

## OYO – RE-DEFINING BUDGET HOTELS

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### Abstract

*Purpose: The case revolves around the success story of OYO as an aggregator of budget hotels. It discusses about the business model that was adopted by OYO and the circumstances which fuelled its exponential growth. Though OYO maintained a standard quality parameter and regularly infused it with value addition, it did face a slew of challenges in terms of customer satisfaction and managing its hotel partners. The high cost of operating and pressure to become a profit company undoubtedly forced the organization to undergo phased restructuring, which further dented its image. It probes the dilemma which Ritesh Agarwal must have faced as to how to maintain a balance between growth and quality.*

*Target Group: Post Graduate Management Students / Undergraduate Management Students.*

*Courses: Applicable for MBA & BBA Courses.*

*Design/Methodology/Approach: This case has been written based on the available secondary data, along with references from magazines, websites and journals.*

*Findings: The case highlights the factors which led to the growth of OYO and the decision-making skills of the management that resulted in the exponential growth of OYO globally. It also explores the business model developed by OYO and the challenges it faces in terms of dilution of service standards and resentment among the hotel partners. It focuses on the crisis the organization has been dealing with and the measures that have been adopted to handle them.*

*Research Limitations/Implications:* Since the case is based on secondary data, there is room for further updating of the facts and figures related to the company. Information could have been more specific if case was written with direct interaction of management of OYO.

*Practical Implications:* The case highlights the need for the organization to develop a robust strategy that could sustain growth and profitability in the long-run.

*Expected Learning Outcome:*

- *Students/Readers should be able to comprehend the flaws in the business models and skills required to handle them.*
- *Students/Readers should be able to analyse the importance of decision making skills in demanding situations.*
- *Students/Readers will understand the importance of maintaining a healthy communication with the customers and business partners to avoid complicated situations.*

*Key Areas to be Discussed*

- *Status of Hotel Industry in India*
- *Major players as hotel aggregators*
- *Factors for Oyo Success*
- *Business Model of Oyo*
- *Major Challenges faced by Oyo*
- *Possible Solution for the Problem*

*Teaching Strategy:* Before the case, discussion students must be aware of major hotels aggregator in the Global Market.

**Keywords:** *Customer Service, Consumers, Hotel, Online Bookings*

## **Introduction**

Ritesh Agarwal, the blue-eyed boy of the hotel industry has become a global icon in less than a decade. Brand OYO, which has witnessed unprecedented growth to become one of the largest aggregators of hotel rooms, has raised eyebrows among the industry expert in regard to profitability and sustainability. It first laid off about 20% of its 120000 employees in India in the year 2019 and withdrew its operation from 200 cities. It has cut down 5%

of its workforce in China as a part of restructuring the heat of which was also felt in the US market. Due to the discontentment level surging among its hotel partners, nearly 500 of them have refused to do business with the company since April 2019 (Kaushik, 2020). The company also got embroiled with the Income Tax Department which resulted in Income Tax people landing at its doorsteps. This has very much resulted in lowering its customer ranking, and negative reviews have flooded the various review platforms and social media sites. To add to its woes, its founder Ritesh Agarwal got involved in a major controversy when he decided to buy back shares at a staggering \$10 billion valuation from the money that was lent by three organizations from Japan, and was close to its lead investor, SoftBank. This increased the valuation of Oyo twice and decreased the vulnerability of its investor, without any major improvement in the underlying business. Losses for Oyo are mounting, and despite the assurances of the top management, the path to profitability appears to be hazy. The company has resorted to desperate measures of cost-cutting and restructuring of its business model, but given its high cash burning rate for customer acquisition and being hard hit by the COVID pandemic, only time will tell whether this conundrum will change the growth trajectory of OYO or not.

## **The Industry**

Tourism is one of the fastest-growing industries in India, attracting 10.89 million tourists globally. Though majority of the service providers remained obsessed with the elite category of visitors, there was a latent demand from the aspiring middle class which caught the attention of Ritesh Agarwal. This working middle class was unwilling to spend on lavish five-star hotels, but aspired for top-class facilities at an affordable price. The demand for the branded budget hotel was increasing rapidly in the USA, China and India.

Buoyed by the increasing penetration of the internet in India, the sector witnessed a massive surge in online bookings. Online sale witnessed a growth of more than 30%, as demand surged for both business and leisure purposes. This boom was also fuelled by aggressive discounts and accessibility of mobile among the masses. The industry is expected to expand at a CAGR of 13% during the 2018-23 period, due to the heavy arrival of foreign tourists and business travellers. The hotels in India witnessed an increase in occupancy rates by 65% in the year 2017-2018. The average occupancy rates has been shown in Table 1 year wise (Source: <https://www.businesswire.com/news/home/20190715005414/en/Indian-Hotel-Industry-Market-Expected-Grow-CACR>).

**Table 1: Average Occupancy Rates in India**

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Average Hotel Occupancy Rate	62.1	60.9	60.4	60.4	61.3	63.3	64.8	65.7	66.7

Source: Crisil Research 2019.

Currently, the travel industry contributes about 10% to GDP and employs about 43 million persons (report from IBEF and Hotelivate). India ranked 3<sup>rd</sup> in Travel and Tourism power ranking as per the World Travel and Tourism Council. The overall occupancy rate in India witnessed an increase of 100 basis points YOY to 66.7%, of which domestic tourist arrival witnessed an increase of 12%, while foreign tourist arrival witnessed slower growth of about 2% YOY basis in FY19 (Madan, Care Ratings). However, the average room rates witnessed an increase of about 3.6% due to robust domestic demand, more spending on leisure, and supply crunch. The all-India revenue per available room exhibited a growth of 3.8% over the preceding year and reached Rs 3,891 per day in FY19. India has been projected as a hub of medical tourism, and with a growing fondness for MICE (Meeting, Incentives, Conventions and Exhibitions), leisure travel is expected to boost demand from both domestic and foreign travellers. The expected future inventory for hotels in major markets is lower at around 50,170 for the next five years; hence the hospitality sector is expected to witness an increase in revenue per room at a rate of 10-12% CAGR over the next three years. The financial health chart of Hotel industry for the year 2018 and 2019 has been shown in Table 2.

**Table 2: Financial Health Chart of OYO**

(Mn \$)		
	2018	2019
Revenue	211	951
Operating Expense	258	1274
EBITDA	-57	-350
Net Loss	-52	-335

Source: Business India 2020.

Initially, the Indian hotel sector was unorganized, labour-intensive and lacked transparency in terms of pricing and quality service. The customers had limited access to information and there was no quality parameter to differentiate hotels in the budget category. Often the customers were not

satisfied with the quality of service provided to them and had little loyalty towards any of the hotels. The majority of hotels resorted to deep discounts through online aggregators to win over the customers.

Online hotel aggregators benefitted deeply with consumer's preference for digital platforms for booking hotel rooms. Consumers not only saved their time, but were also offered the convenience to choose their check-in and check-out time. It also allowed consumers to compare the prices and read reviews, which aided them in decision-making. However, since the aggregators did not control the operations of hotels, their bargaining power was low, which resulted in dilution of the loyalty of hotels towards them. The aggregators had this realization that for customer retention, they must focus on quality and value addition. Hence, they emphasized on technological innovation and quality up-gradation to attract potential customers.

Oyo, along with several other players, became the new breed of service providers who offered a cocktail of technology and quality up-gradation as their USP. The online inventory management offered a huge scope of improvisation and helped them in plugging the gap between the demand and supply of rooms. The major players operating in this filed were:

*Zo Rooms:* Zostel Hospitality Pvt. Ltd. was founded in the year 2013 and was primarily targeting backpackers by offering them bunk beds, board games and free Wi-Fi. Later, it was expanded into *Zo Rooms*, which provided hotel rooms to tech savvy customers. They have presence in major cities and towns within the country.

*Stayzilla:* Stayzilla was founded by Rupal Singh, Yogendra Vasupal and Sanchit Singhi in the year 2005 in Chennai. It forayed into budget hotel segment with plan to target Tier 2 and Tier 3 cities. It offered homestays and alternate stays to the customers. Due to high level of competition and high operating cost, it was not able to sustain its business model and soon became temporarily out of business.

*Wudstay:* It started as an aggregator of budget hotel which later expanded into other cities. Founded by Mr. Prafulla Mathur in the year 2015, it forayed into paying guest accommodation. It also acquired hotel aggregator *Awesome Stays*, in order to grow its market share. However, in year 2016, it exited the hotel business to focus more on PG accommodation, but finally had to shut down due to lack of funds.

Established players, like *Makemytrip.com* and *Goibibo.com* launched Go Stays and Value + on the lines of OYO in order to capitalize, mainly focussing on the changing purchasing habits of the consumer.

## Origin of OYO

Oyo, the brainchild of Ritesh Agarwal, was founded in the year 2012 under the name of Oravel, that was later changed to Oyo. Ritesh, who was the first Asian to receive the Thiel Scholarship was driven by the urge to create a standardized and economically viable accommodation that laid the founding stone of OYO.

Oyo began its business with a small hotel in Gurugram and its rapid expansion breached 100 hotels within a year. Its exponential growth caught the attention of major investors, like Sequoia Capital, Green Oaks Capital, SoftBank, Light Speed Venture Partners (LSVP) and DSG consumer partners which helped it to scale its business pan India. To differentiate itself from the competitors and reduce the time taken to freeze a room, OYO launched an app that allowed the user to book a room within 5 seconds, with three clicks on the screen. Flushed with funds from the investors, OYO went on an expansion spree adding 100 + cities in the year 2015 and had more than 1 million hotels check-in by the year 2016 (Ghosh, 2017).

OYO took a big leap and fulfilled its global ambitions by entering the Malaysian market which was unorganized like the Indian hotel industry, but it caught the fancy of investors by targeting the Chinese market in 2017. It continued its free run by making expansion in the UK, Singapore and Indonesia, and finally in the year 2019, it made a grand entry in the US and Japanese markets. Presently, OYO has expanded to over 800 cities in 80 countries, which is indeed a big achievement for a start-up that was set up in the year 2013. Not only have they ramped up their model several times, but also rapidly diversified into areas such as co-living, co-working, vacation homes, tour packaging, cloud kitchen, weddings and cafes. Their success has earned numerous laurels in terms of awards and recognition. The Start-up India policy, which is the brainchild of the Prime Minister, Mr. Narendra Modi, highlighted OYO as a prime member. Not only this, the Forbes featured it under the 30 Global technology list and also won a Quest experience award from Facebook. LinkedIn ranked it as one of the Top attractions on its site. (Kaushik, 2020). The Time line of Key events has been mentioned in Table 3.

**Table 3: Time Line of Key Events of OYO**

Year	Events
2013	Launched in Gurgaon.
2015 (April)	Receives 25\$ million funding from Lightspeed India, Sequoia and others; launches app.

Year	Events
2015 (July)	Gets 100\$ million funding from Japan SoftBank).
2016	Pivots from being an aggregator to being hotel operator.
2017	Enters the China Market.
2018	5\$ Billion Valuation after raising money from SoftBank and existing investors; Oyo becomes a Unicorn.
2018	Establishes operations in UK, Indonesia and Singapore.
2019	Enters the US and Japan market.
2019	Ritesh Agarwal buys back shares, giving handsome returns to early investors Sequoia and Lightspeed Venture Partners.
2019	Claims to be the second largest chain of hotels and homes in the world.

Source: Business India 2020.

## Business Model

The very idea of the foundation of OYO was providing quality services at a budget price. Ritesh initially laid the foundation of Oravel, with the intent of connecting budget travellers with the hotels that offered pocket-friendly rates. But soon he realized that budget hotels were highly disorganized and that standard of services they offered was not up to the mark. The hotels had a high degree of variation in their basic offerings which were in contrast to the standardized services that were being offered by premium hotels. The idea of bridging this gap led to the foundation of OYO, which aimed to offer premium services in budget hotels. OYO adopted a slightly different route from the existing OBA players, who used to block rooms at a lower price or worked on the revenue sharing model. It invested in the partner's rooms to enable it to offer premium facilities as promised by OYO. Oyo spent 161.29\$ to 322.58\$ (Economic Times, 2015) per room to enable hotel owners to meet the expectation of the consumers. The standardized inclusion across all rooms of OYO included an air conditioner, television, Wi-Fi, clean bed linen, clean washroom, and complimentary breakfast.

OYO also took several efforts to ensure that its services were tweaked as per the changing taste of the consumers. The Gen Y customer was net savvy and always looked for grabbing any product or services which were cheap and better. OYO spread its presence to all metro cities and popular tourist spots, like Goa and Kerala and religious destinations, like Banaras. Domestic tourism was witnessing a boom as people were traveling for leisure, knowledge and

gaining experience, and OYO wanted to position itself as a lifestyle partner for them. This enforced OYO to focus on innovation for product development and increase the usage of technology for offering standardized services. It adopted the Manchisee model (a hybrid of franchisee and management) for expansion, which ensured a high growth rate with minimum hassles. The facts and figures related to number of rooms and their booking frequency has been shown in Table 4.

**Table 4: Fact Sheet of OYO**

Founded in year.	2013
Global headcounts.	25,000
Global Asset owner (partners).	43,000
Number of Hotel rooms globally.	1 million
Number of Hotel rooms in India.	3,00,000
Number of Oyo Rooms booked per second (2019).	5
Global Oyo app User base (2019).	77.5 million

Source: Business India 2020.

## The Setting of Quality Parameter in OYO

Oyo undertook a slew of measures to ensure quality in its service offering, few of which have been mentioned below:

- It developed a 150 checklist for a hotel to qualify as a member of OYO and every room was required to offer six basic features to the OYO customers.
- It was essential for OYO to develop a model that laid a standard framework for client management and to plug in the loopholes in the services being offered which could malign their brand image.
- OYO focussed on increasing the usage of technology in the hotel booking process and encouraged the hotel owners to upgrade themselves to gel with technology.
- When a new hotel came on board, all the staff members had to undergo a training program and rooms were upgraded as per the standards fixed by the company.
- OYO developed a system of internal auditing, which kept an eye on all its hotel partners.
- OYO also focussed on settling consumers' grievances. Its team kept a tab on the number of customers' complaints arising from different properties,



and hotels with higher frequencies were subject to inspection. Those properties which scored low on their parameter scale were struck off from their partners' list.

- They assigned weightage to the lapses in service offerings depending upon the customer experience.
- Aided with the technology, they developed a robust system of tracking the various issues arising in respective hotels and the time taken to resolve them. Every 3 to 4 days the audit team picked up forty hotels on a random basis who underwent strict scrutiny on 40 parameters. Those rooms which failed to meet the quality parameters were designated as black rooms, which could not be sold to customers. The listing process followed by Oyo has been mentioned in Table 5.

**Table 5: Listing Process of Aggregation Sites**

Step 1	A dedicated team discovers potential OYO properties remotely on internet or through the foot on the street team which maps the entire city, typically the case in tier 2 and tier 3 cities.
Step 2	Once a property is identified, a business development manager of that city talks to the hotel owner, introduces OYO and explains the model.
Step 3	OYO conducts the detail audit of the property that involves a 250-point check list to look for variations to make it an OYO room with time and work involved. E.g. A 6-inch mattress, transparent bucket and mugs in washroom, stainless steel dustbins, etc.
Step 4	OYO negotiates room rates for the property in which it pays the hotels and then lists different rates for the consumers.
Step 5	BD manager prepares a transformation audit with estimated expenses and a list of vendors (for a 48-hour turnaround time) at another meeting with a hotel owner. Owner can use own vendors too.
Step 6	A transformation executive ensures a property is transformed and then works together with the owner.
Step 7	OYO conducts a post transformation audit through cluster managers in each city, one for every 20 properties in large cities, who gets the hotel to go live in its website. An assigned photographer takes picture to go along with hotel profiles.
Step 8	The relation is handed over to the operation staff that ensures that the standard sets are maintained.
Source	Economic Times, <a href="http://economictimes.indiatimes.com/small-biz/startups/why-executives-are-quitting-cushyjobs-at-large-companies-to-join-aggregators-like-oyo-zomato-and-practo/articleshow/49098497.cms">http://economictimes.indiatimes.com/small-biz/startups/why-executives-are-quitting-cushyjobs-at-large-companies-to-join-aggregators-like-oyo-zomato-and-practo/articleshow/49098497.cms</a>

Despite adopting a vast slew of quality improvement methods, OYO is perceived to be stretched too thin. Several reasons have been cited (Kaushik) to justify this statement, the prominent ones being:

- The valuation of OYO has grown over 10 times in last two years; \$900 million in year 2017 to 10\$ billion in Oct 2019, which later scaled down to 9\$ billion in year 2021 due to the COVID pandemic.
- OYO has claimed to become one of the leading chain of hotels in India and abroad in just a span of 6 years.
- OYO entered the Chinese market in 2017 and within three years claimed to be the largest operator in the market.
- OYO has expanded rapidly in markets such as US, Japan, Indonesia and UK buying high value assets there.
- In last two years, it has gone beyond hotels and diversified into co-living, co-working, vacation homes, tour packaging, weddings and event management.

## **Value Addition in OYO**

Since its inception, OYO had this realization that technology will play as a game-changer and simultaneously, it kept upgrading its product and service offerings. In order to tap on the growing internet boom, it tied up with Airtel to provide better internet connectivity and DTH services to all its guests. It also launched OYO WE, (Economic Times, 2015), which was an exclusive brand for women, offering specific services, like library and beautician -on -call, assisted by an all-female staff. It also came up with OYO café, which offered a wide variety of cuisine under the OYO brand.

OYO revolutionized the process of booking a hotel room by launching an app (OYO Blog, 2015) that reduced the time taken to book the room and simplified the whole procedure. With this app, a hotel room could be booked in three simple steps:

- First, the person had to sign up.
- Secondly, he had to browse in search option and he would get results of all possible hotels on a specified location.
- Then finally, he had to simply tap on the booking options and the room got confirmed. To add to its offering for customer delight, it became the first organization to allow early check-ins from 6 am for its customers. In order to diversify its business, OYO launched a range of different

verticals, OYO Townhouse, Oyo Life, OYO Home, Collection O, and Oyo Auto Party. The process has been explained in Table 6.

**Table 6: Process of Booking Rooms in OYO**

<b>Book OYO in 3 Clicks</b>		
<b>Open the APP</b>	<b>Search Smart</b>	<b>Book Rooms</b>
	The customer enters the name of the place where he wants to stay and gets all the possible hotel options in its proximity.	The Customer books the room of his/her choice by tapping and deal is made.

Source: Recreated from OYO Blog.

OYO Townhouse caters to the requirement of millennials and features rooms equipped with Wi-Fi and wooden floors and offers merchandise like clothing, stationery, toiletries, etc.

Collection O deals with new age corporate travels, providing them with quality and affordable accommodations to meet their personal and professional requirement.

OYO Life provides for PG accommodation and offers furnished rooms with attached bath rooms and Wi-Fi targeting millennials, who want to experience high quality life and at the same time, avoid themselves from hassles of house hunting and managing landlords. Present in major cities of India, they boast of 40,000 + beds and 700 + buildings.

OYO Home provides homestay services to travellers looking for a homely environment. Started in 2016, it targeted locked and unused homes across the holiday destinations, and managed them using the existing resources of the organization.

OYO Auto Party was launched in the year 2018 with the aim to cater to the wedding business and event management. It acted as one- stop shop for wedding and other events by offering services, like catering, banquets spacing, décor, DJ, etc. (Kaushik, 2020).

**Challenges Faced by OYO**

The exponential growth of OYO which powered it into the list of Unicorn Clubs had its own set of riders. Its stakeholders, which comprised of

customers and hoteliers, were highly disappointed with the service delivery and management of their vendors. The resentment among the hoteliers, regarding delay of payment and gross mismanagement in terms of revenue calculation and drafting of contract was growing day-by-day, which led to approximately 500 hoteliers snapping their ties from OYO.

The breakneck speed at which OYO had been adding hotels in its platform at the expense of service quality has raised lots of eyebrows. Also, it rapidly diversified into verticals such as co-living, co-working, vacation homes, tour packaging, cloud kitchen, weddings and cafes. Ritesh Agarwal also triggered a major controversy by deciding to purchase back its share at a staggering 10\$ billion valuations from the money lent out by financial institutions that shared proximity to its prime investor, SoftBank. OYO has developed a business model that is based on increasing the market share by under-pricing the products. The model is hinged on enormous cash- burn, primarily funded by marquee investors, such as SoftBank, Sequoia Capital, Light speed Venture partner and Airbnb. Since its inception, OYO is struggling to make a profit and its losses have increased from 52\$ million in FY18 to 335\$ million in FY 19 (Kaushik, 2020).

As per the report filed with India's Ministry of Corporate Affairs (MCA) last year, OYO stated that it would start earning profit from 2022, a projection that seems doubtful. The organization, however, claims that its EBITDA (earnings before interest, tax, depreciation, and amortization) are profitable in co-working and home business, and they are hopeful that other verticals shall start delivering in a couple of months. Another growing area of concern for the organization is customer experience. A common element in grievances are the substandard rooms and poor services and there is a huge discrepancy in rooms shown in the app and what is offered to the customers. One of the customers got so pissed off that he started a website to share his trauma with OYO (Oyo-ruined –my- anniversary.com) (Ghosh, 2017).

OYO is also bearing the brunt of disgruntled hotel partners who complain about a lack of transparency and use of arm- twisting tactics by the organization. This distrust resulted in the souring of the relationship between the two parties, which culminated in cases being filed in the court. The business model adopted by OYO was highly customer centric and in a rush to scale its business it flouted its own basic rules of quality parameters. The contract between the organization and the hotel partners was done in haste and false promises were made in pretext of providing higher revenue. The organization didn't pay any heed to complains made the business partners as it took them for granted which later boiled into a controversies for OYO.

The SoftBank which was the prime investor in OYO has also landed in trouble. It is under pressure for the WeWork fiasco and the tepid response to UBER IPO and suffered a loss of \$8.9 billion (quarterly) in 14 years in the month of September, followed by a \$2 billion loss in the December 2019 quarter. SoftBank which was backing OYO blindly was unable to raise \$100 billion for Vision II funding. This has put brakes on the expansion strategy of OYO and forced it to focus on profitability (Kaushik 2020). The major issue being faced by OYO has been shown in Table 7.

**Table 7: Major Issues with OYO**

Deep Discounting	Offering lower rates than the hotel's published tariff.
Unrealistic Promises	Offering services (pick up, complementary offers, etc.) not promised by the hotel.
Service Quality	Quality of the hotel service not matching as per OYO standards.
Loyalty	Poor service quality led to disgruntled customers, which resulted in loss of loyal customers.
Unpaid Dues	Payment to hotel partners were not made for pre-purchased rooms.
Lack of Transparency	The contract signed with hotels had hidden clauses, which later led to dispute.

Source: Recreated from OYO Blog.

## The Road Ahead

Since its inception, OYO has been in limelight because of its staggering growth rate. It has adopted the Manchisee model to promote its business. Though it gave them scale and visibility on a global platform but performed abysmally low on the revenue index. To maintain its high inventory, OYO had resorted to compensate the hotel owners as they were forced to offer deep discounts to customers which led to high cash burnout. This, in turn, led to resentment among their partners, as they complained about delayed compensation and loss of ROI. To address their concerns, OYO has launched a partner engagement program, OPEN (OYO Partner Engagement Network) and Sambandh. It also created a facility where partners could walk in to discuss their problems with the company representatives.

OYO has also taken a massive restructuring exercise to cut down the losses. It has brought some of its verticals under a single leadership structure. Its frontier businesses, like OYO Townhouse, OYO Life, OYO Home, and

Collection O was combined in the year 2019 under a single leadership. It aimed to give a strong message to rumours of exiting these segments.

On the customer front, OYO needs to shift its business strategy by shifting its focus from growth and market share to streamlining the operations, customer experiences, human resource training and better management of assets, in order to improve its ROI. OYO strategy of gaining market share which propelled it to become the second-largest hotel player in the globe come with a high burn out of cash which acts as a big hindrance in its goal to become profitable. OYO has managed to beef up its inventory to 10,000 plus rooms and adopted the franchised model, which allowed it to take full inventory under its control. OYO has shifted as much as 85-90% of its total inventory to this model to build this scale. However, this inventory can generate only 25-30% of the company's total revenue (Business World). With its prime investor in trouble, it is quite evident that to survive, OYO has to turn profitable. OYO valuation of \$10 billion holds water in just two instances – one, if the company goes public and the other, if they are a rope in an extra player to buy it. The COVID pandemic has pushed the whole hospitality industry to the brink, and it would be nearly impossible to find any buyer. For IPO to be successful, it needs to course-correct its business model. The restructuring of OYO is the right step in this direction, which might help the organization to gain credibility among the investors.

For now, Agarwal's global ambition has hit a roadblock. With the pandemic showing no sign of abating, the situation has become trickier. The key to solving the puzzle would depend on Agarwal's ability to set things in order.

## Questions for Discussion

- Highlight the factors which fueled the growth of OYO.
- What are the major challenges faced by OYO?
- Give suggestions for OYO to resolve the issues in service quality.
- *Answer:* Oyo from its inception projected itself as a tech-based solution for fulfilling the demand for accommodation for the economy class. With minimum investment in the up-gradation of the rooms, they were able to meet the expectation of the growing middle class. The brand Oyo was able to change the perception of the consumers towards unorganized budget hotels which were normally famous for substandard rooms and pathetic customer service. Another vital factor was its deep-pocket investors who doled out surplus cash to pave the way for the expansion of OYO. With aid of technology, OYO simplified the inventory management of rooms and reduced the booking process to three simple

steps. The hotel partners also benefitted immensely as brand OYO was able to pull customers which boosted their revenue.

- The major challenges faced by OYO were:
  - Dilution of Service standards.
  - Dispute with hotel partners due to lack of transparency in Contract.
  - Delay in the clearing of payments.
  - High cash burn out resulting in heavy losses.
  - Buying back of shares at a high price by Ritesh Agarwal to boost its investor SoftBank led to a major controversy.
  - Restructuring led to the loss of jobs which hit the brand image.
  - Business took a hit because of COVID Pandemic.
- The following steps should be taken by OYO to improve its services.
  - Win the confidence of its hotel partners.
  - Remove blacklisted rooms from its inventory.
  - Clear backlogs of payment.
  - Make the contract transparent and clear.
  - Devise an incentive scheme for partners to improve their services.

## Theoretical Discussion

Decision-making Dilemma for OYO.

Porter Five Forces Model can be applied to this case study.

- *Threat of Entry*: The threat of entry of new players is moderate with few startups trying to enter the market. But their sustainability is not guaranteed in the long run as the cost of attracting the customer and managing the inventory is significantly high. This sector demands long term investment in terms of infrastructure, technology and manpower which is quite challenging for the Startups.
- *Bargaining Power of Suppliers*: The bargaining power of the suppliers is low because there is huge number of budget category hotels and they are dependent on Oyo for consistent revenue generation. However, Oyo should take adequate steps to handle their grievances.
- *Threat of Substitutes*: Threat of substitutes is low. Though players like Makemytrip and Go Ibibo have launched their own versions of budget inventory they have still not been able to generate buzz in the market.

- *Bargaining Power of Buyers*: The bargaining power of the buyers is moderate as they have options to a certain level but as the industry flourishes, it may lead to buyers getting an upper hand.
- *Rivalry among Competitors*: The rivalry among competitors is high as in their effort to attract customers they resort to price discounts. The key differentiator is the quality of service offered by the service providers and with consistent innovation in technology the players cannot afford to lower their guard.

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