

Indian Hotel Company Limited (IHCL), the leading Indian hospitality concern, has joined hands with C.K.Prahalad, a leading management thinker, to launch IndiOne, a new concept that will redefine the hotel industry and provide the company with a new growth opportunity. In 2001, the company was in a poor shape with a decline in revenues largely due to recession and a decline in foreign tourist arrivals after the 9/11 attacks. Apart from this, the entry of big foreign names like Four Seasons, Marriott and Hilton also challenged the dominance of IHCL in India. To prepare itself for the challenge, IHCL, in consultation with McKinsey, restructured its operations into three categories – luxury, business, and leisure segments. It was also on the lookout for a new opportunity that could put it on the growth path in the highly competitive and mature industry. The management decided to enter the budget hotel segment, which competitors had left largely unexplored. Speaking about the growth prospects of budget hotels, Mr Patu Keswani, the then chief operating officer (business hotels group) of Indian Hotels Company, said “Budget hotels will be the fastest growing sector and will attract better growth rates in the next few years.” According to Raymond N Bickson, managing director, Indian Hotels, leading FMCG company HLL itself had 5,000 salespersons on the move, which represented the untapped market in the budget segment. The idea was to provide quality service at an affordable price. Speaking on the service offering, Mr Keswani said, “The budget hotels will be premium in class and quality and economical in cost. It will be targeted at business travellers.” The management also decided that this venture would be under a different brand and not the Taj brand under which the company operates its properties. In 2002, a team of top professionals was constituted to work on this project based on these cues. They adopted the top down approach to give shape to this low-cost venture. The team tried to change the cost structure and service offerings of the existing hotels to achieve the objective of launching a budget hotel. It tried various permutations and combinations such as stripping features in the service offerings and cutting costs. But it was unable to go below the price of Rs 2,500 -- not a competitive price for the budget segment. This prompted the company to rope in Mr. Prahalad to assist them in this endeavor. He suggested a bottom-up approach to arrive at the price and the service offerings. Speaking on this change in approach, Sheila Nair, chief operating officer of Roots Corporation (the wholly-owned subsidiary of IHCL that operates IndiOne), said, “Instead of going top-down we started the project business plan with a clean piece of paper where the key was tight financial control.” The team then tried to identify customer needs and how much customers would be willing to pay. So the team surveyed managers of mid-sized companies to identify their travel budgets and also business travellers such as salespersons. This gave them a fair idea about the customer’s price range. Customers were willing to pay around Rs. 1000 for a hotel room. Based on the price, the team worked out the design of the hotel and the service offerings. The company developed the hotel based on the attributes of smart basics, i.e., simplicity, convenience, informality, style, warmth, modernity, and affordability. The room was air-conditioned with a work area and wood laminate flooring. Every room was provided with basic amenities such as a mini fridge, a tea/coffee maker, and round the clock hot/cold water facility with toiletries. For security, each room was provided with an electronic lock and the entire hotel was monitored by security personnel through specially installed closed circuit televisions. The customers were also provided with digital safe deposit boxes. The hotel equipped itself with other facilities that business travellers look for, like a restaurant, gym, cyber cafe, meeting room, and an ATM. Another feature at IndiOne designed to appeal to business people was any time check-in, where the hotel calculated the time from the moment the customer entered, in contrast to other hotels which have fixed check-in times. IHCL designed the business plan in a detailed way to save costs at every level. Each hotel was constructed in the area of 1 acre with 100 rooms built in a modular fashion. It was designed so that it could be scaled up easily with less of an investment. The budget for each

hotel was marked at Rs 10 crore, which worked out to 10 lakh per room. This was far lower than the investment of Rs 50 lakh – Rs 1.5 crore per room involved in developing five star hotels. The size of the room was also kept small -- at around 180 sq. ft. -- as compared to 250-400 sq ft in a premium segment hotel. IHCL also focused on minimizing personnel cost, which formed the major chunk of the operating costs. The company cut down room service and customers were required to avail the services by themselves. At the restaurant, only a buffet service was provided. Though the hotel provided laundry service, customers were required to drop clothes off and pick them up at the lobby. Through such arrangements, the company managed to operate the hotel with 25 people, compared to 250 people per 100 rooms in a five-star hotel. On the pricing front, the hotel set a fixed price of Rs 850 for a single room and Rs 950 for a double room. The customer was entitled to a discount of Rs 50 for bookings made through the Internet. This practice not only enabled the company to save on booking costs but also to cut their sales & marketing costs. Speaking on this issue, Mr. Nair said, "Sales and marketing constitute 10 per cent to 15 per cent of room cost which you save if booking through the Net becomes popular." The amenities and design of the room were such that the costs incurred on maintenance activities were minimized. All the negotiations with the suppliers were made based on the future expansion plans of the hotel. IHCL entrusted the job of selecting the brand name and development of the brand to the leading communication consultancy, Chlorophyll. The agency adopted an integrated approach where all aspects of the brand were looked into so as to develop and project the brand effectively. The brand name IndiOne was selected so as to be in line with other new Tata group ventures such as Indica (for cars) and Indicom (for telecom services). The agency designed the signage, curtains, furnishings, and even the sugar and ketchup sachets. Chlorophyll also designed the website for IndiOne. Speaking on this issue, Mr. Anand Halve partner, Chlorophyll, said, "Since the proof of any service brand is in its delivery, we have been working closely with the marketing team even before launching the brand. From designing the furnishings to devising the name for the in-house cafeteria, Chlorophyll has been involved in creating effective communication to help in the delivery of the brand." The agency was also entrusted with the job of direct marketing activities for the brand. The company opened its first hotel in Bangalore at the technology hub of Whitefield, Bangalore. It claimed that the venture was successful. The room occupancy rate was around 80%, despite no serious promotional activities undertaken by the company as yet. However, many analysts remain sceptical about the success of this venture. They pointed out that other companies had made several attempts earlier to capture this market, but they had backed off due to lack of cost control. Mahindra & Mahindra had launched a similar venture, but was not able to succeed. IHCL itself had made an unsuccessful attempt earlier through the Gateway chain of hotels. A leading hotel consultant, Uttam Dave, says, "It is a tricky business because land costs in most cities are very high unless you move to the outskirts (like they have done in Bangalore)."

Another manager of a major hotel chain who backed off from such a venture says, "In 1994 we looked at setting up a two- or three-star hotel, but the costing came to around Rs 13 lakh a room even though we had bought the land much earlier. So we decided it was better to go in for a five-star as the returns would be much better." But the Tatas are very serious about this venture and are planning to invest nearly Rs 1,500 crore and add 1,200-1,500 rooms in the next three years. The group also proposes to open these hotels in locations like pilgrimage centres, trading towns, and tourist spots. The company also has a global road map for this venture. Speaking on this issue, Sheila Nair says, "What we are creating is a unique Asian model which can be replicated in other markets like south-east Asia, Africa, and other Asian markets. It will ensure our global dominance in this category."

Questions for Discussion:

1. IHCL took two years to develop the IndiOne concept, with a dedicated team under the guidance of C.K.Prahalad. Discuss the new product development process involved in the creation of Indione, a budget chain of hotels.
2. IHCL is known for its luxurious Taj group of hotels. However, it has forayed into the relatively unknown territory of budget hotels that requires careful planning and cost control to be profitable. How far do you think IHCL has succeeded in making this venture profitable?