A fresh approach

He's known in hospitality circles as quirky and innovative. As managing director of Lemon Tree hotels, he has established a footprint and recognition for home grown hospitality brands, Lemon Tree hotels, he has established a footprint and recognition for home grown hospitality brands, Lemon Tree and Red Fox. An engineer by inclination and education, he joined the Taj group in 1984 as an employee of the Tata Administrative Services after completing his engineering and MBA at IIM. After working with Tata Tea, Tea Steel and Tata Services for a year and a half, he was posted to Indian Hotels. He then was transferred to Taj Man Singh as resident manager in 1990. In the next seven odd years, he had Taj Man Singh, Taj Palace and Taj Bombay. In the last years, he was the chief operating officer of Taj Business Hotels running 22 medium-size non-luxury properties like Taj Visakhapatnam, Taj Connemara, Taj President etc.

In 2000, he joined consultancy firm, AT Kearney as director. It was during his management consultancy years that he was exposed to the immense interest among international hotel chains about tapping India's mid-market segment. That's when the entrepreneurial bug bit him. Keswani took the plunge and founded Lemon Tree in September 2002.

He elaborates, “For those who wanted a great product, there were only the five star hotels to choose from and for those who wanted a cheap product there were only guest houses to choose from. There was no ‘in-between' option resulting in a lack of accommodation to cater to the bottom quartile of five star users, who should not be there but are too senior or well off for guesthouses and therefore force fitted into 5 stars or to cater to the top quartile guest house users should not be there but don't have enough spending power for five stars.” So he launched Lemon Tree with the vision of a three star that will cater to these two segments. One and a half year and two hotels down the line, Keswani discovered that the model was not working. Five star users who came to his hotels said that while they wanted something cheaper, this was too much of a step down and guest house users said they want to use the product but Lemon Tree was prices too high. So he realized the need for two distinct brands and the inception of Red Fox Hotels in 2006. “Red Fox Hotels emerged to tap the big segment of guest house users. It was positioned as a national chain of select service budget hotels offering unbeatable value for money.” clarifies Keswani.

Putting his offerings in the Indian market into the international context: Keswani explains that when he decided upon two products targeted at two price-points, he upgraded the existing Lemon Trees after that, which was in 2006, became upscale. “Then I trimmed the offering slightly and created Red Fox. Lemon Tree is the equivalent of an international four star and Red Fox is the equivalent of a two star. In fact in the US Red Fox could even be a mid-scale hotel with limited service.”

Lemon Tree's target audience profile in both business and leisure segments is the working population of India, aged 20-59. “They are young, reasonably successful professionals by and large with additionally a large number of foreigners. These are people looking for contemporary, modern, full service accommodation at a reasonable price. Lemon Tree basically targets users of five stars or their equivalent and promises then a very valuable trade off – 50-60 percent of the price and 80 percent of the experience. We found this to be a successful strategy to tap a new market in India,” adds Keswani.

“We have built in our group's own capability, which is end to end. We design, develop and operate all our own hotels and are now focusing on building our backend infrastructure. In the next two years we are spending about 4 million dollars or 20 crores for building our IT backbone, our toll free numbers and global access points for our company,” says Keswani.

Future speak

Elaborating on his view of the hotel industry over the next ten years, Keswani declares his amazement at the fact that the Indian economy will quadruple in the next ten years despite today's slightly grim outlook. “We will go from 1.2 billion roughly to about 4.5 trillion by 2012, with sectors such as financial services, infrastructure, pharmaceuticals, media houses, retail etc leading the way.” He says that hoteliers should chase this establishing a footprint across these industrial growth centers. Underlining that demand will be linked to growth in services and manufacturing sectors, he places the growth at about 10-11 percent per annum compounded over the next ten years also pointing out that much of this will be in the midscale and economy segments. “The growing segment of middle-class users will result in the leisure segment growing faster, at 12-13 percent I the next ten years.” Likening this phenomenon to what happened in the last decade with the created.

“I am betting personally that we don't know what market we will create if we build more economy and mid scale hotels,” he adds.

The India hospitality industry today

“The difference between the US and India is that in the US the product is cheap. It is cheap because land is not very high in value and the main reasons for that is the low cost of debt and a long repayment period. In India, the cost of debt as a percentage is high and the repayment period is very short giving me very little time to stabilize my hotel. The cost structure in India allows me to borrow only as much as I've invested whereas in the US I can borrow four times the amount. I'm sharing this because I'm building a hotel in New York,” says Keswani.

He points out that another encouraging factor for hotels in the US is that infrastructure is put up by the state whereas hotels in India must provide for basic amenities like power, water, etc, themselves.

He says the approvals process in the US is also more facilitative. “India's approvals process for hotels doubles the lead time begin earning on my investment and when you're talking of a 100 crore investment, everything multiplies again contributing to higher cost,” he adds.

He points out that India still enjoys the comparative advantage of lower labour costs and that this is what we as an industry can capitalize on today. “Whether it's IT or ITES, many labour intensive industries succeed on this basis. Labour is cheap today but I don't see this continuing because as India develops, labour cost will go up. In due time, people will find that they have to pay for service but right now Indian customers want service at every price point and that's what I provide. In my Red Fox hotels, my guests want room service. I would love not needing to provide it but then my guests won't stay with me.”

What will help the Indian hotel industry

Land provisions

Besides infrastructure and single window clearance and especially as an economy which needs more budget or midscale hotels Keswani says that the government should provide more land on long lease or public private partnerships.” I think there should also be maturity in the financial markets. Today along with the shortage of rooms in India, hotel owners have more clout than the management company. The US has 5.5 million rooms for 307 million population while India has 140,000 rooms for a 1.2 billion population – because in the US it is so easy to put up hotels by the right brand. There, the brands have the clout and therefore hotels are built to brand specs. In India, because brands don't have clout, 80 percent of hotels are built by rich individuals or real estate developers. Moreover because the cost of land is high, they see RoI-sense in building five stars or their equivalent. So in India you have an Inverted pyramid of supply,” he adds. His suggestion is that if the government wants to change this and supply rooms to 675 million domestic tourists, they have to do something facilitative and out of the box. He says that the government can encourage branded development in the two and three star categories by providing land on long lease or in a PPP in return for a lease rental of the operator's turnover.

Reliable micro market data

“If I would urge you to do anything it would be to hire an agency to tell you where to put up your hotels. When you decide to put up a hotel, don't go by cut,” advises Keswani. He shares that he has rejected hotels that lacked 100 percent potential for delivering a 20 percent return. “I find people build their hotels on hope, this is something I find amazing,” he adds.

He draws attention to the imbalances in business and leisure hotels in India. According to him, unless one has access to a distribution system and defined branding, it is not worth putting up a leisure hotel. “I have three leisure hotels with a fourth on the anvil and I'm struggling to build the kind of franchise that I want,” he acknowledges.

When it comes to business hotels, he says it's all about location naming Delhi, Gurgaon, Bengaluru and Mumbai as buoyant propositions calling all other areas ‘risky'. “There aren't 137,000 rooms in India; there are actually 90,000 rooms that meet the demand and 45,000 rooms in the wrong cities,” he says. He indicates that in certain cities, where demand looks good, hoteliers could look at Brownfield properties instead of adding supply and upsetting the apple cart.

Invest sensibly

His advice is to take debt based on the worst figures not the best figures. He adds that investments must also be prioritized sensibly. “Do not overstaff, instead train your staff to be multi skilled,” he says. Keswani has plans to enter the education space with vocational training and is hiring close to 1000 staff this year and another 2000 next year. “I find that the biggest differentiator for success in the hotel business in India is service and the quality of experience and therefore hotels should invest in people. We invest hundreds of crores in hotels and not a single crore in training our people. Have lead staffing, pay them well and train them well,” he says.

The right focus

Keswani underlines that the middle class is growing and has aspirations. His projection is that 130 million households in the next decade with a middle class budget defined as INR 90,000 per year. “These folks are the ones who are going to need accommodation, who have disposable income that they will spend on affordable vacation resorts. Most resorts are not targeting this market, and Red Fox is what I'm using to target this market,” concludes Keswani.

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