EMERGING OPPORTUNITIES AND CHALLENGES IN
HOSPITALITY SECTOR 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

JEL Codes: E20, M31, O43, O47, R41

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 releated 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, financial, 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 is 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.

Table No. 1 Direct contribution of tourism and hospitality to GDP (Fig in $ Bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hosp</td>
<td>18</td>
<td>25</td>
<td>24</td>
<td>26</td>
<td>31</td>
<td>31</td>
<td>36</td>
<td>37</td>
<td>38</td>
</tr>
<tr>
<td>GDP</td>
<td>721.6</td>
<td>834.2</td>
<td>949.1</td>
<td>1238.7</td>
<td>1224.1</td>
<td>1365.4</td>
<td>1708.5</td>
<td>1835.8</td>
<td>1831.8</td>
</tr>
</tbody>
</table>

Source: RBI database & ministry of tourism reports

The main factors that accelerated the growth of hospitality sector are overall economic growth, steady rise in population, industrialization and liberalization leading to higher inclination to tours and travel. The rapid growth in hospitality sector is largely prompted by the emergence of a new Indian middle class. The entry and penetration of low-cost air carriers, coupled with better road connectivity due to improved infrastructural development has raised the domestic as well as foreign tourist interest in travel and leisure related activities. From the table no. 1 it is observed that both the hospitality sector revenue and GDP are rising steadily over the years indicating a positive relationship between the two factors. Higher disposable income, improved living standards, increased air travel on account of low cost airlines carrier and the central government’s tourism policy initiative in the form of Incredible India have influenced the hospitality industry revenue generation.
Table No. 2 Tourist Arrival (Fig in $ Mn)

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourist</td>
<td>3.9</td>
<td>4.4</td>
<td>5.1</td>
<td>5.3</td>
<td>5.2</td>
<td>5.8</td>
<td>6.3</td>
<td>6.6</td>
<td>6.8</td>
</tr>
<tr>
<td>GDP</td>
<td>72160</td>
<td>83420</td>
<td>94910</td>
<td>123870</td>
<td>122410</td>
<td>136540</td>
<td>170850</td>
<td>183580</td>
<td>183180</td>
</tr>
</tbody>
</table>

Source: RBI database & ministry of tourism reports

Graph No. 2

With the Incredible India campaign by ministry of tourism and aggressive promotional efforts of state tourism boards along with foreign embassy offices has resulted into rapid awareness of Indian hospitality sector in foreign countries in past decade. The state tourism boards have initiated many packaged offers to lure foreign tourist in India and also these boards are promoting medical, ayurvedic, yogic, meditation oriented packages in order to boost the foreign tourist arrival in India. During the last decade it was witnessed that, tourism boards have succeeded in attracting more & more foreign tourists with the help of promotions as it is indicated by rising arrival of foreigners in India. The foreign tourist arrival has augmented the GDP over the years and making a significant contribution to the economic growth.

Table No. 3 Foreign Exchange contribution by Tourism & Hospitality (Fig in $ Bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>FEE</td>
<td>7.5</td>
<td>8.6</td>
<td>10.7</td>
<td>11.7</td>
<td>11.4</td>
<td>14.2</td>
<td>16.6</td>
<td>17.7</td>
<td>18.1</td>
</tr>
<tr>
<td>Forex Reserves</td>
<td>120</td>
<td>143</td>
<td>179</td>
<td>274</td>
<td>256</td>
<td>282</td>
<td>292</td>
<td>294</td>
<td>296</td>
</tr>
</tbody>
</table>

Source: RBI database & ministry of tourism reports
Post liberalization our country has shown healthy foreign exchange reserves and we are among the top five countries in the world with highest foreign exchange reserves during the last decade. Our country was able to attract more number of foreign tourists over the past ten years and this has resulted in incremental addition to our foreign exchange reserves. The hospitality sector on an average contributes 6% foreign currency to our national reserves and therefore this sector has played a very important role in greater accumulation of foreign exchange reserves.

Market Size
India's travel and tourism industry is expected to grow by about 7.3 per cent in 2014, according to WTTC. The total market size of tourism and hospitality industry in India stood at US$ 117.7 billion and is anticipated to touch US$ 418.9 billion by 2022. FTAs during the period January–March 2014 stood at 21.27 lakh as compared to FTAs of 20.27 lakh during the corresponding period of 2013, registering a growth of 4.9 per cent. FTAs during March 2014 were 6.69 lakh as compared to 6.40 lakh during March 2013, a growth of 4.5 per cent. The number of tourists availing of the tourist Visa on Arrival (VOA) Scheme during January–February 2014 has recorded a growth of 6.8 per cent. During the period, a total number of 3,883 VOAs have been issued as compared to 3,637 VOAs during the corresponding period of 2013.

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.

**Major Players**
Several international players, including Inter Continental, Hilton, Accor, Marriott International, Bergruen Hotels, Amanda, Satinwoods, Banana Tree, Hampton Inns, and Scandium by Hilt, Mandarin Oriental, Cabana Hotels, Premier Travel Inn (PTI), Marriott, Starwood and Accor have established a presence in the Indian hospitality space. The prominent Indian companies in the hospitality industry include Indian Hotels Company Ltd (IHCL), East India Hotels (EIH), ITC, Bharat Hotels, Asian Hotels and Hotel Leela venture. In the restaurant space, some of the more prominent foreign players include Domino’s Pizza, McDonalds, Pizza Hut, US Pizza, KFC and Costa Coffee. Most of these players have seen significant expansion in recent years and further expansion in smaller towns and cities is on the cards.

Foreign exchange-Foreign exchange earnings from tourism in India from 2000 to 2013 (in billion U.S. dollars) the statistic depicts the foreign exchange earnings (FEE) from tourism in India from 2000 to 2013. In 2010, the foreign exchange earnings from tourism in India amounted to 14.19 billion U.S. dollars.

**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 systems, among others.
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.

Aviation infrastructure is also critical since it is a major mode of entry for inbound tourism. Passenger traffic is expected to increase in the coming years; however infrastructure facilities at airports are cause for concern. Expansion and development of airports at major gateway cities is underway to cater to the increasing passenger traffic. However, in addition, airport facilities at important secondary cities and tourist destinations also need to be improved to be able to handle greater passenger traffic.

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. Hence, for the industry to register healthy growth, issues concerning all the related sectors need to be addressed.

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. At mid and senior management levels, the industry faces talent crunch and at the front-line staff level, although human resources are adequate, a boom in other service industries such as banking, retail, airline and BPO have resulted in shortage of manpower at this level for the travel and tourism industry. Thus, we have a demand-supply mismatch with respect to manpower in the travel & tourism and hospitality sector in India. A study conducted by Ministry of Tourism suggests that existing supply of human resources do not cater to even 40% of the demand. Thus, the industry has no alternative but to fill the void with untrained resources. Such a high proportion of untrained manpower would adversely affect quality of services offered to the tourists.

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.

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. The government has taken initiatives to promote responsible tourism by sensitizing key stakeholders of the tourism industry through training and orientation, to develop a sense of responsibility towards tourists and inspire confidence of foreign tourists in India as a preferred destination. One such major initiative is the “Atithi Devo Bhava” campaign. More such efforts are required to improve the degree of service across various operators.

**Marketing and promotion**

Marketing and promotion of India as a major tourist destination is critical for the industry to achieve its potential. Lack of adequate budgetary support for promotion and marketing, compared with competing tourist destinations, is a major reason for India lagging behind as a tourist destination. Marketing under the “Incredible India” campaign helped place India as a good tourist destination on the global tourism map. Indian tourism products are promoted primarily by the Ministry of Tourism with the involvement of state governments through the State Tourism Development Corporations. Newer tourism concepts, which include cruise tourism, adventure tourism, agri tourism or rural tourism, are emerging in India and these require support to develop and flourish. Hence, greater marketing push for these different products is required. To remain competitive in the fiercely competitive field, India needs to change its traditional marketing approach to a more competitive and modern approach. There is a need to develop a unique market position and the brand positioning statement should capture the essence of the country’s tourism products: i.e., they should be able to convey an image of the product to a potential customer.

**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.

**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. Following the terror attacks in Mumbai, security at tourist spots, airports and hotels has been beefed up to regain confidence of tourists. However, the government needs to take a proactive approach in addressing these issues and in averting the potential impact on the industry.

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.
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. The government recently cleared the long-standing proposal for single window clearance for hotel projects to hasten the process of infrastructure development. Implementation of this proposal would help development of tourism and hospitality infrastructure in the country. There is a greater need for speedier clearances and approvals for all projects related to the industry.

Conclusion
The services sector is a dynamic constituent of the economy. This sector accounts for around 60 per cent of the country’s gross domestic product (GDP), has developed as one of the major and fastest-growing sectors not just in India but at the global level; subsequently, its contribution towards global output and employment has been considerable. 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 FY 2014–15, the sector is projected to grow at a healthy 5.6 per cent, according to National Council of Applied Economic Research (NCAER). 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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