

## Ancillary revenue bolsters operations in India

November 12 2013

As occupancy continues to lag in India, hoteliers are supplementing rooms revenue with food-and-beverage receipts, gym memberships and spa packages.



The management team at Sinclairs Hotels Limited prefers to operate its F&B outlets rather than outsource them. Pictured: The Sinclairs Retreat Ooty. (Photo: Sinclairs Hotels Limited)

### Highlights

- More than 40% of hotel revenues on average are generated from ancillary channels.
- Hoteliers usually have dedicated marketing teams for these ancillary channels.
- Most hoteliers prefer to operate ancillary outlets themselves.

By Chitra Balasubramaniam  
HNN correspondent

REPORT FROM INDIA—Hoteliers in India continue to turn to ancillary revenue streams to compensate for the country's lagging occupancy numbers.

"It's not a new phenomenon in India," said Navin Suchanti, CEO & managing director of Sinclairs Hotels Limited. "Traditionally, most of the hotel chains in India have always managed their own (food-and-beverage) outlets. The only area where hotels have outsourced their ancillary channels is in the area of operating and managing the spa and salon."

More than 40% of hotel revenues on average are generated from such ancillary channels, according to Mansi Bhatnagar, managing director of HVS Marketing Communications.

"For hotels in India, focused management and optimization of F&B, gym and spa local memberships ancillary channels are no longer an option but a mandate," she said. "With the current economic scenario, these revenue centers are essential to profitability and also enable hotels to provide a holistic solution to their guests."

Oliver C. Martin, regional GM at The Claridges Hotels & Resorts, echoed that necessity, saying that food and beverage typically accounts for the second largest revenue contribution.

According to a study by HVS and FHRAI Institute of Hospitality Management titled "Indian Hotel Industry Survey 2011-2012," during 2011 through 2012, the percentage of revenue from F&B, including banquets, increased to 38%, up 1% from the previous year. Also, income from minor operating departments and rentals was up 1%, increasing to 7% of total revenue during the same time period.

The report cited two reasons for the increases: the overall decline in room revenue as a percentage of total revenue during 2011-12 and the increase of social and corporate events hosted in hotels. Authors of the report said they expect F&B revenues to continue contributing a large portion of gross revenues, as they are not driven solely by occupancies.

"The growing propensity to spend of India's middle- and upper-income sections will continue to augment demand for F&B across cities in India," according to the report.

### Looking to locals

Hotel amenities have long played an important role in local communities, Martin said.

"India, 20 years ago, had only very limited freestanding restaurants, clubs, etc. Hence, all dining and wining has taken place in hotels," he said.

While some properties, such as resorts that aim to foster a sense of privacy or exclusivity, would prefer to stop outsiders at the front door, the majority still welcomes them with open arms, sources said.

"For all other locations, you want outsiders, or so-called walk-ins, as this creates the 'buzz' in the hotel—besides, more importantly, more revenue," Martin said. "Once the segmentation target clientele is identified, then marketing has to be done accordingly. But for the local market, you usually trigger all marketing channels."

"In most cases, the price points of these outlets usually ensure that the local clientele and in-house guests are of similar demographics and positioning," Bhatnagar said.

Hoteliers usually have dedicated marketing teams for these ancillary channels and use a combination of media, such as print ads, radio jingles, sponsoring food festivals, shows, social media, flyers, mailers and public relations through newspapers, sources said.

### Operating over outsourcing

"Often it is not an easy task to evaluate what the best way forward is—to either manage yourself or outsource (ancillary revenue generators)," Martin said. "There has to be a thorough analysis and market survey being done and a sharp business sense to take the right decision, which is best for the clients, the brand, the local community and the cultural habits."

Most hoteliers choose to operate themselves for a number of reasons, primarily because they allow for revenue maximization on property.

But keeping F&B, spas and others in house offers an opportunity for greater customization for guests, sources said.

"From the beginning, we have been managing our restaurants and other F&B outlets, primarily because we would like to offer the travelers a complete experience, both in terms of stay and our F&B offerings," Suchanti said. "We do introduce special items in the menu depending on the profile of our guests on a particular day. For example, if a Japanese group is staying with us, we will introduce items which they prefer and also make the food less spicy. These customizations and personalized offerings are possible only if the F&B outlets are managed by the hotels itself."

This customization is spun off as a unique selling proposition while marketing, he added.

Additionally, there is an opportunity to spin off F&B into well-known brands.

"F&B outlets in a hotel need to be treated as independent brands in a hotel. They are revenue centers and need to be able to generate revenue from local footfalls and not rely only on in-house guests," Bhatnagar said.

Some hoteliers have even found success leveraging a well-known brand in a ready-to-eat or packed food segment. ITC Welcomgroup, for instance, transformed its signature restaurant, Bukhara, into a packaged food brand under the Kitchens of India label.



Oliver C. Martin, The Claridges Hotels & Resorts



Mansi Bhatnagar, HVS Marketing Communications