

HVS Monday Musings: Why is Franchising Still Struggling to Make a Breakthrough in Indian Hotels Sector?

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Franchising is slowly but steadily making its presence felt in the Indian hotels sector. Approximately 17% of the total brand signings by keys in 2020 were franchised properties as compared to 14% in 2019 and 10% in 2018. However, management agreements continue to dominate the sector, accounting for 76-80% of the total brand signings by keys during the same period.

Franchising, which is the most popular model in mature markets, is still struggling to make a breakthrough in the Indian hotels sector due to various factors. Foremost amongst these is that hotel brand companies, even international players who rely on franchising in other markets, shy away from it in India. They lack confidence that the owner, especially first-time owner – which is often the case in India – will be able to manage and follow the brand standards prescribed, despite SOPs being in place. The other major deterrent to date has been the lack of third-party management firms in the country. As a result, hotel brand companies have not actively pursued the franchising model, while remaining comfortable with the current management agreement DNA for their growth.

However, going forward we expect franchising to gain significant traction in India.

An increasing number of independent hotels are likely to join brands to leverage their global distribution channels, marketing and booking platforms, and above all the recognition & loyalty, and traveller confidence & trust that brands enjoy, especially in the current COVID era. The brand affiliation will also help the hotel owner to improve the visibility of the property, resulting in higher occupancy and better financial performance.



Franchising provides an efficient win-win growth model with lower risk for both hotel brands as well as asset owners in such a scenario. It not only helps brands to expand their presence quickly without incurring substantial management costs, but also helps the independent hotel owners to retain control over day-to-day operations of

Summary

This article discusses some of the reasons why franchising, which is the most popular model in mature hospitality markets, is still struggling to make a breakthrough in the Indian hotels sector.

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the property. Leveraging the best practices followed in mature hotel markets – such as attractive agreement terms, using technology and developing partnerships with third-party asset managers – and tweaking them for the Indian set-up will help in the faster growth of this model in the country.

Making franchise or base fee equally attractive in both management and franchising agreements and providing flexibility in franchise period with shorter periods of 8-10 years can go a long way in promoting franchising in the country. As franchising gains popularity, we also expect the role of a third-party asset manager in reviewing and improving the hotel's performance to become crucial, especially in the post-COVID era.

About Akash Datta



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