



# **Tourism and Hospitality Industry in India: An Appraisal**

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## **Abstract**

Tourism and hospitality industry may help the developing countries like India more in resolving the problem of employment of its ever-growing population as it is considered as highly labour intensive service industry, where the employment-investment ratio is higher than any other industry. Travel and tourism directly creates employment opportunities in hotels, restaurants, airlines, travel agencies, passenger ships, and as a result of the spread effect creates jobs in industries like construction, telecommunication, manufacturing and the retail trader. The paper is an attempt to examine the problems and prospects of hospitality and tourism industry in India besides to review its different phases of development as well as significance of this industry in Indian context. The analysis shows that hotel industry is facing the problem of low profitability due to low food & beverage sales as well as low occupancy and higher taxes. Similarly, tourism industry is also not growing to its potential due to inadequate infrastructure, poor marketing strategies etc. followed for tourism promotion in India. Despite all this, there is a lot of potential for growth of hospitality and tourism industry in India and abroad due to worldwide industrial development, increased earnings of individuals, economic

growth of tourists producing nations, improved transport and communication means etc.

The history of the hotel industry is as old as the history of tourism and travel industry. In fact, both are two sides of the same coin. Both are complementary to each other. Hotel is an establishment which provides food, shelter and other amenities for comfort and convenience of the visitors with a view to make profit (Chakravarti, B.K). Hotel is a commercial establishment and intends to provide visitors with lodging, food and related services with a view to please them so as to build goodwill and to let them Carry happy memories. In general, a "hotel" is defined as a public establishment offering visitors against payment two basic services i.e. accommodation and catering (Ghosh, Biswanath). However, during the last few years great changes have taken place in the scope of hotel industry.

During 6<sup>th</sup> century BC, hotels were known as "inns" or "dharamshalas" and were providing only food and overnight stay facilities. At that point of time the standard of an inn was quite normal with earth or stone floor, common bedroom and simple food. As travel became easier, inns grew in size and number. The spirit of competition raised the standard of inns.

Industrial revolution and trade expansion resulted into increase in the number of visitors crossing international border. In this era, room furnishing and catering received greater attention. Emphasis was made on accommodation

with spacious assembly hall and dinning hall for organising functions and parties etc. But the real growth of the modern hotels started in the last decade of the eighteenth century with the establishment of City Hotel in New York. After that a large number of hotels of various types and grades came into existence in different countries to meet the requirements of different categories of visitors.

Modern hotels provide a number of services to the visitors. The services vary according to the aim, location, type, size and grade of the hotel. Generally, the important activities of a hotel include – (1) Direction (2) Reception (3) Provision of accommodation rooms/floors (4) Cuisine Meals and Refreshments (5) Restaurant (6) Bar (7) Bell to provide information to the guests (8) Entertainment and Recreation (9) Sight seeing (10) Transport facilities (11) Parking space(12) Swimming pool(13) Bathroom facilities (14) Lounge facilities (15) Garden (16) Shopping facilities (17) News stand (18) Tobacco and Cigarettes (19) Telephone (20) Television (21) Radio (22) Laundry and Cleaning (23) Telex service (24) Sporting installations, Tennis court, Golf and Squash (25) Installation for children (26) Banquet hall (27) Conference facilities (28) Convention facilities (29) Exhibition areas (30) Health club (31) Business centre etc (Negi Jagmohan,). After 2<sup>nd</sup> world war, there were several distinct trends in the hotel industry. First, hotel industry became highly profitable mainly because of auxiliary services. Another feature was the growth of hotel chains. In most chain operations, some hotels are owned by the corporation while others are leased for operation to the group having experience in hotel

business. The high cost of land in the heart of the city often forced a successful hotel to maintain auxiliary shops such as drug stores, flower shops, haberdashery and dress shops, beauty saloons and news stands to serve both hotel guests and the city residents who live or work near the hotel. Although such shops may be staffed and operated by the hotel but usually these are leased out to outside concerns (American People Encyclopaedia).

### **Development of Hotel Industry in India**

The concept of travel and halting facilities is quite old in India. In ancient times, people used to travel for pilgrimage or business purposes. For ages, India has been known for its hospitality. Endowed with rich historic heritage, cultural diversity, natural resources and geographical advantage, India remained a big attraction for foreigners. In ancient times, the need of travellers for food and accommodation was met mainly by hospitable householders which are still in existence in interior areas of the country. Domestic tourists were looked after by the pandas or priests. They used to accommodate their clients in dharamshalas or in their own houses at places of pilgrimage like Banaras, Haridwar, Puri and Mathura etc. In general, the attitude of the ancient Indians towards visitors was influenced by the 'Atithi Devo Bhavah'. It means guest is like God and should be treated accordingly (R.N. Kaul). These few lines amply indicate the importance which was given to guests in olden times.

Improvements in the transport and communication facilities resulted in the establishment of inns and taverns in main cities of the country. In the

eighteenth century, there were plenty of taverns in the country (a tavern mean an archaic or literary inn) where travellers from long distances took shelter and food. During this period, a number of dharamshalas were built by Kings for encouraging travel all over the country. Apart from dharamshalas, "Sarais" were introduced by the Muslim rulers which provided the best possible facilities like food, accommodation etc. to travellers (R.N. Kaul).

After this, the British came to India and Sarais took the form of western style hotels in the important cities of India like Mumbai and Kolkata. During this period, on the one hand, we find the western style hotels for foreigners and on the other, Indian style hotels for the people belonging to upper and middle class income groups. The old type dharamshalas were still having their importance to serve the needs and requirements of the poor classes (Negi Jagmohan).

In the nineteenth century, western style residential hotels were developed in India by British and Swiss families mainly for their own use or for foreign visitors. Mr. Pallonjee Pestonjee is called as the pioneer of the western style hotel in India who opened the first – western style hotel under the name of British Hotel in Mumbai in 1840. By the end of the nineteenth century, many western style hotels were established in India. These hotels were very much popular for their efficient management, unsurpassed cuisine and the excellence of beers and wines (Negi Jagmohan).

The twentieth century may be called as the beginning of star hotels in India. In this century, big and modern hotels came into existence on account of the

advent of big businessmen and new entrepreneurs (Negi Jagmohan). Affluent tourists also contributed a lot to the development of star culture.

The major star hotels in India are in private sector. The high profile hotels include The Indian Hotels Company Ltd., East India Hotels Ltd., ITC Hotels Ltd., Bharat Hotels Ltd., Asian Hotels Ltd., Hotel Leelaventure Ltd. and Jay Pee Hotels Ltd. etc. The only public sector enterprise is India Tourism Development Corporation Ltd. which runs country's largest accommodation chain, The Ashoka Group of Hotels. The hotel industry in India is making a remarkable progress in private sector. The hotels have shown distinct improvement in operating techniques, catering and service.

### **Recent Trends in Indian Tourism and Hospitality Industry**

The Asian games in 1982 provided an opportunity to travel agents and tour operators to market India abroad and they grabbed it well. Encouraged by some incentives announced by government, five star hotels began growing all over the India. All these helped a lot in the healthy growth of tourism in our country. In fact, tourism business and hotel business go side by side and both are complementary to each other. In India, both approved and unapproved hotels are found but approved hotels have an edge over unapproved hotels in several respects. Hotels are granted approval from the department of tourism, Government of India at project stage and then are classified in one of the star categories. It is voluntary for a hotel to get approved status from the government, but only approved hotels can avail the various income tax incentives, import licences and other approvals.

There were 1300 approved and 477 unapproved hotels offering 98515 rooms in 2004 as against 1285 approved and 452 unapproved hotels offering 95722 rooms in 2003. The Indian hotel business is focused largely on foreign tourists with almost 70 percent business comes from this segment.

The key operating characteristics of the hotel business are the occupancy rate and the average room rate. The room rates depend on the class, location and the image of the hotel. The occupancy rate is dependent primarily on the seasonal arrivals as well as the location of the hotel. Occupancy level of 70 to 80 per cent is considered good by industry standards. Average occupancy in India was 59.7 per cent in 2004 as against 54.8 per cent in 2003 and average room rate was Rs.2689 in 2004 as against Rs.2004 in 2003. The whole position is made clear by table I.1.

**Table 1.I**

**Category - Wise Position of FHRAI Member Hotels in India**

**(in Numbers)**

Years	2000		2001		2002		2003		2004	
Category	Hotel	Rooms	Hotel	Rooms	Hotel	Rooms	Hotel	Rooms	Hotel	Rooms
Five star Deluxe	57	12556	65	14959	68	15672	68	16050	74	17903
Five star	73	9051	72	8513	72	8662	72	8669	71	8554
Four star	92	7232	99	7791	100	7614	102	7408	104	7355
Three star	379	19785	402	20691	413	21387	409	21098	414	21433
Two star	244	9135	263	9958	234	9278	226	8903	221	8639
one star	46	2253	50	2428	48	1696	44	1520	43	1480
Heritage	66	2372	73	2551	71	2492	67	2258	69	2297

Approved unclassified	263	10560	303	12318	308	12515	297	11921	304	12058
Unapproved	493	18350	472	17757	455	17925	452	17895	477	18796
Total	1713	91294	1799	96966	1769	97241	1737	95722	1777	98515
Average occupancy	51.7		55.6		53.2		54.8		59.7	
Average Room Rate	Rs. 2123		Rs. 2046		Rs. 2058		Rs. 2004		Rs. 2689	

Source: Indian Hotel Industry Survey - 2004-05, FHRAI, Seventh Edition.

The hotel industry and the 5-star hotels in particular are concentrated in the four metros, especially in Mumbai and Delhi. As many as 75 per cent of the 5 star deluxe rooms, 47 per cent of the 5 star ordinary rooms and approx 35 per cent of all the registered rooms are in the four metros. Due to phenomenal increase in tourism activities, the hotel business has grown beyond expectations. This is particularly true about international tourism and star hotel business. At present about 789 million tourists are crossing international boarder every year and they are spending nearly 685 billion US Dollars. This figure was just 100 million in 1964. The figure is likely to swell to 1 billion by 2010 and 1.5 billion by 2020 as per projection by world tourism organisation. International tourists here in India were 3.5 million in 2004 as against 2.78 million tourists in 2003. Foreign exchange earnings from these tourists were about 23000 crores of rupees in 2004 as against Rs.16429 crores in 2003. During the year 2005, about 4 million foreign tourists came here and India earned 5 billion US Dollars from them. In the first 6 months of the year 2006, about 2.16 million foreign tourists visited India and foreign exchange earnings

from these were 13441 crores of rupees. It is expected that this growth will continue during the next couple of years if no adverse incident happens in India or the South East Region. According to an estimate of CII, the number of foreign tourists visiting India is likely to increase to 50 million by 2020. As per estimates of Ministry of Tourism, 1,50,000 hotel rooms of different categories are required to be added to the existing available rooms in the next couple of years to accommodate all the foreign tourists and this will involve an investment of Rs. 35,000 crores. Obviously, there is a good scope for hotel business all over the world including India and these estimates will boost hotel business in India.

### **Significance of Tourism and Hospitality Industry**

Tourism and hospitality industry may help underdeveloped/developing countries more in resolving their various problems as this industry today has emerged as one of the fastest growing industries in terms of capital invested, foreign exchange earnings and providing jobs. In India, it is considered as highly labour intensive service industry, where the employment-investment ratio is higher than any other industry. One of the India's biggest problems is to find ways to employ its ever-growing population. Travel and tourism directly creates employment opportunities in hotels, restaurants, airlines, travel agencies, passenger ships, and as a result of the spread effect creates jobs in industries like construction, telecommunication, manufacturing and the retail trader. According to Ministry of Tourism, an investment of Rs. one million in the hotel and restaurant sector may create 89 jobs as against 44 jobs in

agriculture and 12.5 jobs in the manufacture sector. Investment required to create one job in manufacture is around Rs.79,000 where as in hospitality industry it is only Rs.11,200. At present about 20 million persons are directly or indirectly employed in tourism related industry and this figure is likely to increase to 40 million by 2020. It amply proves the job potential of hospitality industry in India.

### **Problems of Tourism and Hospitality Industry in India**

Developing countries like India have failed to develop tourism and hotel industry to its potential due to one reason or the other. Indian share in tourism business at global level is far below than its capacity to develop this industry. Data available from the World Tourism Organisation available till 2003 shows France continued to maintain top slot with almost 75 million international tourists in 2003. Spain and USA consolidate the second and third position having 52.5 million and 40.4 million foreign tourists respectively. Even smaller countries like Singapore, Indonesia and Thailand etc. are doing much better business than India from tourism. It is because of the number of problems faced by tourism and hotel industry in India.

The hotel industry in India is facing a number of problems such as low occupancy rate, increasing competition, high taxes, increasing cost, fuel shortage, low profitability and so forth. Similarly, on the one hand, it is alleged that there is shortage of rooms to meet the varied requirements of different categories of tourists and visitors while on the other hand room occupancy rate

is very low here in India. It was 59.7 per cent in 2004 as against 54.8 per cent in 2003. Hotels are compelled to give liberal discount to the potential customers particularly during the lean period.

Further, average expenditure of those who get commercial accommodation is comparatively low due to one reason or the other. Similarly, prevailing tax rates such as service tax, excise duty and custom duty on imported luxury car, beer, liquor etc. are very high. All these factors adversely affect the profitability of the hotels. This is particularly true about 5-star hotels in India. Thus, on the one hand, heavy investment is required in hotel business while on the other hand profitability in this business is adversely affected by the aforesaid constraints. These problems can be discussed under the following heads:

### **1. Problem of Seasonality**

Hotel is indeed a seasonal business. There is seldom 100 per cent occupancy except in peak season. In India on an average, it is 59.7 per cent. Therefore, a hotel cannot use its property fully and it accounts for low income. The problem is aggravated in case occupancy is adversely affected owing to bad weather or any other reason such as slump in business, international crisis or disturbances etc. Food cannot be stored due to its perishable nature. Similarly, hotel staff cannot be reduced temporarily at the time of poor demand of rooms. All these account for poor earnings.

### **2. Low Profitability**

Revenue mainly comes from the rooms and sale of food & beverage in the hotel industry. Average occupancy level and average room rate have been found very

low as indicated in table 1.2. However, slight increase has been noted in both in 2003-04. But it is not sufficient to increase the profitability level of the hotel industry upto mark. Further, on the one hand food & beverage revenue is low while on the other hand food & beverage cost as well as labour cost is high as shown by table 1.2 which affect the profitability of the hotel industry adversely.

**Table 1.2**  
**Indian Hotel Industry Position**

Year	AOL(%)	ARR (Rs.)	R R (%)	F&B Rev.(%)	F&B Cost(%)	Labour Cost(%)
1994-95	60.5	2410	49.81	37.29	35.9	18.77
1995-96	62.3	2520	51.70	34.63	34.68	16.88
1996-97	62.9	2560	52.41	34.36	35.93	16.97
1997-98	56.2	2330	50.87	35.64	32.51	18.58
1998-99	52.4	2530	48.68	36.85	33.68	21.29
1999-2000	51.7	2123	48.11	36.21	33.48	23.56
2000-01	55.6	2046	47.63	36.95	31.95	23.17
2001-02	53.2	2058	46.55	35.58	33.00	24.44
2002-03	54.8	2004	44.44	38.34	33.47	23.79

2003-04	59.7	2689	46.60	35.65	36.26	21.87
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Source: Annual Reports, Questionnaire and FHRAI Hotel Industry Survey 2004-05.

**AOL:Average Occupancy Level**

**ARR:Average Room Rate**

**RR: Rooms Revenue**

**F&B Rev: Food & Beverage Revenue**

**F&B Cost: Food & Beverage Cost**

There are some other reasons which may be held responsible for the low profitability of the hotel industry in india such as heightened competition, global uncertainty, changing technology, low efficiency, high power and fuel cost, poor sales and marketing programmes etc.

### **3. High Consumer Expectations**

Consumer satisfaction is key to success for hotel industry. In these days, consumers are well informed and their expectations go on changing very frequently. Therefore, satisfying a consumer is a most challenging task as it depends not only on tangible but on intangible factors as well. The best of room comfort and the choicest products of culinary art fail to satisfy some people. Services have to be highly personalised in this industry. This makes the hotel industry the most difficult one from the marketing point of view.

### **4. High Direct and Indirect Taxes**

The hotel industry is unfavourably treated from taxation point of view. Hotels do not get tax benefits as enjoyed by other industrial enterprises. Rebates in

corporate income tax, service tax, custom duty, municipal taxes etc. are offered to other industries. The hotel industry does not get these benefits despite its low return on investment. Therefore, the industry cannot keep pace with inevitable changes in market trends.

### **5. Problems of Raising Funds**

Most of the hotels are built in the heart of towns where land is very costly. Further, cost of constructing a new hotel building or renovating an existing facility is also very high. Therefore, huge capital is required to complete construction or to renovate the existing one. It is indeed very difficult to mobilise huge funds from various sources. The poor financial viability of the hotel industry has further aggravated the position.

Further, there are some problems which can not be negotiated. For example, there is very little that can be done to help a hotel that was built on a wrong location or lost the locational advantage later on because of certain happenings. The solution of these problems needs a very high degree of managerial skill and expertise.

Similarly, there are also a number of factors which account for our failure to develop tourism in India to its potential such as:

- a) Inadequate tourist infrastructure at important destinations;
- b) Poor marketing strategies and policies for tourism promotion;
- c) Low priority to domestic tourism;
- d) Poor tourism planning and their ineffective execution;

- e) Faulty human resource development planning and policies in tourism sector.

### **Prospects of Tourism and Hospitality Industry in India**

The prospects of an industry depend upon the economic, social, political, scientific and technological changes which are taking place in the universe. The hotel industry is very much sensitive and change in any sphere of the universe or in any branch of human activity will immediately reflect upon this industry. The techniques, ideas, modes and methods of operation undergo continual alteration in hotel business.

The emerging worldwide scenario is very conducive for the growth of tourism and hospitality industry. This is due to worldwide education and industrial development leading to greater enlightenment, increased earnings of individuals, economic growth of tourists producing nations, medical science's progress leading to longer life, improved infrastructure of communications and improved transport means etc. Similarly increase in holidays, vacations with pay policy of the government and other employers, increase in pay, extraordinary revolution into the means of transportation including aeroplanes and steadily reduction in airlines fares have given a boost to the domestic tourism and hotel business in India.

The future of indian hospitality and tourism industry seems to be very positive due to increased flow of business and leisure travellers. India is hosting forthcoming Commonwealth Games in 2010 and co-hosting the Cricket World Cup in 2011 and has multiple plans to promote yoga and meditation, rural

tourism, sports tourism, medical tourism, adventure tourism etc. Thus, Indian hoteliers should try to develop world class infrastructure and facilities for games to make India the “Destination Next”. India has unparalleled potential for growth and development of the tourism industry. Endowed with rich historic heritage, cultural diversity and geographical advantage, it could be developed as a leading tourist destination. India can boast of the Himalayas for mountain tourism, the 1500 km. long coastline for beach tourism, temples, forts, palaces, monuments and ruins for historical tourism, over 400 national parks and sanctuaries for wild life tourism, people with diverse languages, fine arts and tradition for cultural tourism and Rajasthan for desert tourism. Foreign tourists have special attractions in India for centuries and Indian hospitality is a legend by itself. Apart from ancient culture and civilization, the diverse natural beauty of India can hardly be seen elsewhere in the world. The traditional stereotyped image of India as a cultural destination is being replaced with the image of diversified tourism products after liberalisation and tourism has been declared as an industry. Both central and state governments have identified tourism as a priority sector.

Therefore in coming years, tourism may emerge as a major foreign exchange earner and employment generating industry. However, the hotel and tourism industry has been declared a high priority industry for foreign investment. But, to make tourism industry globally competitive there is a need to create adequate infrastructure. Government should also provide this industry the infrastructure status and income tax, custom duty, sales tax and excise duty

benefits. High investment is required to improve communication, transport and accommodation facilities for various categories of tourists. Therefore, apart from government investment, large-scale private investment is also required.

In a nutshell, It may be said that there is a lot of potential for the growth of tourism industry in the country and this will boost hotel business too. The demand of hotel rooms is expected to increase in future and the supply is expected to grow faster to meet the increased demand. Therefore, tourism and hospitality industry has a lot of potential for large-scale investment, employment and earnings.

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