionary spending on leisure travel goes down, the banks in Nigeria, and Africa as a whole, are largely unaffected by the global financial crisis.

—But there will be a knock-on effect in the New Year, says Ward, —as lower demand from China and elsewhere for Africa’s oil and minerals reduces certain countries’ income, including Nigeria, where the reduced oil price (resulting from a reduction in demand primarily in the USA and China) has a direct effect on government income and spending.

Elsewhere in Africa, particularly countries like Kenya, Tanzania, South Africa and Gambia, where large amounts of income comes from international tourism, says the hospitality consultant, there will be a reduction in international visitors as spending slows down. In Ghana and other countries, the amount of workers’ remittances from the Diaspora is likely to reduce, as workers are laid off in developed countries, and no longer have the funds to send home. For Nigeria, whether there will be a negative effect on the hotel business depends almost entirely on the oil price — —we have to wait and see what happens, but most experts believe that OPEC
needs a price of $80 per barrel to maintain stability in the system,‖ says Ward.

As to future expectations, he predicts that 2009 will show a slow down, but the efforts of the developed nations to shore up the financial system are likely to have a positive effect, and Africa will be affected less than most of the rest of the world. The IMF forecasts growth in Africa to be 5.1 percent next year, compared to a global average of just 2.2 percent.

Although it is not immune to it, there will still be business for the hospitality industry in the face of acute global economic recession. —People still need to travel, and I think the expression, ‗acute global recession‘ is a bit extreme,‖ says Ward. —Global growth is still expected to be positive next year at 2.2 percent with China and India still achieving high growth of six to seven percent. The Unites States is forecast to have negative growth of 1.7 percent, a great concern, but hardly meltdown.‖

For Belinda Nwosu, training coordinator at Wavecrest College of Catering and Hospitality Management, Lagos, —people are tightening their belts, business travel is being scaled down, and leisure travel is reducing too. Budget accommodation will be the preferred option. Maybe not ‗preferred‘, but certainly in the UK, demand for Travelodge and Premier Inn is holding up very well.‖

In Nigeria, the knock-on effect really will scale down in-bound, business travel that makes the bulk of hotel visits. There will be lower spending power too, except that big oil, which is the main driver of the economy, has benefited considerably from the high oil price. In the future, we may see budget airlines and hotels take the lead and demand for luxury accommodation drop will until another economic boom begins a new cycle of consumer spending,‖ says Nwosu.

The big spenders may cut back a bit, Nwosu observes, but because of the wide variety of services that cater for virtually all consumer spending capacities, there will still be business for the hospitality industry in the face of acute global economic recession.

Regardless of the gloomy pictures some commentators paint for the hospitality industry, —most people worldwide will continue to earn income from their jobs. Most will want to take a vacation, and weddings, honeymoons and illicit affairs will still continue,‖ says another observer. —People will want to get away from home, make a religious pilgrimage and travel will remain part of the way people do business.‖ In line with the optimistic growth forecasts by tourism associations such as the WTTC, UNWTO and PASTA, —tourism will survive this challenge as it has overcome a wide range of challenges since the 21st century began. The tourism industry will have a rough ride the months ahead but those who think and act strategically and have the ability to adapt their business models quickly to the new realities will overcome this challenge.‖
IMPACT OF MUMBAI TERROR ATTACK ON INDIAN HOSPITALITY INDUSTRY:

More than 170 people were killed during the terror siege, one of the deadliest attacks in India's history. The Mumbai terrorist attacks struck India's tourist industry at the start of peak season, compounding problems for airlines and hotels that were already facing the slowest growth in visitor numbers in five years. Terrorist attacks aimed at foreign tourists, such as the Mumbai assaults, may hurt hotel bookings and airline-ticket sales for more than a year. The island of Bali, which accounts for one-third of all foreign tourists to Indonesia, had not recovered a year after the 2002 bomb that killed 202 people. While the confrontation between terrorists and the National Security Guards raged in the corridors of the luxurious Taj Mahal Hotel at Gateway of India, for the third day, travel agents in the city reported a deluge of calls by tourists and travelers wanting to cancel their bookings. Now they are worried that if foreign countries begin to issue travel advisories against India, tourism could be severely hurt.

Travel agents say the real impact that the terror attacks would be felt on the Christmas and New Year tourists and would be ascertained only over a period of next few days.

Says Rajji Rai, president, Travel Agent Association of India (TAAI): "Till now, we were worried about the economic slowdown and its impact on the tourism industry. But this is a direct attack on the industry as it has targeted hotels and foreigners. This is the peak period for the tourism sector and we were hoping business would pick up in a month. But now it seems difficult as the situation might be totally different. It is too early to say how big an impact it will have, but it definitely looks like the sector will be hit badly."

International rating agency Standard & Poor's (S&P) says that the tourism and hotel industry are expected to have the most impact in the near-term and foreign tourist inflows are likely to slow down. "Western countries have either issued travel advisories or cautions. Media has reported about 15 per cent cancellations in airline bookings at present. Overseas clients, such as those of Indian IT companies, may postpone their visits but this may not have much impact since business travel to outsourcing destinations is anyway low due to holidays in the Western world," said the S&P statement.

Although economists and analysts say that the terrorist attacks on Mumbai will have a short-term impact on India's economy, business men say business confidence, which has been falling over the past few months in the wake of the global credit crisis, could decline even more.
**Conclusion:** Indian tourism and hospitality sector has reached new heights today. Travelers are taking new interests in the country which leads to the upgrading of the hospitality sector. Even an increase in business travel has driven the hospitality sector to serve their guests better. Visiting foreigners have reached a record 3.92 million and consequently International tourism receipts have also reached a height of US$ 5.7 billion. Hospitality Industry is closely linked with travel and tourism industries. India is experiencing huge footfalls as a favorite vacation destination of foreigners and natives and the hospitality industry is going into a tizzy working towards improving itself. Fierce competition and fight to rank on the number one position is leading the leaders of this industry to contemplate on ideas and invent successful hospitality products and services every day. 'Hotel Industry in India' is set to grow at 15% a year. This figure will skyrocket in 2010, when Delhi hosts the Commonwealth Games. Already, more than 50 international budget hotel chains are moving into India to stake their turf. Therefore, with opportunities galore the future 'Scenario of Indian Hotel Industry' looks rosy.