

Impact of growth of hospitality industry on Indian economy

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Abstract

Hospitality industry in India has generated tremendous employment opportunities and is a big source of foreign exchange for India. As per the planning commission the hospitality sector is responsible for more jobs per million rupee of investment than any other sector. This sector provided varieties of jobs which satisfies unskilled people to specialized one. The govt. of India and the ministry of tourism have contributed significantly to the development and growth of the industry by providing various tax incentives, policy measures and other various supports.

Keywords: Hotel, Industry, Restaurant

1. Introduction

The sectors in hospitality services includes travel and tourism and leisure sectors. The other industries included in this sector are Food and service management, Bars, Nite clubs, Amusement parks, hotels, Motels, Hostels, Restaurants, Self-catering accommodation, Holiday centers and Travel agents. It has grown for the last 26 years and, despite the recession is determined to grow further. The sector at present employs about 2.5 million people and provides support to other industries, like hotels and restaurants to educational establishments.

The Indian tourism and hospitality industry has materialized as one of the key drivers of growth among the services sectors in India. It contributes to 6.23 percent to the National GDP and 8.78 percent of the total employment in the country.

Constant transformation, functional growth and improving standards have gained the hospitality industry of India approval all over the world. The industry is broadly divided in two segments

Tourism: The tourism sector includes medical and healthcare tourism, adventure tourism, heritage tourism, ecotourism, rural tourism, wildlife tourism and pilgrimage tourism.

Hotels: These include business hotels, resort hotels, airport, extended apartment hotels, resort hotels, timeshare hotels, casino hotels, convention centers and conference centers.

Tourism in India has generated immense employment opportunities and is a vital source of foreign exchange for the country. The travel and tourism industry contributed Rs 2.21 trillion (US\$ 36.21 billion) or 2.3 per cent to the country's gross domestic product (GDP) in 2013.

The figures are expected to rise to Rs 4.44 trillion (US\$ 72.19 billion) by 2024. The revenue from domestic tourism is likely to grow by 8.24 per cent in 2014 as compared to 5.18 per cent a year ago, according to the World Travel and Tourism Council (WTTC). The Indian hospitality sector has been growing at a cumulative annual growth rate of 14.12 per cent every year adding significant amount of foreign exchange to the economy. The Travel and Tourism Competitiveness Report of 2013, published by World Economic Forum, India, stated that the ranking of India is 11th in the Asia Pacific region and 65th in the World Travel and Tourism Competitiveness Index 2013.

As per the Planning Commission, the sector creates more jobs per million rupees of investment than any other sector of the economy. It is capable of providing employment to a wide spectrum of job seekers, from the unskilled to the specialized, even in the remote parts of the country. The sector's employment-generation potential has also been highlighted by the World Travel & Tourism Council (WTTC), which says India's travel and tourism sector is expected to be the second-largest employer in the world, employing approximately 52 lac people, directly or indirectly by 2019.

2. Literature Review

Sachid Nand Singh (2010) ^[1] concluded that managers must understand the importance of satisfaction of every customer and should chalk out appropriate after sale services too.

Vavra, T.G. (2011) ^[2] suggested specific programs to improve the measurement of customer satisfaction in an organization.

Smith, A.K. *et al.* (2012) ^[3] viewed that economic and social interaction between the customer and the organization can be triggered by a service failure/recovery encounter.

Nelson Tsang and Hailin Qu (2013) ^[4] analyzed the perceptions of service quality in China's hotel industry from the perspective of both international tourists and hotel managers.

Roger J. Challan and Gabrielle Kyndt (2010) ^[5] identified a number of differences in the expectations between the international and British business traveler.

Silvia Figini and Paolo Giudici (2011) ^[6] measured risks with ordinal variables studied the possible methods to obtain data to measure customer satisfaction, The paper proposed five levels of opinions for the customers viz., very unsatisfied, moderately unsatisfied, neutral, moderately satisfied, and very satisfied.

Malthouse, E.C. *et al.* (2012) ^[7] examined customer satisfaction across organizational units. The research paper discussed various customer satisfaction models.

Karnikeya Budhwar (2013) ^[8] conducted the research to evaluate the crucial factors that would impact the restaurant's success or failure.

Halil Nadiri and Kashif Hussain (2010) ^[9] studied the word-of-mouth (WOM) and the customer lifetime value (CLV).

Biju M.R. (2011) ^[10] critically analyzed various aspects of tourism industry.

Rizaldi and Wijaya (2012) ^[11] analyzed five SERVQUAL dimensions through disconfirmation theory approach to establish a level of customer satisfaction at Indrapuyra Restaurant.

Thayne Forges (2013) ^[12] argued that one of the important intangible assets of any business is the value of customers.

Sharma Sunil (2010) ^[13] provided a broad overview of planning and development issues in hospitality and tourism industry.

3. Objectives

1. To study the various services /sectors of Hospitality industry.
2. To highlight the factors responsible for the growth of hospitality industry.
3. To highlight the contribution of hospitality sector in national income and employment generation.
4. To analyze the government initiatives towards hospitality industry.

3.1 The future of hospitality services

The Indian economy continues to integrate with the world economy. Therefore, the advantages of conducting business with and in India are enormous. This has resulted in maneuvering of variety of jobs to the shores of India, bringing in its wake transit travelers, business travelers, business meets and holiday seekers. India is the ninth largest civil aviation market in the world in 2014. The sector is forecasted to be the third largest aviation market globally by 2020.

India's aviation market caters to 118 million domestic and 44 million international passengers in 2014. Over the next decade the market could reach 338 million domestic and 85 million international passengers.

The tourism policy of the government focused at development of integrated tourism circuits, faster implementation of tourism projects, building of special capacity in the hospitality sector and new marketing strategies. Hotels have a major share when we talk about the hospitality services and India made a special place in the international world of hospitality. India is the most diverse place in the world. It has different kaleidoscope of landscapes, spectacular historical sites and cities, misty mountains, varied and rich cultures, and festivals.

Ancient and modern India both leaves a lasting impression. Hospitality is an old tradition of India. From spectacular Himalayas and, beautiful beaches, deserts of Rajasthan and lush forests, to interesting villages and bustling cities, India creates opportunities for every individual preference. These days for lodging in India, country offers different alternatives, from comfortable home stays and tribal huts to beautiful heritage mansions and spectacular maharaja palaces. From Kashmir to Kanyakumari, and Gujarat to Assam, there are many cultures, languages, life styles, and cuisines. This diversity is reflected in many forms of accommodation available in India, ranging from the simple guest houses and government bungalows to the luxurious royal palaces and five star hotels.

The contribution of hospitality industry in Indian economy:

The contribution of the entire travel and tourism sector in India to Gross Domestic Product is estimated to rise from 8.8% (USD 118.9 billion) in 2010 to 9.16% (USD 335.7 billion) by 2020. Between 2010 and 2019 the demand for travel and

tourism in India is expected to grow annually by 8.4%, which will place India at the third position in the world. Travel and tourism in India also accounts for 50,087,000 jobs in 2010 (about 10.22% of total employment) and is expected to rise to 59,142,000 jobs (10.7% of total employment) by 2020. Within the travel and tourism sector, the Indian hospitality industry is one of the fastest growing and most important segments, revenue-wise as well as employment-wise.

According to Economic Survey of India and Technopak, the Indian hotel industry accounts for USD 19 billion, 71.50% (USD 11.95 billion) of which take their origin from the unorganized sector and the remaining 29.7% (USD 5.67 billion) from the organized sector. In 2000, India hosted only 2.8 million international visitors. By 2009, the figure had already increased to 5.25 million arrivals. Compared to other tourism markets in nearby Asian countries, this is still a limited success, but has a potential to turn into a tremendous success story.

India's travel and tourism industry has huge growth potential. The medical tourism market in India is projected to reach US\$ 3.9 billion in size this year having grown at a CAGR of 27 per cent over the last three years, according to a joint report by FICCI and KPMG. Also, inflow of medical tourists is expected to cross 320 million by 2015 compared with 85 million in 2012.

The tourism industry is also looking forward to the expansion of E-visa scheme which is expected to double the tourist inflow to India. Rating agency ICRA Ltd estimates the revenue growth of Indian hotel industry strengthening to 9-11 per cent in 2015-16. India is projected to be the fastest growing nation in the wellness tourism sector in the next five years, clocking over 20 per cent gains annually through 2017, according to a study conducted by SRI International.

3.2 Constituents of hospitality services industry hotels

A hotel is an establishment that provides lodging paid on a short-term basis. Facilities provided may range from a basic bed and storage for clothing, to luxury features like en-suite bathrooms. Larger hotels may provide additional guest facilities such as a swimming pool, business centre, childcare, conference facilities and social function services. The Indian Hotel Industry Survey 2013-2014 reflects a positive change indicated by the key operating statistics, which may be an early indicator towards the end of a downturn for the Indian hotel industry. There are over 600 hotels and resorts in India that constitute the "organized" or modern sector. Most of these hotels are in the larger cities and major tourist or business destinations. India has several world class domestic hotel chains and several international chains have also established a presence through franchising or partnerships with Indian firms. These branded hotels are mostly in the premium segment (5 star/5 star deluxe/heritage) and mid-range segments (4 star), which cater to business and leisure travelers. With the rise in tourism and business travel, several international brands are exploring the possibility of entering or expanding even further in India.

There has been a continued change in the revenue composition over the past few years. Although ARR saw a marginal increase, the trend of declining revenues from the Rooms division continued in 2013-14, falling from 52.2% in 2012-13 to 51.3% in 2013-14. The contribution of Food and Beverage (F&B) revenue, on the other hand, has increased marginally from 41.2% in 2012-13 to 41.9% in 2013-14 with rising

contribution from Banquets and Conferences. Additionally, Other revenue that includes laundry, gift shop, business centre, health club and rentals also saw a slight growth from 6.6% in 2012-13 to 6.9% in 2013-14.

The Survey reveals that energy expenses on an All-India PAR basis have increased by 13.2% in 2013-14 as compared to that in the previous year. Over the past five years, the energy cost on a PAR basis has grown at a CAGR of 10.5%. High energy costs are a major concern especially in cities such as Chennai and Pune where they are a major factor in declining profitability of hotels. This year's Survey reveals that amongst the use of various technological applications, the use of Energy Management Systems (EMS) has witnessed the highest increase on an All-India level, both in sourcing the energy (renewable sources like solar) and water (tapping rainwater and using treated grey water).

The average number of employees per hotel has increased marginally from 95.1 in 2012-13 to 95.8 in 2013-14. However, it is interesting to note that the increase has been at the managerial and supervisory level. In fact, according to Survey results, the increase in the number of employees at the supervisory and managerial levels has been growing at a CAGR of 4.7% over the past five years, whereas the number of staff level employees per hotel has increased at only 1.7%.

The use of technology and increasing dependence on online reservation systems is a fast emerging trend amongst hotels across the country. Hotels are focusing more on online travel agents and third-party websites for advance reservations due to the scale and reach of these channels. The use of property level technology such as Intranet and Local Area Network (LAN), Yield Management Systems, Property Management Systems, and Electronic Keycards is also increasing across hotel segments.

The use of cash as a payment method has been declining for the past few years. In 2013-14, the percentage of guests using cash as a payment method was 36.1% as compared to 43.2% in 2009-10. This trend is in line with the countrywide trend of cash-free transactions and increased usage of credit cards and electronic fund transfer, which have become a norm across industries such as retail.

4. Restaurants

A restaurant is a business which prepares and serves food and drinks to customers in exchange for money, either paid before the meal, after the meal, or with an open account. Traditionally, Indians have tended to eat at home and eat traditional Indian cuisine. Those who ate outside the home often ate street foods from the enormous number of street stalls and informal eateries that are common across India.

Eating in a restaurant was reserved for special occasions. However, India appears to be in the early stages of a significant transformation in the restaurant sector. Indian consumers are eating out more frequently and younger Indians are shedding the biases of their elders against international franchises and foreign foods. With only an estimated 100,000 modern organized restaurants (20 or more seats, wait staff, menus) in India, there is plenty of room for growth in the industry. It is estimated that Indians spend 8 to 10 percent of their food expenditures outside the home in restaurants, cafeterias and other food establishments. As per the 2013 India food service report published by the National Restaurant Association of

India, the restaurant sector is valued at \$48 billion and is expected to grow to \$78 billion in the next five years.

In terms of market segments, Quick Service Restaurants (QSR) and Casual Dine in formats account for 74 percent of the total market, while Cafés make up 12 percent, and Fine Dining Pub Bars Clubs & Lounges (PBCL) comprise the rest. After struggling with supply chain issues for many years, major franchises have developed a handful of suppliers in India who can meet quality requirements, placing existing restaurants in a better position to expand and easing the way for new restaurants seeking to enter the market.

While the number of casual dining, fast food restaurants and coffee shops is growing, high tariffs and other trade restrictions tend to limit the use of imported food products on restaurant menus. Imports are typically limited to specialty ingredients that are not available in India.

5. Café/Bars

Cafés/bars in India are driven by many factors, such as favorable demographics, rising income levels, the development of mid-sized cities and the advent of international chains. A growing willingness, especially among the youth, to consume food and drink outside the home and increasing disposable incomes are helping to fuel further growth.

Cafés/bars are considered as perfect places to socialize and hangout; hence, sales of this category are mainly driven by the younger generation.

The population segment aged 15 to 34 is the target demographic that visits cafés/bars frequently. Young people also prefer to drink on-site rather than take products away. For details on the growing café culture in India. Chained cafés are likely to expand their numbers of outlets and also extend their reach to medium- and small-sized cities. These expansion plans would allow café chains to leverage on the growing influence of the coffee culture in India.

Chained cafés, especially those in cities, are expected to provide value for money food items on their menus to induce new consumers into trying their products. Premium outlets are expected to spring up in major cities to tap into consumers who are wishing to upgrade. Rising disposable incomes, a greater population of younger people, growth of consumers in smaller towns and widening exposure to a drinking and pub culture has propelled the growth of bars and pubs, as well.

This growth was driven by an increasing number of Indian consumers partaking in alcoholic drinks. Bars and pubs make a major proportion of their money from drinks. Brew pubs featuring craft products are a new concept that is appearing in different parts of the country and slowly gaining popularity among beer drinkers.

6. Conclusions

The hospitality services includes the services like hotels, hostels, motels, restaurants, bars, café, night clubs, flight attendants etc. The hospitality industry has made a special place in the world of hospitality because India is the most diverse place in world, because it has different kaleidoscope of landscapes, spectacular hilly sites, varied cultures and festivals. Hospitality in India is an old tradition, and the demand for travel and tourism in India is expected to increase annually by 8.5%, travel and tourism in India also accounts for about 11% of total population. The government of India has taken and taking various initiatives to strengthen the industry. Indian

hospitality industry is one of the fastest growing and important sector revenues wise as well as employment wise.

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