

Impact on Challenges and Opportunities of Hotel Industry in India

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ABSTRACT

The services sector is a vibrant component of the economy. This sector accounts for around 60 per cent of the country's gross domestic product (GDP), has advanced as one of the key and fastest growing sectors not just in India but at the global level; subsequently, its impact towards global output and employment has been substantial. The share of services in India's GDP at factor cost (at current prices) rose from 33.3 per cent (1950–1951) to 56.5 per cent in 2012–13, as per advance estimates. The hospitality sector is one of the important sub-sets of service sector. The Indian tourism and hospitality industry has emerged as one of the key drivers of growth among the services sectors in India. Tourism in India is an employment producer and an important source of generating foreign exchange reserve for the country, apart from being an economic activity that helps local and host communities. In 2013, the travel and tourism industry contributed Rs 2.17 trillion (US\$ 36 billion) or 2 per cent to the country's gross domestic product (GDP). This is expected to rise to Rs 4.35 trillion (US\$ 72.17 billion) in 2024. This paper helps us to understand the challenges faced by the sector like employee retention, customer satisfaction, legal and technical compliances etc. and the paper is titled as Emerging Opportunities and Challenges in Hospitality Sector in India.

Keywords: Service sector, Indian Economy, Hospitality, Employment and Foreign Exchange, Challenges

INTRODUCTION

Indian economy is comprised of three main sectors viz. the primary, secondary and tertiary sectors. The economic activities of our country are spread over these sectors. The Primary sector consist of agriculture, dairy farming, poultry, forestry, animal husbandry, horticulture and other allied agro related activities. A large proportion of our population is engaged in these activities of primary sector. The Secondary sector consists of manufacturing and related activities and the tertiary sector includes all type of services including hospitality. India embarked on economic reforms strategy in 1991. The reforms have brought about Macro level structural changes over last two decades. These changes are related to finance sector, tax structure and overall economic functioning of the economy have registered good growth. The development of a country's services sector is an indicator of its economic development. It has matured considerably during the last few years and has been globally recognized for its high growth and development. The growth in the services sector in India is expected to be around 5.6 per cent in FY 15 owing, particularly, to the growth in the IT sector. The services sector in India comprises a wide range of activities, including trading, transportation, communication, financial, real estate and business services, and community, hospitality, social and personal services. The services sector is a vital component of the Indian

economy. The sector, which accounts for around 60 per cent of the country's gross domestic product (GDP), has emerged as one of the largest and fastest-growing sectors not just in the country but in the global landscape; subsequently, its contribution towards global output and employment has been substantial. The share of services in India's GDP at factor cost (at current prices) rose from 33.3 per cent (1950–1951) to 56.5 per cent in 2012–13, as per advance estimates. During Financial Year 2014–15, the sector is projected to grow at a healthy 5.6 per cent, according to National Council of Applied Economic Research (NCAER). This sector in India comprises a wide range of activities, including trading, transportation, communication, finance, real estate and business services, and community, social and personal services.

OBJECTIVE OF THE PAPER

To identify the opportunities and challenges in hospitality sector in India

METHODOLOGY

This paper is purely based on secondary data. The data has been collected from various sources like published reports of Government of India, World Bank Report and information from different websites.

SCOPE OF THE STUDY

The present paper does not focus on the opportunities and challenges in all the areas of services like tours and travels, logistics, entertainments, communication, mass media, banking, insurance, information technology, investment management etc. The present paper focuses only on the opportunities and challenges in hospitality sector, therefore the scope of the paper is restricted only to hospitality industry.

HOSPITALITY INDUSTRY

The Indian tourism and hospitality industry has arose as one of the crucial drivers of growth among the services sectors in India. Tourism in India is an employment generator and a significant source of foreign exchange for the country, apart from being an economic activity that helps local and host communities. In 2013, the travel and tourism industry contributed Rs 2.17 trillion (US\$ 36 billion) or 2 per cent to the country's gross domestic product (GDP). This is expected to rise to Rs 4.35 trillion (US\$ 72.17 billion) in 2024. The tourism industry in India is flourishing due to an increase in foreign tourist arrivals (FTA) and a greater number of Indians travelling to domestic destinations than before. The revenue from domestic tourism is likely to grow by 8.2 per cent in 2014 as compared to 5.1 per cent a year ago, according to the World Travel and Tourism Council (WTTC). Hotels are also an extremely important component of tourism industry. The Indian hospitality sector has been growing at a cumulative annual growth rate of 14 per cent every year adding significant amount of foreign exchange to the economy. The Government of India has contributed significantly to the growth and development of the industry by providing policy and infrastructural support such as simplification of visa procedures and tax holidays for hotels. Further, the tourism policy of the government aims at speedy implementation of tourism projects, development of integrated tourism circuits, special capacity building in the hospitality sector and new marketing strategies.

MACRO ECONOMY & HOSPITALITY INDUSTRY

Hospitality industry significantly influences the country's economic condition and it is one of the major contributor to GDP and exchange rate growth. The scope of the hospitality market is affected by the growth of population rate, domestic & foreign tourist inflow, infrastructure facilities etc. It

has been observed over the years the standard of living in India has been steadily improved which resulted into higher demand for hospitality services. Market competition applies a very positive influence on market expansion & higher demand for hospitality services for leisure time. Recent rise in the Indian economy particularly since the liberalization and market reforms leading to competition has created tremendous opportunities for growth of airline industry.

CONTRIBUTION OF TRAVEL AND TOURISM TO GDP IN INDIA

Travel and Tourism industry plays as a very important source of Indian Gross Domestic Product. Total contribution of Travel and Tourism to Gross Domestic Product is comprised of direct contribution of Travel and Tourism to Gross Domestic Product, domestic supply chain, capital investment, government collective spending, imported goods from indirect spending and induced contribution. The broader contribution to Gross Domestic Product is the expenditure of those who are directly or indirectly employed by travel and tourism. The following table shows contribution of Travel and Tourism to Indian Gross Domestic Period for the period of 2000-2015

Travel and Tourism Contribution to GDP			
Year	Travel and Tourism Contribution to GDP		
	Rs in Billion	Real Growth (%)	% Share in GDP
2000	1983.66	8.6	9.2
2001	1693.28	17.5	7.3
2002	2072.37	18.6	8.3
2003	2429.06	12.9	8.8
2004	2738.79	7.0	8.7
2005	2499.64	-12.5	7.0
2006	2953.63	11.6	7.1
2007	3475.65	11.2	7.2
2008	4014.08	5.8	7.2
2009	4130.66	-1.2	6.7
2010	4768.45	5.6	6.5
2011	5686.44	9.8	6.6
2012	6385.13	3.9	6.5
2013	7416.14	7.3	6.6
2014	7735.6	8.5	7.5
2015	8309.4	7.4	7.0

TABLE NO 1

Source: World Travel & Tourism report.

INVESTMENTS

The foreign direct investment (FDI) inflows in hotel and tourism sector during April 2000 to January 2014 stood at US\$ 7,013.29 million, as per the data released by Department of Industrial Policy and Promotion (DIPP).

The following are some of the major investments and developments in the Indian tourism and hospitality sector:

- Hilton Worldwide has signed a management agreement with Palm Grove Beach Hotels Pvt. Ltd, hospitality arm of K Raheja Constructions Group, to open the first Conrad hotel in India. Conrad – the luxury brand of Hilton Worldwide – will be launched in Pune, Maharashtra.

- Indian hotel chain Lemon Tree Hotels is planning to enter the luxury segment. The company is in talks with two luxury brands in the US) and Asia. Lemon Tree is keen on acquisitions to expedite its growth. Thomas Cook (India) announced a part-cash part-equity merger deal with Sterling Holidays to create India's largest holiday company. "The merger aims at building a holiday behemoth which will take holidays to a larger population.
- Marriott International plans to open a dozen hotels in India by 2015, adding to its existing count of 23 properties.
- Muthoot Leisure and Hospitality Services, the hospitality division of the Muthoot Group, has announced the acquisition of Costa Rica's high-end property – Xandari Resort & Spa. This is the first acquisition by an Indian hospitality company in Central America.

GOVERNMENT INITIATIVES

The Government of India has allowed 100 per cent FDI under automatic route in the hotel and tourism sector, according to the consolidated FDI Policy, released by DIPP. Aimed at liberalizing the visa regime and putting India high on the tourism map, the government is also looking at introducing electronic visa facility later this year, according to a Tourism Ministry official. The Ministry of Tourism has been making efforts to develop quality tourism infrastructure at tourist destinations and circuits. It has sanctioned Rs 4,090.31 crore (US\$ 678.54 million) for a total number of 1,226 tourism projects, which includes projects related to Product/Infrastructure Development for Destination and Circuits (PIDDC), Human Resource Development (HRD), Fairs and Festivals, and Adventure and Rural Tourism for infrastructure augmentation. The Ministry of Tourism has a Rural Tourism Scheme with the main objective of showcasing rural life, art, culture and heritage in villages, which have core competence in art and craft, handloom, textiles, natural environment, etc. Under this scheme, Central Financial Assistance (CFA) up to Rs 5 million (US\$ 82,937) for infrastructure development and up to Rs 2 million (US\$ 33,174) for capacity building is provided to State Governments/Union Territory Administrations for each identified site by them. Several other initiatives undertaken to promote different tourism products include the following:

- Rural Tourism: Rural tourism showcases rural life, art, culture and heritage at rural locations. The existing scheme for destination development supports the development of infrastructure in rural areas. Under this scheme, the thrust is on promotion of village tourism as a primary product to spread tourism and its socio-economic benefits to rural and new geographic regions. The Ministry of Tourism has joined hands with the UNDP for capacity building — around 153 rural tourism projects have been sanctioned in 28 states/Union Territories including 36 rural sites where UNDP offers support in capacity building. Under the Visit India 2009 scheme, around 15 rural tourism sites were selected as rural eco-holiday sites.
- Adventure Tourism: Measures to promote adventure tourism include financial assistance to state governments/Union Territory administrations for development of adventure tourism destinations and granting of exemption from customs duty on inflatable rafts, snow-skis sail boards and other water sports equipment. Adventure tourism activities in India include mountaineering, trekking, mountain biking, river rafting and rock climbing. In July 2009, the Ministry of Defence gave permission for opening of 104 additional peaks in Leh area of Jammu & Kashmir for adventure tourism.
- Medical Tourism: This segment has emerged as an important component of the Indian tourism industry; initiatives taken for promoting medical tourism include financial assistance to service providers under the Market Development Assistance Scheme and issuance of medical visas for patients and their attendants coming to India for medical treatment. In addition, the government has also requested state governments to promote

medical tourism by offering suitable packages of identified hospitals and price banding for specific treatments.

EMPLOYMENT OPPORTUNITIES

The hospitality industry is a labour intensive one and India has a large concentration of English speaking individuals, which prove as a catalyst in advancement and prosperity of the industry. Besides the regular jobs of a travel agent, tour guide, air hostess, chef, waiter and managers other opportunities await those who are keen on taking up a job in the sector. The new trends that have been emerging off late are as follows:

- Cruise Ship Management
- Club Management and Recreation and Healthcare Management
- Airline Catering and Cabin Service
- Hotel Tourism and Association
- Fast Food Joint Management and Restaurant Management
- Beverage, food and confectionery production
- Institutional and Industrial Catering and
- Government owned catering departments like armed forces mess, ministerial conventions and railways services.

CHALLENGES

Various challenges/issues faced by the hospitality industry in India are

LACK OF PROPER INFRASTRUCTURE

Infrastructure needs for the travel and tourism industry range from physical infrastructure such as ports of entry to modes of transport to urban infrastructure such as access roads, electricity, water supply, sewerage and telecommunication. The sectors related to the travel and tourism industry include airlines, surface transport, accommodation (hotels), and infrastructure and facilitation

ACCESS AND CONNECTIVITY

To harness India's tourism potential, several efforts are being taken for opening new destinations and exploring niche segments. However, infrastructure facilities such as air, rail, road connectivity, and hospitality services at these destinations and the connecting cities are inadequate. This remains a major hurdle for development of tourism. Roadways form a vital network in the tourist industry with almost 70% tourists in India travelling by road. Moreover, many tourist circuits depend on roads. Despite numerous efforts to improve road infrastructure, connectivity remains a major problem. There is a greater need for strengthened road and rail network, development of more expressways, and tourist-specific routes to improve connectivity to various locations across different regions.

AMENITIES

Amenities available at various tourist locations and en route need to be improved. These include basic amenities such as drinking water, well maintained and clean waiting rooms and toilets, first aid and wayside amenities (to meet the requirement of the tourists travelling to tourist destinations) such as lounge, cafeteria, and parking facilities, among others. India scores poorly in terms of availability of these infrastructure facilities. Inadequate infrastructure facilities affect inbound

tourism and also could lead to an increase in the outflow of domestic tourists from India to other competitive neighboring countries.

HUMAN RESOURCE

Availability of skilled manpower is a major challenge faced by the travel and tourism industry, one of the largest employment generators in the country. To sustain growth in the travel and tourism industry, trained manpower/ workforce is required at every level — managerial, supervisory, skilled or semi-skilled. Challenges faced at each level are different. Attrition, shortage of tourism training infrastructure, qualified trainers, and lack of proper strategies and policies for human resource development also affect the industry. The industry needs to address these problems at the earliest.

REGULATORY ISSUES

For inbound international tourists, visa procedures are seen as a hindrance. A number of countries competing with India for tourists provide visa on arrival. India should provide visa on arrival for more countries or for certain categories of tourists for a specific duration.

A number of projects in the tourism infrastructure segment and in the hotels industry are delayed due to non-attainment of licenses and approvals on time.

TAXATION

Travel and tourism in India is a high-taxed industry, which makes India expensive as a tourist destination. This is affecting the growth of the industry in India and India is losing out to other low cost destinations. Inbound tourism is the one most affected. Various taxes are levied across the entire industry right from tour operators, transporters, airline industry to hotels and these include service tax, luxury tax, tax on transportation, tax on aviation turbine fuel (airline industry), and various taxes on transportation. In addition, these tax rates tend to vary across different states in the country.

SERVICE LEVEL

In addition to tour operators and hotel staff, tourists interact with persons from different backgrounds, occupations and experience. Such people include staff at bus/railway station, immigration staff at airports, taxi/coach operators, ticketing/ travel agencies, small hotels, dhabas /roadside eateries, staff at heritage sites, and tour guides, among others. The degree of service offered by these various stakeholders has a significant impact on determining the tourist's overall experience of India as a tourist destination.

SECURITY

Security has been a major problem as well for growth of tourism for a number of years. Terrorist attacks or political unrest in different parts of the country have adversely affected sentiments of foreign tourists. Terror attacks at Mumbai in November 2008 dealt a strong blow to tourism in the country. The terror attacks raised concerns of safety. In addition, insurgency in different parts of the country also mars India's image as a safe destination.

Cybercrime is another major challenge the travel industry faces. Use of Internet in the travel and tourism industry has increased rapidly in recent years and has emerged as one of major segments for online spends. However, some of the biggest frauds have been detected in this segment and the issue of online security has assumed significant importance. While the online travel industry has registered robust growth, major concerns relating to security of online transactions persist. The

industry needs to take measures to make the process of online bookings more secure and transparent and also needs to create awareness regarding this.

CONCLUSION

The Indian tourism and hospitality industry has emerged as one of the key drivers of growth among the services sectors in India. Tourism in India is an employment producer and an important source of generating foreign exchange reserve for the country, apart from being an economic activity that helps local and host communities. In 2013, the travel and tourism industry contributed Rs 2.17 trillion (US\$ 36 billion) or 2 per cent to the country's gross domestic product (GDP). This is expected to rise to Rs 4.35 trillion (US\$ 72.17 billion) in 2024. The sector also faces lot of challenges, to name a few employee retention, customer satisfaction, legal and technical compliances etc.

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