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COMPETITIVE ANALYSIS OF THE INDIAN STAR HOTELS USING THE ANALYTIC HIERARCHY PROCESS

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Abstract

Hospitality is a booming industry worldwide. There has been a revolution in this industry from being old fashioned to modern in outlook. The main driver of this trend is the increasing significance of tourism as an industry globally. As per the World Travel & Tourism Council (2016), the tourism industry in India is estimated to have directly contributed US$ 41.1 billion and overall contributed US$ 127.8 billion in 2015. The Indian hospitality sector is estimated to have earned US$ 24 billion in foreign exchange in 2015.

The Indian hotel industry is highly fragmented with a large number of small and unorganised players accounting for a large share of the market. The major players in the organised segment include the Taj Group (34.58%), the Oberoi Group (21.59%), ITC Hotels (20.68%), and others (23.15%).

The objective of the study is to compare the competitiveness of five-star hotels using the analytic hierarchy process (AHP). AHP is a technique that is used to structure multi-criteria decisions, allowing both quantitative and qualitative comparisons between alternatives (Saaty and Forman, 1992; Saaty, 2008). The criteria used for the study include price, amenities, food & beverages, infrastructure, and customer service. The five-star hotel chains selected for the study include Taj Group, Oberoi Group, ITC Group, and Leela Group.

Keywords: *Star Hotels, Analytic Hierarchy Process, Hospitality Indicators, Competitiveness*

Introduction

Hospitality is a booming industry worldwide. According to Statista (The Statistics Portal, 2017), the total revenue of global hotel industry was US$

493.76 billion in 2015, of which the total revenue of the U.S. hotel industry itself is US$ 189.50 billion. The largest hotel chain in the world is Britain's Inter-Continental Hotels group, which generated US$ 23.16 billion in 2015 from over 4600 hotels worldwide. Some other major players include Hilton Worldwide and Marriott International.

There has been a revolution in this industry from being old fashioned to modern in outlook. The main driver of this trend is the increasing significance of tourism as an industry in India. As per the World Travel & Tourism Council, the tourism industry in India is estimated to have directly contributed US$ 41.1 billion and overall contributed US$ 127.8 billion in 2015. The Indian hospitality sector is estimated to have earned US$ 24 billion in foreign exchange in 2015.

The key trends in hotel industry include the growth of domestic tourism, the emergence of medical tourism as the key attraction in India, the development of tier II and tier III cities as important tourist hubs and the shift in tourist traffic away from luxury formats which have hitherto dominated the hotel industry and towards economically priced mid-level and budget hotels (Abraham and Kumar, 2017).

Hotels can be classified according to several different criteria, including size, ownership, target markets, and levels of service. The most important of the classifications is the star system, an internationally-recognised system for rating hotels based on quality of service. Hotels that have not been assigned a star rating are unclassified, indicating that they have not met the basic benchmark of quality. Base quality hotels are assigned one or two stars; medium quality hotels are assigned three to four stars, and the highest quality hotels are assigned five to seven stars. Of particular interest are the five- to seven-star hotels that international customers desire for. The brand, standards, and services make these hotels the premium choice for stay for foreign tourists. The right affordability for the product increases occupancy also. During 2008-15, the demand share for Lux-UpperUp segment has been around 40.7% and for Upscale-UpMid is around 34.8% (Crowe Howrath International, 2015).

The Indian hotel industry is highly fragmented with a large number of small and unorganised players accounting for a large share of the market. The major players in the organised segment include the Taj Group (34.58%), the Oberoi Group (21.59%), ITC Hotels (20.68%), and others (23.15%). The HHI[1] based on these figures is 0.2625489, while the three-firm concentration ratio is given by C_3 = 76.86%.

[1] The Herfindahl-Hirschman index (HHI) is a commonly accepted measure of market concentration

Macro-Environmental Factors

There are many political and legal forces affecting the Indian hotel industry. Hotel licensing and regulation is under the jurisdiction of the Director General of Tourism, a body affiliated to the Ministry of Tourism. The government has provided various incentives for the growth of the tourism industry and the affiliated hotel industry. These include, for example, elimination of customs duty on import of raw materials, equipment, liquor, and so on; exemption of fringe benefit taxes on crèche, employee sports, guest house facilities, etc.; exemption of luxury tax and sales tax for five to seven for new projects; and a five-year tax holiday for star-category hotels located around UNESCO World Heritage sites. The government tourism development corporations (ITDC[2] and state TDCs) have developed star hotels in the major tourist destinations. The Modi[3] government has also removed all FDI[4]restrictions on hotels, encouraging foreign players to enter.

The government has also launched advertising campaigns (for example, the 'Incredible India' campaign of the Manmohan Singh government and the 'Athithi Devo Bhava[5]' campaign of the Modi government) to reinforce the rich variety of tourism in India. The investment in tourism sector in the Twelfth Five Year Plan (2012-2017) is expected to be US$ 12.4 billion; of this, private investments are likely to total US$ 9.2 billion.

Several macroeconomic factors affect the Indian hotel industry, including GDP growth rates, inflation, interest rates, foreign exchange rates, and so on. Along with these macroeconomic factors, there are several socio-economic trends that have contributed to the growth of the industry, including a continual increase in per capita income and real purchasing power of the neo-middle class, an increase in urbanisation and a trend in nuclearisation of families, along with an increase in education and awareness levels. This has led to a change consumer lifestyles and purchase habits, with travel and tourism gaining in popularity, and a shift in preference of travellers to stay in hotels rather than with family/friends.

Demand conditions largely depend on business travellers, but tourist traffic has also been growing in recent years. Further, the tourism and hotel industries are very seasonal industries, with very high peaks in November/

[2] India Tourism Development Corporation, came in existence in October 1966

[3] Mr. Narendra Modi, Prime Minister of India

[4] Foreign Direct Investment

[5] Guest is God

December and March/April. In fact, there is a serious demand-supply imbalance in the industry. The Ministry of Tourism estimated a shortage of 150,000 hotel rooms (during peak season) in 2015, of which two-thirds are in the budget category[6]. This has put pressure on prices to shoot up in the peak season, and tumble down in the lean season.

The industry is also very susceptible and sensitive to terrorist activity; for example, the 26/11[7] terrorist attack of the Taj Mahal Palace in Mumbai left the industry very vulnerable, and the Taj Group is yet to recover from the losses incurred.

The most important technological factor affecting the industry is the internet, which has revolutionised the hotel booking process by making information easily available, reducing purchasing hassles, and providing customers greater degree of choice. For example, websites like Makemytrip.com, Yatra.com, GoIbibo.com, and so on have made life easy and very accessible to all. A good web presence helps hotels to reduce marketing costs, giving easy access to new entrants.

The hospitality and catering industry often faces criticism for spoiling/polluting the environment particularly at tourist attractions such as historical places, beaches, forest areas, hills, and so on. A range of activities related to tourism not only creates pollution, but also disturbs animals and the related environment.

Competitive Analysis (Porter's Five Forces Model)

The threat of new entrants for the hotel industry is moderate. There are several barriers to entry, including high capital costs, stringent regulation, and high differentiation between players in terms of location, service, and amenities as strategies to attract and retain customers. Also, poor infrastructure facilities and scarcity of land especially in metros serves as a barrier to entry. Established industry giants like the Taj, Oberoi, ITC, Orchid, and so on can continue to thrive under the prevailing conditions.

The major suppliers in this market include property owners, real estate developers, interior designers and decorators, architects, management and training service providers, marketing companies, industry consultants, and hotel labour force. *The bargaining power of suppliers* is moderate, as there are

[6] http://shodhganga.inflibnet.ac.in/bitstream/10603/2495/9/09_chapter%202.pdf

[7] November 2008 terrorist attack on Mumbai Taj Hotel

many real estate dealers without much differentiation and low switching costs, but a limited number of quality training providers and skilled employees. Also, in today's dynamic job market, employees move readily from one hotel to another in quest of better prospects, making it hard for hotels to retain the expertise.

The bargaining power of buyers is high because switching costs for consumers are low, buyer demand is significantly lower than industry supply, and buyers have the ability to delay their purchases. Price sensitivity among buyers is also common due to the price of a hotel stay representing a large fraction of their total expenditure. Further, with the increased usage of internet and social media, buyers can easily compare the quality and price of different hotels, increasing their bargaining power. Moreover, bargaining power of buyers has been increased by websites that offer hotel rooms at discounted rates. Buyers' ability to delay their purchases becomes increased through these websites, as consumers can wait to make a purchase until a hotel offers an extremely low price. Thus, competing on price alone is no longer a key to success for hotels, brand recognition and innovation helps to attract customers and retain them. Hotels must implement differentiation and/or brand loyalty strategies to retain customers. In particular, hotels need to delight customers by providing unique service experiences that their competitors cannot provide. In this case, service is both the core competence and also the competitive competence.

The threat of substitutes in hotel industry is moderate. With the increased penetration of internet, customers are able to compare the rates offered by different hotels and can choose the best deal. This has led to an increase in competition in the hotel industry.

On the other hand, websites like airbnb.com have disrupted the hospitality industry, by connecting the private property holders (guest houses, service apartments, etc.) to the customers who are looking for a temporary and inexpensive place to stay. This has become a substitute for the hotel industry. Also, internet and improved modes of telecommunication have also reduced the need for business meetings.

There is fierce *rivalry among the competitors* in the hotel industry. Hotel services are largely undifferentiated, so it becomes difficult hotels to differentiate themselves from their competitors. As a result of the wide web-based competition, the players are cutting prices to attract more and more customers, resulting in a price war. Also, the exit costs of hotels in urban areas are very high, as the reusability of a hotel building is very low.

The two main pricing strategies used in the hotel industry include dynamic pricing and differential pricing strategies. Dynamic pricing means that a hotel changes its room tariff rates daily; depending upon the market supply and demand conditions, the rates are adjusted accordingly. It depends largely on customers' willingness and ability to pay. Differential pricing involves charging a premium for quality. Customer service is a key differentiating factor from other competitors.

The two most important factors which give competitive advantage to hotels are impeccable customer care and efficient operations. The use of improved technology has allowed the hotel industry to see a dramatic change in both of these areas. Some examples of IT usage in the hotel industry include social media marketing and overlapping customer care, increased accessibility with mobile devices, and intelligently integrated hospitality management systems. An example is Hotelogix, a cloud-based hotel property management system which helps in integrating front desk, operations, and restaurants.

According to Vij (2016), with growing competition on a global level, the hospitality industry needs to proactively manage its internal operations and focus on reducing costs and raising service quality. In this context, the paper helps to reveal sustainable cost effective practices that are geared to today's competitive environment.

Several expansion strategies are pursued by hotel chains, including concentration, integration, cooperation, diversification, and internationalisation. The hotel industry has witnessed several international mergers and acquisitions in recent years, with various foreign players entering the Indian market with good investments and Indian players expanded into newer markets through joint ventures. In 2015, India's mergers and acquisitions across all industries registered an aggregate disclosed deal value of US$ 20.0 billion[8]. According to Kruesi et al (2016), the most appropriate method for expansion strategies (internationalization) are cost economics and resource-based view. Other important factors are size of organisation, the importance of intangible assets and the level of investment into these assets with host country factors such as legal and political risk, as well as the availability of capable local partners.

The Taj Group has undertaken several prominent foreign acquisitions in recent years, including the Starwood Group (W Hotels), The Pierre, Regent

[8] http://www.ey.com/Publication/vwLUAssets/EY-transactions-2016-pe-and-outbound-to-drive-manda/$FILE/EY-transactions-2016-pe-and-outbound-to-drive-manda.pdf

Hotel (renamed as Taj Lands), Ritz Carlton (in 2006), Orient Express Hotels (in 2007), and so on. Their market capitalisation was US$ 1.50 billion by Dec' 2015[9]. They have a differentiation strategy targeting the premium segment, but they have also expanded their offerings internationally to target a broader segment. They have a multi-level approach in the Indian market through well-defined sub-branding; viz. the Gateway and Ginger brands.

The Oberoi Group (also known as East India Hotels) was formed through a merger of Associated Hotels of India Ltd and Hotels Private Ltd in 1964, acquiring The Oberoi Grand, Kolkata, Maidens Hotel, Delhi, Palm Beach, The Oberoi Cecil, Shimla, The Mount Everest, Darjeeling, and several others. They have subsequently entered into several strategic alliances and joint venture agreements. Their market capitalisation stood at US$ 0.90 billion as of Dec' 2015[10].

Methodology

This study is a competitive analysis of Indian star hotels using the Analytic Hierarchy Process (AHP). The objective of the study is to find out customers' preferences with respect to the major hotel groups in India.

AHP is a technique for structuring multi-criteria decision problems, using pairwise comparison and weighted averages (Saaty, 2008). It can facilitate several types of decision situations, and can help incorporate qualitative as well as quantitative information in the decision-making process. For further discussion about the range of applications of AHP, the reader should refer to Saaty and Forman (1992).

There are four basic steps in AHP. The first step is to formulate the problem, by stating the objective, defining the criteria that influence the objective, and identifying the alternatives to be evaluated with respect to the criteria. The second step is to construct the paired comparison matrix between the criteria, using which the weights for each of the criteria are calculated. The scale used for the paired comparison matrix for criteria is an importance scale, ranging from "1" which represents "equally important" to "9" which represents "extremely more important." The third step is to construct the paired comparison matrices for the alternatives for each criterion, using which

[9] https://www.tajhotels.com/content/dam/thrp/financial-report/annual-reports/2015/The%20Indian%20Hotels%20Company%20Limited%20(IHCL)%20Results/02_IHCL%20AR%202015-16%20WEB%20file.pdf

[10] http://www.eihltd.com/index.asp

the ratings for each alternative under each criterion are calculated. The scale used for the paired comparison matrix for alternatives under each criterion is a preference scale, ranging from "1" which represents "equally preferred" to "9" which represents "extremely more preferred." The fourth step is to synthesise the ratings of each alternative by taking weighted averages, and to select the alternative with highest composite rating.

The AHP model is developed to evaluate the trade-offs between the competitiveness indicators. The indicators employed were: amenities (x_1), food & beverages (x_2), price (x_3), service (x_4), and infrastructure (x_5).

Amenities are additional facilities provided to customers along with the basic room. These can include kitchen facilities, tea/coffee maker, television, computer and/or internet access, personal care items (e.g. toothbrush & toothpaste, soap, shaving kit, shower cap, hair dryer, towels, etc.), laundry services, vending machines, exercise equipment, recreational facilities, spa/massage facilities, meditation area, swimming pools, car parking, and so on. An appropriate choice of amenities can give a hotel an edge over its competitors.

Food & beverages includes the provision of an array of services as coffee shop/snack bar, restaurant, room service, pub/bar, discotheque/night club, and so on. Another consideration is the range of cuisines and variety of menu items that the hotel decides to offer to satisfy the tastes of a wide customer base. The usual cuisines offered include Indian, Continental, and Chinese; Italian and Spanish dishes are also common. Even within Indian cuisine there are some speciality cuisines such as Mughlai, Tandoori/North Indian, Bengali/East Indian, and South Indian, as well as some local cuisines such as coastal Goan/Mangalorean, Kerala, Chettinad, Andhra, Punjabi, Gujarati, Rajasthani, and several others. Menu design is a specialised discipline; the goal is to offer a combination of dishes that appeals to the largest proportion of customers. Of course, vegetarian/non-vegetarian considerations must be catered for, as well as restrictions on the types of meat allowed for different customer segments. A similar menu design problem holds for the drinks/beverages the hotel decides to offer.

Pricing is an important aspect of hospitality services. The star hotels offer premium services, and therefore set quite high tariffs. Pricing also depends on location and 'time value.' Most hotels employ revenue management/dynamic pricing strategies, adjusting prices with changes in demand. Even star hotels offer a proportion of their rooms at discounted rates on booking websites. Prices tend to increase closer to the booking date, with increase in demand for rooms on a specific date.

Service is a key differentiator between hotels. This factor involves the design and delivery of quality services by the hotel. The 3Ps corresponding to service, viz. physical evidence, people, and process, are of great importance in the customers' perception of the hotel's service quality. Physical evidence represents the service environment/ambience, which has to enhance the customers' experience. People represents the capabilities of the employees who deliver the service. Process refers to the design, flow, and efficiency of the service delivery.

Infrastructure is another important aspect of hospitality. In a sense, this is subsumed under the physical evidence aspect of service, but it is an attracting factor for customers by itself. The design and layout of the hotel rooms, the design and layout of service areas, and the equipment and technology to support the planned service delivery all contribute to the hotel infrastructure.

The hotel groups selected for the study include the largest players of the industry, including the Taj Group[11] (y_1), the Oberoi Group[12] (y_2), the ITC Group[13] (y_3), and the Leela Group[14] (y_4).

Analysis and Findings

The pairwise comparison matrix for the criteria is presented in Table 1. The resulting weightage for each of the criteria is presented in Table 2. From these pairwise comparison matrix, it was found that food & beverages is the most important criterion, followed by service, amenities, price, and finally infrastructure. The pairwise comparison matrices for the hotels under each of the criteria are presented in Tables 3-7. The scores for each of the companies under each of the criteria and the overall AHP scores are presented in Table 8.

The Oberoi Group was found to be ranked highest in terms of amenities, followed by the Taj Group. The ITC Group was found to be ranked highest in terms of price, followed by the Leela Group. However, the Taj Group ranked highest in terms of food & beverages, service, and infrastructure, followed in each of these by Oberoi Group. Overall, the Taj Group was found to be ranked highest, followed by the Oberoi Group.

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[11] www.tajhotels.com

[12] www.eihltd.com

[13] www.itchotels.in

[14] www.theleela.com

Discussion

The Indian hotel industry has a huge potential due to the positive impact of demand-supply scenario, growth drivers, investments, and government initiatives for tourism sector and should capitalise on it more to harness more revenue from this sector. Development of hotels in India has been the most lucrative investments.

Industry giants like Taj Group, Oberoi Group, ITC Group, Leela Group, and so on can distinguish themselves by cross-selling of profitable products like mini-theatres, exhibitions, party halls and convention services, adding their own flavour. On the other hand, the smaller players may target at providing quality of service at lower prices. They can further amplify their profits by choosing good location for relative target market.

The results of the study indicate that the Taj Group is the leader of the Indian star hotel segment, followed by Oberoi Group. Further, together they make up 56.17% of the market. Leela Group was ranked third, and ITC Group was ranked last.

The Taj Group was found to dominate the industry in terms of food & beverages, service, and infrastructure. However, the Oberoi Group was found to dominate in terms of amenities, which makes it an upcoming market challenger in the star hotel segment. The Leela Group was ranked third overall, leading over the ITC Group with respect to food & beverages, service, amenities, and infrastructure, making it a potential market challenger. Finally, ITC Group was found to dominate in terms of price, suggesting that it may also be a potential challenger, attempting to gain market share by competing on price.

Thus, the results of the study indicate that, though currently the Taj Group is the market leader and the Oberoi Group is the market challenger, the Leela Group and the ITC Group can emerge as market challengers to destabilise their position. This is a clear reflection of the intense competitive rivalry in the industry.

There are several limitations inherent in the study. The sample size for the study was very small, and the paired comparisons were subjective, so that the results of the study may not be generalisable. Also, the study considered only certain criteria, but these may not be sufficient to capture all aspects of hospitality. Further, each of the criteria have sub-criteria, and a direct pairwise comparison of the criteria may be misleading. Also, pairwise comparison of the hotels under some criteria may be difficult due to contradictory assessments under the sub-criteria. A hierarchical AHP approach may be more suitable in this context. Finally, there may be ambiguity in the paired comparisons. In these circumstances, fuzzy AHP analysis would be more suitable.

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Annexure: Tables and Charts

Table 1: Pairwise Comparison Matrix for the Criteria

	x_1	x_2	x_3	x_4	x_5
x_1	1	1/7	5	1/7	6
x_2	7	1	8	3	5
x_3	1/5	1/8	1	1/4	6
x_4	7	1/3	4	1	9
x_5	1/6	1/5	1/6	1/9	1

x_1- Amenities, x_2- Food & beverages, x_3- Price, x_4- Service, x_5- Infrastructure

Table 2: Criteria Weightages

	weightage
amenities	0.134712
food & beverages	0.460470
price	0.083038
service	0.283227
infrastructure	0.038553

Table 3: Pairwise Comparison Matrix for Amenities

	y_1	y_2	y_3	y_4
y_1	1	1/8	7	5
y_2	8	1	8	4
y_3	1/7	1/8	1	1/5
y_4	1/5	1/4	5	1

Table 4: Pairwise Comparison Matrix for Food & Beverages

	y_1	y_2	y_3	y_4
y_1	1	7	9	6
y_2	1/7	1	8	8
y_3	1/9	1/8	1	1/6
y_4	1/6	1/8	6	1

Table 5: Pairwise comparison Matrix for Price

	y_1	y_2	y_3	y_4
y_1	1	4	1/8	1/5
y_2	1/4	1	1/7	1/6
y_3	8	7	1	4
y_4	5	6	1/4	1

Table 6: Pairwise Comparison Matrix for Service

	y_1	y_2	y_3	y_4
y_1	1	5	8	6
y_2	1/5	1	7	5
y_3	1/8	1/7	1	1/4
y_4	1/6	1/5	4	1

Table 7: Pairwise comparison matrix for infrastructure

	y_1	y_2	y_3	y_4
y_1	1	6	8	7
y_2	1/6	1	6	5
y_3	1/8	1/6	1	1/4
y_4	1/7	1/5	4	1

y1- Taj Group, y2- Oberoi Group, y3- ITC Group, y4- The Leela Group

Table 8: criteria scores and overall AHP scores

	amenities	food & beverages	price	service	infrastructure	AHP score
Taj Group	0.253474	0.580750	0.103004	0.587119	0.619176	0.500276
Oberoi Group	0.574011	0.270644	0.049568	0.262475	0.236927	0.289540
ITC Group	0.041463	0.036505	0.588614	0.044182	0.045808	0.085552
Leela Group	0.131052	0.112101	0.258813	0.106224	0.098089	0.124632

Source: Department of Industrial Policy and Promotion, Ministry of Commerce and Industry.