

Budget Hotels: Growth Trajectory and Critical Success Factors

Subhasis Maiti PhD scholar, Department of Hospitality & Tourism, Management, Assam
Downtown University. Assam -781026
(E-mail id: admissions@downtowngroup.in)

Dr.Bhola Chourasia Associate Professor & HOD, Department of Hospitality & Tourism
Management, Assam downtown University. Assam-781026

Abstract

The Indian hotel industry is experiencing accelerated growth, particularly in the budget hotel segment. Budget hotels have continuously played a significant role to support the success of the tourism and hospitality industry in India. The objective of this paper is to give an overview and discuss the prospects of the inventory required and the critical success factors that are important for the growth and sustenance of the segment.

Key Words

Tourism, Budget Hotel, Hospitality

Budget Hotels: Growth Trajectory and Critical Success Factors Dimensions

1.0 Introduction

The contribution of the hotel industry has been significant to the economic development and the budget hotels have been a frontrunner. Considering this segment from the strategic perspective, budget hotels represent an innovative hospitality product. Their growth and success lie in their purpose-designed service product formula. They provide value for money to the market and are mostly targeted to the customers who look for comfortable and inexpensive accommodation.

From the investment point of view, set up cost of budget hotels is very low as they offer limited food and beverage service outlets and options. The cost of operations is also low as the services and amenities are either very basic or minimal.

The term budget hotel is challenging to define, however, most budget properties typically have a standardized appearance and offer basic services with limited food and beverage facilities. Budget hotels were first developed in the United States and built along with the interstate highway system. The first Holiday Inn opened in the United States in 1952; the first Quality Motel followed in 1963.

Till the start of the 21st century, the budget category hotel was there but was classified into the non-branded segment. With the demand increasing, this segment has become streamlined in terms of offering standardised products and customer experience. Factors such as the surge in a middle class, rise in

disposable income, higher economic growth, urbanization, increase in leisure and business travel among others have been instrumental for the growth of the budget segment in India's hospitality industry.

A lot of International Chains have ventured into this segment and in the past few years, there has been an influx of about two dozen budget hotel brands. The budget hotel industry has been on an upswing due to an increase in foreign tourist arrivals, expanding domestic tourism, forex earnings among others.

(Fiorentino, 1995) opined that the budget hotel has developed worldwide and there exists no standardized, widely accepted definition. However, the most frequently used terms in the hospitality industry are "budget" or "limited-service" or "economy" hotels.

¹The definitions that have been followed in this research paper are elucidated below and illustrated below:

- Luxury Hotels – Those hotels having Heritage classification and those having a classification of 4 Star, 5 Star and 5 Star Deluxe.
- Budget Hotels- Hotels having classification between 1 Star – 3 Star has been defined as a Budget accommodation unit.
- Others – These include approved or awaiting classification as well as licensed units indicated above.

Across the hotel segments, the market has become more price-sensitive and it is observed that customer loyalty is linked with room rates. This presents a unique opportunity for hotel brands to enter into segment-focused offerings such as budget and mid-market. The Indian hotel industry over the years has seen significant growth in room inventory due to the high demand across categories.

Another element in pricing is the increasing cost of managing operations, marketing, and technology and product innovations. In order to survive successfully, it is important to recognize the importance of identifying a niche within the market and catering specifically to that (Cooper, 2005). This brings us to product segmentation. The hotels are classified into five-star deluxe, five-star, four-star, three-star and budget hotels. This determines the rack rates in the hotels and the extent of services provided.

As defined by (Gee, 1994) classification of hotels can be defined as "the assignment of hotels to a categorical rating according to a type of property, facilities, and amenities offered" (Gee, 1994). In India, one can clearly see a clear segmentation emerging in the hotel industry. The various segments can be largely divided into luxury hotels/five-star, mid-market/four-star and budget/2-3stars hotels. Luxury hotel chains are launching their mid-market or budget brands in order to earn in all markets. Luxury hotels provide highly personalised services in sophisticated facilities with generous space allowances while mid-market hotels offer good standard accommodation and public facilities though less spacious and opulent than in luxury hotels (Beech and Chadwick, 2006).

¹ Incredible India, 2008

1.1 Objectives of the Study

- To find out the current and future inventory of the budget hotels
- To examine the Critical Success Factors dimension for Budget Hotels

2.0 Review of Literature

As quoted by ²Jaideep Dang, “Two decades ago, India was all about luxury tourism. Either we had five stars or we had unbranded hotels. There was nothing like a mid-tier or budget segment. “Then a decade ago we saw an increasing number of Indians travelling not only overseas but also within India,” says Dang. “Local traders, mid-tier businessmen and mid-executive guys began travelling, but not everyone had a budget of over Rs. 10,000. That is where these mid-market hotels started mushrooming.”

With regard to service quality and customer loyalty, during the last few years, there has been a shift in focus from luxury brands to budget hotels. This trend has opened up a new prospect for the development of the hospitality industry (Hospitality India, 2014). To meet the demands of the tourism industry, budget hotels have been a significant contributor. (AbuKhalifeh, 2015) (Yu, 2012) opined that unlike the conventional full-service accommodation hotels, budget hotels are considered as limited-service establishments that provide basic services for guests with no extra amenities.

(Singh, 2013) in his paper “Changing trends in the Hospitality Industry, Evolution of novel trends” opined that the concept of branded and non-branded budget hotels is growing and the main factor responsible was that consumers are expecting great value for their money. The major trends that were responsible were growth in terms of focus towards mid-segment, consumer’s consciousness on brand and quality and increase in spending towards travel.

(K. Pai, 2012) in his article cited that India has a huge opportunity for budget segment hotels and hoteliers view that budget hotels have a great scope of growth in India’s market. Further, he mentions branded and non-branded budget hotels have significant scope in tier-I and II cities, unlike luxury hotels.

(Keswani, 2013) mentioned that Budget hotels are becoming smart investment options for hoteliers in India. Low investments are one of the main reasons as budget hotels are without , swimming pool, grand foyer, conference rooms and other star facilities that is evident in luxury hotels. The next reason being that branded and non-branded budget hotels through flexible pricing can withstand a recession.

(Malla .R, 2014) opines that the growth in the budget hotels is due to business travel for MICE (Meetings, Incentives, conferences and exhibitions). He pointed out that the Branded Budget segment in India, which is at a budding stage now, will be the most demanding segment in the coming years. He further mentioned that a growing middle class has created a demand for affordable accommodation for domestic travellers.

² *Managing director of JLL India’s hotels and hospitality business*

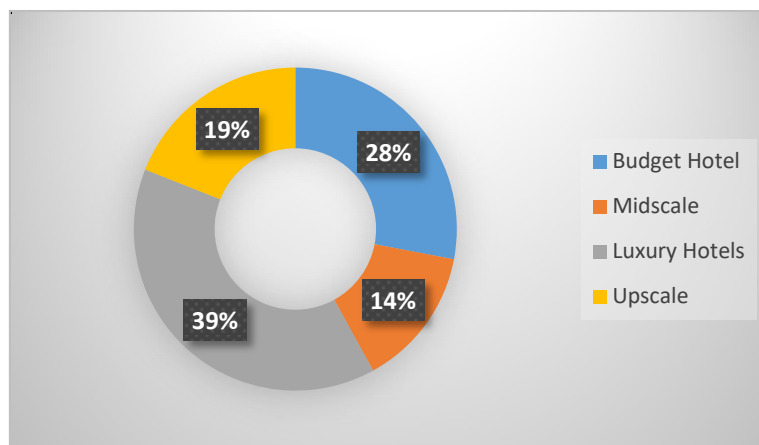
3.0 Research Methodology

This paper is based entirely on secondary research. Secondary data has been used for the study- Secondary data refers to data which is collected by someone who is someone other than the user. Common sources of secondary data used for the study were research papers, magazines, articles, books, information collected by government departments, organizational records and data that was originally collected for other research purposes.

4.0 Data Analysis and Interpretation

The first objective was to find out the current and future inventory required to manage the demand.

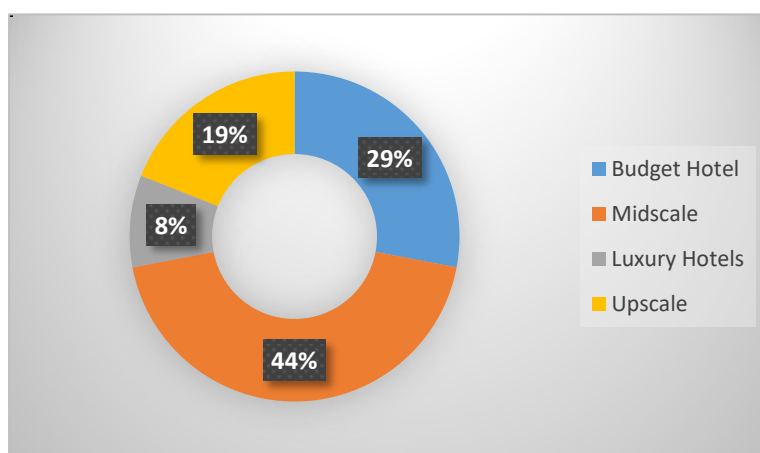
Figure 1.1: Segment Wise Split – Current Scenario



Source: IBEF, 2019

From the figure 1.1, it can be seen that Budget hotels have a 28% share in the current inventory in India, and is only next to Luxury hotels that have a share of 39%.

Figure 1.2: Inventory Split – Upcoming



Source: IBEF, 2019

Figure 1.2, shows that Budget hotels are set to maintain the rhythm and increase in the near future for satisfying the demand, while Midscale Hotels are set to contract by 5%.

Figure 1.3: Critical success factor dimensions for budget hotels



Source: (Samy, 2016)

The critical success factors as opined by (Samy, 2016) in his paper “Exploring factors that influence domestic tourists’ satisfaction with budget hotel services in Egypt” are classified into seven key areas that are explained:

- | | |
|---------------------|---|
| Core Product | <ul style="list-style-type: none">• Provision of smoking and non-smoking rooms• Design/ look of guest rooms• Size of guest bedrooms• Guest bedroom comfort level |
| Consistency | <ul style="list-style-type: none">• Consistent accommodation standards• Consistent service standards |
| Customer Service | <ul style="list-style-type: none">• Recognition of returning guests• Operational flexibility / responsiveness• Speed of guest service• The Efficiency of guest service• Choice of room type• Guest security• Added value facility |
| Hygiene and Quality | <ul style="list-style-type: none">• Cleanliness• Staff training |

- | | |
|-------------------|---|
| Strategic Control | <ul style="list-style-type: none">• Quality standards• Central sales• Reservation system• Standardized hotel design• Size of the hotel network• Disciplined operational control• Quality audits |
| Pricing | <ul style="list-style-type: none">• Values for money accommodation• Low-cost bedroom process |
| Location | <ul style="list-style-type: none">• Convenient locations• Geographic coverage of hotel network |

5.0 Results and Conclusion

The critical success factors which will further escalate the demand of the budget hotels were Core Product, Consistency, Customer Service, Hygiene and Quality, Strategic Control, Location and Pricing. Budget hotels have been redefined on the description of innovative concepts and strategies. Due to the changing mind-set of the customers, budget hotels today have risen up as a competitive hospitality unit. To manage the growth and sustain budget hotels need to exhibit high professionalism which should be reflected in the quality of services which is detrimental for customer satisfaction.

6.0 Bibliography

- *AbuKhalifeh, A. &. (2015). Customer perceptions of service quality in luxury hotels in Jordan. Journal of Tourism, Heritage & Services Marketing, 1(1), 30-34. doi:http://doi.org/10.5281/zenodo.376328*
- *Beech, J and Chadwick, S. 2006. The Business of Tourism Management. Pearson Education Ltd.*
- *Cooper, C. F. (2005). Tourism – Principles and Practice (Third ed.). Pearson Education Limited.*
- *Fiorentino, A. (1995). Budget hotels: not just minor hospitality products. Tourism Manage, 455-462.*
- *Gee, C. 1994. International Hotels: Development and Management, Educational Institute of the American Hotel and Motel Association, East Lansing.*
- *Hospitality India, (. S. (2014, April Wednesday). http://www.hospitality india.com. Retrieved from http://www.hospitality india.com/detailNews.aspx?aid=19154&sid=5.*
- *Keswani, P. (2013) “Hotel Industry to see Boom in Budget Segment” Hotel Business Review Vol iii no 7 page12-13*

- Malla, R . (2011) “Hospitality Industry in growth front-Demand of Mid Segment hotels to see exponential scope” *Today's Traveller Vol xi no 3 pages 22-23*
- Pai, K . (2012) “Hospitality industry gearing for the change Mice and mid-segment hotels on growth front” *FHRAI Vol x no 4 pages 3-7*
- Samy, H. (2016). *Exploring factors that influence domestic tourists’ satisfaction with budget hotel services in Egypt. Journal of Tourism, Heritage & Services Marketing, 2(2), 17-22.*
- Singh, B. H. (2013) “Changing trends in the Hospitality Industry, Evolution of novel trends,” *Hotelier and Caterer Vol IV*
- Yu, Y., (2012). *Factors and customer satisfaction of budget hotel customers in China, Unpublished Ph.D. Thesis. Thailand: University of the Thai Chamber of Commerce.*
- www.ibef.org
- www.tourism.gov.in
- www.data.worldbank.org
- www.statista.com
- www.incredibleindia.com
- www.journal.sagepub.com