MARKET REPORT

HVS Monday Musings: Ancillary Revenue Opportunities – Only Our Imagination Limits Us!

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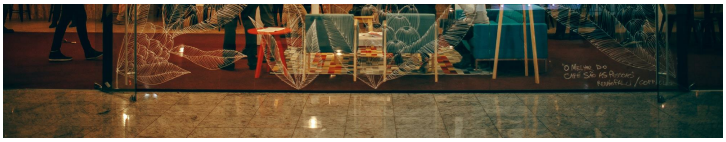
The hotel ancillary revenue revolution is expected to gain momentum in the Indian hotel industry, with more radical revenue-generating avenues gradually finding favor. Read on to know more.

Ancillary revenue, which includes all non-room revenue opportunities, was often overlooked by hoteliers until the pandemic struck. When room revenue became negligible during the peak of the pandemic, many hoteliers began to look beyond traditional room revenue and explored the opportunity that exists in ancillary revenue by finding creative ways to use their assets. Food delivery, DIY signature meals, laundry, and housekeeping, are some of the more popular forays into which hotel companies have ventured to survive the difficult times and grow their topline. For instance, QMIN, IHCL's e-commerce food delivery platform, had a massive INR 66 crores GMV in FY22. Similarly, ITC Hotels has introduced food delivery (Gourmet Couch) and laundry services (Lavanderia), Ibis entered the coworking space, and The Leela recently introduced their signature fragrance and bath amenities.

There are several such examples of hoteliers adopting new revenue streams to weather the storm, and the story does not end here. Hotel companies have only become more innovative in their pursuit of new revenue streams. Marriott, for example, recently launched a new advertising platform in collaboration with Yahoo, allowing advertisers to reach its guests through the group's website, apps, and other media in the US and Canada initially, with plans to expand the platform globally in the future. Meanwhile, closer home, IHCL recently announced its entry into event management, and ITC Grand Central hotel opened a sleep boutique showroom where guests can purchase hotel products for personal use.



Given the success that hotel chains have had by diversifying, we believe that the emphasis on ancillary revenues is not a passing fad, especially given that the sector has only scratched the surface, and expect the following areas to garner greater interest going forward:

- **Converting spaces into co-working offices:** Hotels already have all the required facilities and infrastructure needed by professionals to conduct their businesses. They can, therefore, repurpose certain areas as boutique corporate offices or coworking spaces and offer special daily/weekly/monthly packages for professionals, digital nomads, freelancers, and entrepreneurs looking for an 'office' space near their homes.
- **Partnering with branded restaurants:** Outsourcing of restaurants to third-party lessees or operators will become a preferred option, especially for midscale and upscale hotels. Restaurant operators can benefit from the hotel's captive clientele, location benefits, and brand image, while hotels get an opportunity to elevate the customer experience by becoming a 'destination' for hotel guests & locals, resulting in higher F&B revenues and profitability.

- **EV charging stations can be a new service offering at hotels:** Indian domestic travelers have discovered the pleasures of road trips in the past year and an increasing number of these tourists are expected to be electric vehicle (EVs) owners going forward. However, EV owners are still wary of long road trips due to the lack of adequate charging stations in the country. Setting up EV charging stations at hotels, with appropriate planning and demand analysis, could be a game-changer for the sector going forward. This will not only improve a hotel's sustainability quotient but will also drive demand, build guest loyalty, and increase ancillary revenue.
- **Facility management of corporate offices:** Hotel companies can also consider venturing into end-to-end facility management of boutique and corporate offices, providing the complete gamut of services such as front office management, housekeeping, maintenance, F&B management, and allied services.

There are numerous ways to leverage existing infrastructure to generate new revenue streams, ranging from monetizing parking spaces and leasing kitchens for cloud kitchen requirements during non-peak hours to even developing the hotel's signature merchandise and souvenirs. However, the opportunity will vary from property to property based on the location and market conditions, necessitating a strategic approach. Diversified revenue streams will improve customer engagement and brand loyalty, boost real estate revenue per square foot without incurring significant additional costs in

today’s inflationary environment, and safeguard the property’s revenue-generating capabilities from unexpected events in the future.