

## The mind behind the brand

### HOW DID YOU BECOME A PART OF THE BRAND?

I started my career with Choice Hotels. I was a management trainee with Choice. And then I ran a General Resort for Choice in Corbett. Then I moved to Taj, where I spent close to eight years then moved to Spectra Mind because I thought I had done enough of hotels. It was an interesting period, where I went Bombay to establish the first Spectra Mind training facility. I then moved to the US for work before moving to Intercontinental in Delhi, where Mr. Patanjali Keswani was my boss and the Chairman. One day he called me and asked, "Do you want to be an entrepreneur?" In 2002 I really didn't understand what an entrepreneur meant. But I trusted him so I said sure, let me be an entrepreneur, let me see what it is. There was some resistance from my family. My father was a bureaucrat and being an entrepreneur was not a sure thing for him. My father-in-law, a fauji, even had me checked up before I married my wife. At a dinner once when I was still dating my wife, he asked about what I was doing. I told him that there actually wasn't a hotel yet and that I was probably the second or third person to be onboard!

### WHAT ARE YOUR VIEWS ON THE HOTEL INDUSTRY IN INDIA?

The hotel market in India is very much like the car market 10-15 years ago when it was either a Ambassador or a Fiat if you were super rich or a two-wheelers. Then Maruti 800 came into the market and it changed the car market. Today, we have all kinds of car categories.

Globally, the world population is about 7 billion. And there are about 20 million plus hotel units. The biggest hotel market is in the US and it has over 5 million hotel rooms for a population of 300 million. So, roughly there are about 180 hotels rooms per 10,000 people. World over the average is about 28 rooms per 10,000 people. In India, where there are about 140,000 recognized rooms there is one room per 10,000 people. Looking at the big picture, you can say India has great opportunity. But if the opportunity is so big, why is the disconnect in India?

The big issue is the way our real estate is structured. Globally there are seven asset classes and government zones. In India, we only have industrial, residential and commercial zones. And the commercial zone is open to the interpretation of each state government, so hotels exist in the broad class called commercial.

Because commercial is open to the interpretation there is absence of zoning. This leads to trading inland. When trading inland happens, the price of land shoots up because it's a tradable commodity. It is not restricted in use to a hotel. You can do whatever you want. Because of this odd dichotomy the cost per room in India is huge compared to other developed economies.

For a hotel project in India, the cost of land typically is 50% per key. In a mature economy, like the US, the rates are usually stable at 25-30%. In China its 10% because the government supports the effort, its actual long-term lease is nothing. But in India, a very interesting thing has happened. Labour is cheap, so the arbitrage is reflected even in the way that we classify our hotels. When we say five, four, three, two, one star, its about how many restaurants there are, how big the room is and if there's a swimming pool, spa etc. Therefore, the classification in India is only product-based. If you're willing to pay top dollar you get something which is very ostentatious and has high levels of hygiene and security. However when you travel down the category, the ambit of services doesn't change, because labour is so cheap, but hygiene and security do not necessarily exist. Those are only guaranteed if you choose the top-end deluxe product.

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In mature economies, when you travel down price points, the product does not change much. The room will still be neat and clean, it's the ambit of services that usually reduces. So deluxe means everything 24/7 and economy it means nothing, just bed and breakfast, but with security and hygiene. And globally, any industry is typically a pyramid-at the top price point rises, the suppliers become fewer. In India, it's a very odd – 50% of the suppliers are deluxe and 50% are economy.

## **HOW WAS THE CONCEPT OF THE BRAND CREATED?**

In 2002 we noticed the big space in the middle and in our minds we wanted to do a Maruti 800. Our first prototype, Lemon Tree I, had very tight room ration because space was a huge premium for us. Hypothetically we wanted the market from the bottom quartile of the five-star category and the top quartile of the economy category. So we positioned our product bang in the middle. While doing our second pilot in Gurgaon with fifteen rooms, we realized the ratio was not an equal distribution. We were getting roughly one-third of the customers from the deluxe category and the majority, two-thirds from the economy category. The guy from the economy category was happy to move up from a guesthouse to a hotel. And though the deluxe guy was happy trading down, he wasn't too happy with the fewer recreation and the very restricted F&B options. So, in the second pilot, we put more F&B and recreation. This was within about eight months of the first product and our ratios changed dramatically. The ratio has flipped; we got one-third from economy and two-thirds from deluxe. So we decided came up with prototype three, Lemon Tree in Pune with 124 rooms. This did very well and we got 100% business.

So, even though we were mid-scale, our first Lemon Tree was like the top-end of an economy category. After three-four years when we started got into city centre locations, we realized that we needed to make the product upper upscale, which would be competing with players who were deluxe or upper upscale already. If we were investing so much in our land cost and invested a fraction more in furnishing the product, it could reach that level. Now we're rebranding these products – we're going to call the Lemon Tree Premier. So, Lemon Tree Premier is upper upscale and Lemon Tree is lower upscale. Realising we also have a mature market for something that is mid-scale, we brought in another brand called Red Fox.

## **WHAT HAVE BEEN SOME OF THE CHALLENGES?**

We're in 12 states right now. And in every city we go into, there are typically 70 to 100 licenses/approvals we need. That's a big killer. That's an artificial barrier in our business that people don't see. And typically one-third of these approvals and licenses come from the central government. The other one-third is from the state government and the last one-third is from local and municipal bodies. So, to do a hotel project is not just getting the building up and running. It is to work within this.

We have national building code. But each state has its own interpretation of the national building code. The allotment of FSI is dependent on each state government. That's why it is so difficult here. Plus, having been asset owners and you try and do it across the country, and it's very difficult to raise commercial papers here.

In India, hotels are still seen as real estate, so what happens is that, we get credit; banks give us loans that are double digits. Our repayment period is seven, max nine, years. In the mature world where all industrial activity and service activity as contributing to economy, the repayment would be 20-25 years.

So, here you have the pressure that you have invested heavy capex, especially with land. Then our repayment period is effectively less than half of what somebody in some other economy would get. That's why it also helps other economies-look at China, the US, Vietnam, Singapore. That's how they grow faster.

Our founding fathers were right. It started as a socialist economy, but that had to change. Hotels were seen as an item of luxury consumption. To use a very rough analogy, I would say they were seen like cigarettes. Not realizing that today hotels to me is an item of utility, something which drives the economy. To me hotels today are as critical as Internet, electricity, water, or sanitation. If you don't have good hotels, you won't have a fledging economy, it is that simple. And it's not luxury is a biological need-people need to sleep. You know, tomorrow if somebody invented a drug where you and I needed to sleep once in 48 hours. Hotel occupancy worldwide would crash 50%. So that mindset has to change. The interesting thing is that railways we never saw as luxury but till now we think airlines is luxury. It is not. So, when that mindset changes, lots of things will change.

### **WHAT IS BEHIND THE NAME LEMON TREE?**

We researched about 1,800 names. We wanted something, which represented what the brand values were trying to do – be fresh and spirited, plus we wanted something that was unique to remember. And in our minds we said, if at tomorrow get into an extension, brand extension. It should lend itself to that. Plus it should be something we could carry through different geography. So, that 1,800 became 600 and so and so forth. So, we said Lemon Tree – it is fresh, fun and spirited. It could, its in the hotel space; we could take to an allied service space. And yes this can easily travel geography and lemon in geography has only positive connotations. And then we were looking at the initial colour pallet, which was yellows, green, citrus, because it was very rejuvenating. With the name, the fruit also came like this. Somebody suggested this was a good thing, because lemons in India are considered auspicious. It all fitted in.

### **SO WHAT'S NEXT?**

Currently between what we have 17 properties and we are constructing another ten hotels. Every year we add two-three more. I am hopeful that in the next two-three years, we should deliver at least a dozen plus more hotels. We have an internal blue print of 54 locations where we can take the Lemon Trees into and Red Fox in 148 locations. So overtime, Red Fox will outpace Lemon Trees into and Red Fox in 148 locations. So overtime, Red Fox will outpace Lemon Tree in its growth by 2020. We have internal milestones like 2013 lets list, by where we're doing twin brands. Two-quarters prior, we opened a similar thing in Hyderabad with a 267 rooms of Lemon Tree and 121 of Red Fox – at the same location. It's a big convention venue in Hyderabad close to the Hitech's Convention and is surrounded by lots of business. So, we said at the same location we have the ability to give price points to our customers. After these hotels in Delhi, we release 300 rooms in North Bombay and then 250 rooms in Pune- our second project in Pune. Following, which we have two more hotels in East Gurgaon a Lemon Tree and a Red Fox. Then we have one Lemon Tree resort in Shimla, a Red Fox in Gachibowli in Hyderabad, near the American Consulate. There are another half dozen locations, which are dormant and have no activity. And after listing we will not just grow organically, we will grow through inorganic routes, through acquisitions and other opportunities. We are also now very broadly contemplating on doing a management company. But that will be a separate brand from Lemon Tree.

### **WITH ALL THE CHOICES AVAILABLE TODAY, WHAT WOULD YOU SAY TO SOMEONE TO CHOOSE YOUR PROPERTY?**

I would say we have fantastic quality and a great price. How we measure it, is through the world's largest third party rating agency in the world- TripAdvisor. Last year, seven of our hotels were rated number 1. The biggest seller of hotel rooms globally is Expedia – they sell 114,000 rooms. And every year they select a global 1% and call then 'insider select'. Last year they selected some 900 properties of which 21 were in India and four were Lemon Trees. So, this is what we're very proud of. It shows that people are happy with our product.

**TELL US A LITTLE ABOUT WHO YOU ARE, WHAT YOU LIKE TO DO.**

I like to read. I was also a karate fan in school. I played for India and got defeated in the South-Asian Championships. I have two daughters. Typically, I reach home very late but when I reach on time, I tell them a story. I actually have three-four different story lines and characters. There is Golu Dholu, two children, one who loves to eat and the other who loves to sleep. Then there is Zinco Pinco the two time travelers. Bhoothnath and Dhaga. Recently, I started another series. This is with Lamas in Tibet – two guys called Yatsane and Rinchen. There's a monkey called Champak, an elephant called Gajraj. Then there is a girl named Lucky. My elder daughter is very fond of drawing and painting, so this girl has this unique ability – whatever she draws, comes to life. Perhaps after many years I could make a storybook out of all this.

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