

HVS Monday Musings: India's Airport Lounges Industry is Set to Grow

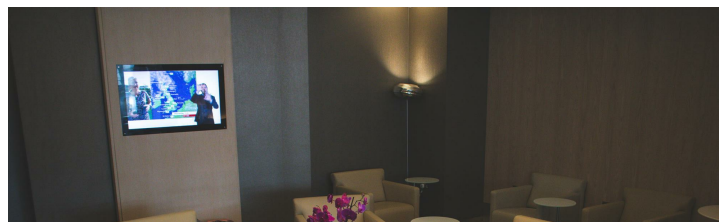
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India is expected to become the world's third-largest aviation market by 2024-25 and is investing heavily in expanding its airport infrastructure to improve internal connectivity, especially to Tier 2, 3 & 4 cities. The country's operational airport count has significantly increased from 50 in 2000 to 153 in 2020, with plans to build an additional 100 by 2024. In addition, the government has also announced plans to privatize airports in Tier 2 & 3 cities. The country is also expected to see an increase in multi-airport cities as a result of the government's plans to construct new airports in cities like Delhi NCR, Bengaluru, Hyderabad, Pune, and others to relieve congestion at existing airports and accommodate rising demand.

The airport lounge industry is also expected to grow steadily in tandem with the expansion of the country's aviation industry. According to a recent Frost & Sullivan report, the number of lounges in India is expected to increase from 54 as of March 2022 to 204 by 2040. While over 30% of India's airport lounges are currently located in New Delhi, Chennai, and Mumbai, non-metro airports are slowly catching up due to better air connectivity and increased air passenger traffic to these airports through the UDAN scheme.

Airport lounges, which were initially only available to passengers flying in business or first class when they were first introduced by Air India in the 1980s, have changed significantly over the past few decades. With changing traveler preferences, rising disposable income, an increase in the number of credit and debit cards that offer lounge services as value-added services, and the advent of independent operators, airport lounges now offer a more comprehensive range of travelers a respite from the chaos of the airport. As a result, the number of people using lounges in India has risen from 5.1 million in FY18 to 7.5 million in FY20 and is expected to reach 76.8 million by 2030.





Airport lounges are evolving to meet the shifting needs and demands of travelers. While features like plush seating areas, recliners, top-notch food and drink, and workspaces have become standard, some airport lounges are taking things a step further by offering on-site gyms, spas, and even libraries. In order to personalize the experience, some international airport lounges, including those in Paris, Rome, and Abu Dhabi are testing cutting-edge, upscale entertainment experiences using Augmented Reality (AR) and Virtual Reality (VR). In the meantime, the Dubai International Airport (DXB) has just opened a gaming lounge where guests can pay a fee to play more than 40 solo or multiplayer games while they wait for their flights. Future airport lounges in India are anticipated to take cues from these innovations as they reinvent themselves to stay relevant.

Although many hotel chains had ventured into the airport lounges business in the past, these did not grow into profit centers due to very little usage and only became a 'freebie' service requested by guests through their connections with the hotel chain. Moreover, it was a challenge to maintain these lounges to the standards typically associated with the hotel brands because airports had outdated infrastructure. Ultimately this became a pain point and hotel operators gradually distanced themselves from this business extension.

However, given the modernization and privatization of airports, much superior infrastructure, and a significant jump in passenger traffic and lounge usage, hotel operators should reevaluate this business opportunity for higher brand visibility, larger customer reach, and to improve ancillary revenues.