INDIAN TOURISM - UNLOCKING THE STRATEGIC OPPORTUNITY

An article based on an address given by Ian Graham

At World Travel India, Mumbai February 5 2004

1. Introduction

The opportunities for all in the industry and all those connected to the industry in India are huge. In this article Ian Graham of The Hotel Solutions Partnership Ltd (www.hotelpartnership.com) suggests areas in which both government and private enterprise can gain strategic advantage. Recognising the achievements to date, he nevertheless believes there is a powerful case for the Indian government to challenge its approach to tourism, reallocating some of its expenditure and in so doing re-energising the industry. He further believes there is a powerful case for the private sector to invest for growth particularly in domestic tourism.

2. The Opportunity

Using 2001 data, India's tourism industry is ranked no 111 out of 114 countries surveyed by the World Travel and Tourism Council. The measure is the "human tourism index" which equally weights two measures - firstly the ratio of the total population in relation to international arrivals and departures and secondly the ratio between the sum of international tourism receipts and expenditure to GDP. Bangladesh, Iran and Algeria rank lower than India. Graph 1 is complied from data from the World Tourism Organisation. Currently the Indian tourism industry is a $3bn industry representing 0.6% of GDP.

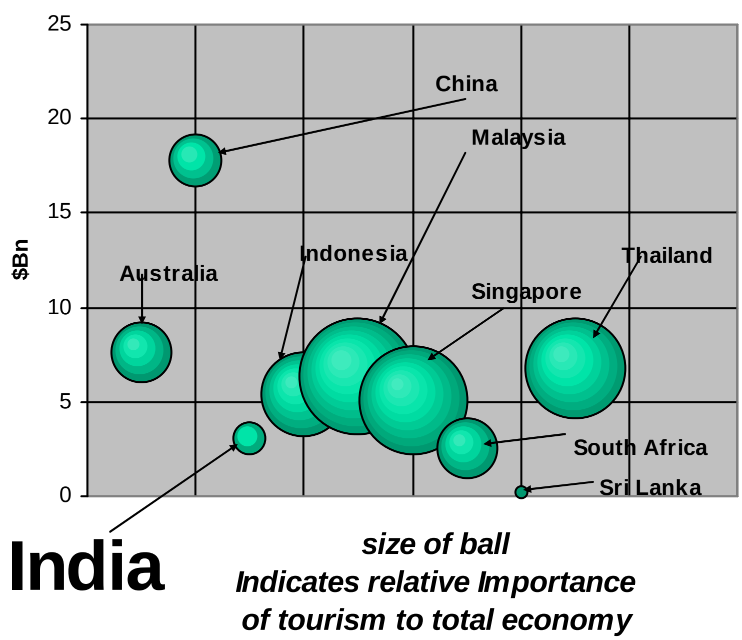

Chart 1

As one can see from this chart, this is both a low relative and low absolute contribution to the economy. If the country set itself, and then achieved, a goal of developing tourism to be simply proportionately as large as the Malaysian tourism industry, then one would see a $3bn industry become a $37bn industry, a twelve fold increase.

3. The Ingredients

There are three components of the industry – government strategy, the domestic tourism industry and the international tourism industry, both inbound and outbound. This article will suggest some of the factors that need to happen to enable the scale of change that other countries have shown is possible as tourism has developed.

3.1.1 Environment

Firstly let us look together at the bedrock on which all else rests, the environment created by the people and their government.

Investors will only leave their capital in, or put their capital into, a country that is safe - that meets their assessment of acceptable political economic and social risk. If the Indian tourism industry is to attract and retain capital, the country must first pass this test. Rapprochement with Pakistan is likely to be a step in the right direction. Domestic and international tourists will only use a country's facilities if the infrastructure is up to it and if the government spends its monies in the right ways on tourism development.

So a key role for government is to make the country a more attractive place for tourism capital than it is today and than alternative countries. The World Bank believes the Indian government is less effective than governments in competitor countries such as China and Thailand. According to their "Government Effectiveness Index", India is ranked 83 out of 159 countries.

Another of government's roles is to improve the country's infrastructure; to make the country a more attractive place for domestic and international tourists than it is today and than alternative countries. The data suggests that India suffers from a relatively poor infrastructure. The World Bank measures the level of infrastructure development, as the combination of three quantities: (1) the total length of roads in a country compared with the expected length of roads, (2) the percentage of the population with access to improved sanitation facilities, and (3) the percentage of the population with access to improved drinking water. India is ranked 89 out of 118; China is ranked 93, Thailand is ranked 48 and South Africa is 27.

Now look at what the Indian government commits in direct resources to the infrastructure of the tourism industry. The World Travel and Tourism Council estimates that Indian government expenditure on tourism amounts to 32.5 million rupees, only one per cent of total government spend. Proportionate to the opportunity, this is very low.

Last month's announcement that Moody's, the credit rating agency, has upgraded the country's sovereign foreign-currency debt to investment grade, must surely reflect the progress that is being made. India is now on a par with such countries as Russia, Kazakhstan, Croatia and El Salvador. It opens the door for a new class of international investor to invest in Indian debt and equities. And, it's likely to cut the further the cost of borrowing for Indian companies issuing debt overseas.

Recognising that progress is being made, I can't emphasise enough the importance of addressing these infrastructure issues if the Indian tourism industry is to be allowed to take advantage of the opportunity that is there – roads, sanitation, water quality, corruption and many other issues – all need to be tackled not just for the benefit of Indian society but also to create the environment necessary for the development of tourism. It'll be a long haul no doubt but there are some key strategic areas for focus that can be identified.

4.1. 2. Strategic imperatives

There is a need for an open skies policy by the government – the opportunity for the country is so great that any benefit gained from protectionism of state assets such as airlines pales into insignificance. In many countries the state has got out of, or is getting out, owning and managing tourism assets and evolving to a role in which government uses tax revenues to support the industry in different ways.

I suggest that in India, railways, airports and bus services are of a poor standard and require investment. If leisure and business travellers are to be encouraged to consider India as their destination of choice then these need to be improved. International flights arrive and depart in the early hours of the morning. This is not a tourism friendly policy. The airports are fitted with landing assistance systems for limited visibility take-offs and landings but not for zero visibility. All these elements need to be updated.

Government should look again at all bi-lateral agreements to make it easier for tourists to come to India. I spent three hours of my time and £30 to obtain a visa to come to India. I know it's reciprocated by the UK, but recognise what the ruler in UAE did after 9/11………

Invest in people. Infuse government with talent to understand and extract future value from the competitive opportunities and challenges. And offer the industry a deep growing pool of graduate, post-graduate and vocationally rich people from public and private educational establishments.

I suggest that the government and others can learn from external benchmarking – of travel and tourism government departments, people, education facilities, facility and programmes. And then if the government uses the experiences of other countries, other NOG's., to fast track targeted changes in the tourism spend of the government, your government will be better supporting this industry.

There may be a mismatch of resource against opportunity. For example there are an estimated 17m overseas Indians. 13m of them live in just 20 countries. It is a reasonable assumption that the 3rd and 4th generation overseas Indians would be a primary target for inbound tourism because they would not be likely to use facilities of friends and relatives; but when I map where the Indian government invests in overseas tourism offices I see an apparent mismatch of funds.

3.2.1. Domestic tourism

The second ingredient of Indian's tourism industry is domestic tourism.

There are few economies where domestic tourism is not the biggest element of the industry, and India is no exception. But the scale of domestic tourism is staggering. The statistics show that domestic tourist flows are 100 times bigger than inbound international arrivals. Indeed if one compares Indian domestic tourism with the world's total cross border tourism one finds that Indian domestic population flows are equivalent to an amazing third of the total cross border flows in all, yes all, of the rest of the world.

Each of fifteen states receives more domestic tourists than the country does international arrivals. Now some of these flows will be religious in nature but it by no means accounts for this volume.

Everyone's first priority should be domestic tourism. Building the infrastructure to enable these movements of people safely, addressing the water quality, sanitation systems, roads, railways and airports, air traffic control, bus systems and railways – all the governmental paraphernalia that enables, that encourages, the population to stay away from home. The industry's obligation then is to put in place a wide range of facilities to meet the travellers' needs. One star to five star hotels, restaurants with menus at all price points that are safe to eat in, travel packages to suit all pockets, products to satisfy the business traveller and the leisure traveller, the individual and the group.

Category-wise Number of Hotels and Rooms* (As on March, 2001)

Star Category	No. of Hotels	No. of Rooms
5-Star Deluxe	61	14,329
5-Star	71	9,269
4-Star	104	7,588
Heritage	67	1,758
3-Star	401	19,271
2-Star	444	15,078
1-Star	185	6,169
Total	**1,333**	**73,462**

Note : * : Classified list of the Department of Tourism.

Source : Annual Report 2001-02, India Tourism, Govt. of India.

Chart 2

Looking just at the hotel sector, at least officially there are relatively few hotels in India and that where the gap is seems to be in the 1 star to 3 star segments (Chart 2). On the face of it there is an opportunity for several thousand such hotels. Today domestic tourists and travellers are primarily using unofficial unregulated private homes hostels and resting places. Why do hotels as we know them not get built? What is it that is preventing capital being invested to meet this opportunity? Where is the land bank that can be converted to meet this opportunity? What brands will they carry? Where is the staff to run them? What is the government doing to further develop this aspect of the industry?

Part of the conundrum is that another view of another set of data in fact suggests there are too many hotels already. The HVS survey summarised in Chart 3 shows country wide occupancies over a five year period of between 52% and 57%. Occupancy of course includes both international and domestic demand. But this is very low by international standards. It is interesting to note that only the three star category shows any systemic growth, all be it from a very low level of 47%.

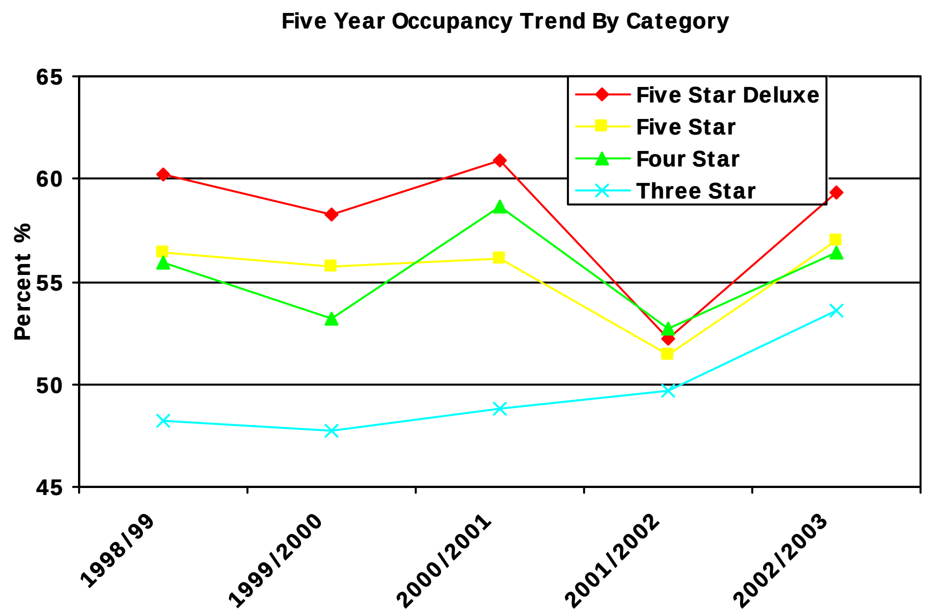

Chart 3

Occupancies by city shows that Bangalore and Hyderabad enjoy occupancies on a par with other major cities in the world, but that most other Indian cities do not enjoy good occupancies in particular Agra and Delhi hotels.

3.2.2. Strategic imperatives

There is an opportunity, indeed almost an obligation, for state and federal governments to encourage through fiscal incentives, sale of government land banks and everything else possible, the development by private enterprise of a new generation of mid market, budget and economy hotels.

And by extension, opportunities for very high returns on capital for those investors who first develop the right product in the right location at the right cost and then operate a branded product to meet the current and future needs of this large domestic market.

Domestic tourism offers a great marketing opportunity; there is huge domestic demand and apparent spare capacity. So what are the sales and marketing gurus doing to convert this opportunity into cash flow? What are the state and federal governments doing to simplify and encourage travel?

Everybody tells the same woeful tale of digestive difficulties. The general level of hygiene in the kitchens is poor due to a lack of capital investment and outdated equipment. Also the application of hazard analysis and critical control points and other techniques to assist good practice is little used. The industry must address this.

3.3.1. International tourism

The third component, ingredient, of tourism is international tourism, both inbound and outbound. This is much less important to the country than domestic tourism. International arrivals peaked in 2000 with good growth from South Asia and the Americas but post 9/11 demand stalled. Demand is dominated by leisure travellers – business and professional visitors are half the number of five years ago.

By segment one can summarise that there is a small upper market; these tourists are looking for an experience and will typically take a tour that involves multiple destinations. This product is very difficult to buy by the customer and so they are dependent on finding an in-country travel agent to make the arrangements. It's difficult in absolute terms and it's difficult relative to similar products and experiences in other competitive countries. Clearly it is constrained – constrained by the patience of the market to accept that the product is difficult to buy and constrained by the number and competencies of the travel agents. So there is a limit to how far this market will grow without fundamental change in the way it is packaged and sold. The mass mid market is served by destinations such as Goa and Kerala; there are very few operators selling such destinations. This is the market that is clearly constrained by the lack of product. Finally there is the low and economy inbound market dominated by students on gap year experiences. Many countries, not least the USA and UK, have addressed this large market with targeted product and this may well be an opportunity for India.

The other side of international tourism is outbound tourism – usually using the same infrastructure – airports, tour operators, and aeroplanes – as inbound tourists. If the government is to encourage inbound tourism, it needs the capacity that services outbound tourism.

In 2001, 2.3 million Indians travelled overseas. In the three years 1999-02, outbound tourism grew 28%. At a time that in-bound tourism grew just 3%. Singapore, USA, Bahrain and UK are the four key destinations. This aspect of tourism is likely to be largely aspirational, and is influenced by the media. There are a limited number of agencies and operators and it may well be poorly addressed by end provider. It is market that deserves more attention than it is getting. Particularly as today's affluent middle classes come to regard travel as a right not a privilege.

3.3.2. Strategic imperatives

Building volumes and profits of international tourism is likely to involve re-learning the 3 c's – customers, channels and content - and being willing to relearn them continuously because the world is changing so much and so fast.

The first c is customers – what are the new and emerging markets that can be targeted. Consider one small segment – the so-called-silver market. The aging population in all countries, including India, is an obvious market. By 2030, China will have more than ¼ bn people older than 65 years old. Even a small slice of that market as an inbound market would be pretty profitable. Or take Thailand which will have more than 10m people older than 65 years old. What products and services can be assembled by the Indian tourist market to sell to this affluent neighbouring market? Some of the Indians who will be over 65 will be attracted to the same products and by 2030 there will be more than 100m. I am sure there are many other niche customer markets that could be researched and explored. Medical tourism is but one other that would merit putting supply in place to meet demand.

The second c is channels – the internet revolution of the last ten years has seen power move from intermediary to the end customer. TravelClick reports that worldwide travel agent bookings through the GDS were down 3% in the first nine months of 2003 but room nights booked by customers through internet sites were up 42%. A 42% per annum trend cannot be ignored. As a tool for intelligent shopping it has revolutionised domestic life. Yes it's driven down prices but it has also driven up brand loyalty – loyalty to those businesses that understand the net experience and respond to it. The major hotel brands receive most of their internet bookings through their own websites – and Starwood for example has publicly stated that they are planning for 70% of all reservations to be web delivered within five years.

What will make this happen is managing the third c - content – making sure you have the right prices, words, images, movies, and sounds to put into both digital and traditional channels so that individual customers can assemble their experiences on line in real time. It may sound a dream in a country with a mere 11m computers and 4.7m internet connections for its 1.05bn population but in India's demand generating countries, and I dare say for the 4m people expected to be employed in India's information technology sector by 2008, bandwidth is, or will become, a utility just is electricity, gas, water and sewage.

4. Conclusion

In conclusion, the opportunities for all in the Indian tourism industry and connected to the industry are huge. Both government and private enterprise can gain some quick wins as well start work on some areas for longer term development. Building on the success to date, there is I believe a powerful case for the Indian government to challenge its approach to tourism, reallocating some of its expenditure and in so doing re-energise the industry. There is a powerful case for the private sector to invest for growth particularly in domestic tourism. If the government, industry, businesses and individuals employ the sort of joined-up thinking that this implies then the opportunities for the country are indeed enormous.