

OYO Rooms : Demystifying the Success of India's New Age Hospitality Start-Up

* *Ramesh Sardar*

Abstract

With the advent of app based technology enabled startups in India in various sectors like food, travel and hotels, competition has become rampant. This requires enterprises to be highly scalable and sustainable in the long run. Customers want quick response, quality, transparency, and ease of transactions. India's new age hospitality startups are reciprocating in a very positive way to all these challenges. In fact, It is not about smartphone technology and apps but about breakthrough technological process used to create and deliver innovative products and experiences to the consumers.

As per the Statista report, the Indian hotel market is expected to grow to around \$13 billion by 2020 from \$7 billion in 2015. This case study highlights how a young and innovative entrepreneur, Ritesh Agarwal started his venture OYO (On Your Own) rooms and fulfilled not only his dreams, but also the aspirations of millions of Indian families looking for budget hotels. OYO rooms was among the first to bridge the gap of customer expectations and perceptions, and initiated the process of branding the domestic budget hotel segment in the price range of ₹ 1000 to ₹ 3000. Today OYO is India's largest network of branded hotels and has been successful in creating an innovative model in the hospitality sector. OYO has an estimated 1,25,000 exclusive rooms under its management and a presence in 230 cities.

While Clear Trip, Make My Trip, and Goibibo are deep pocketed players in the online travel and tourism space, hotel chain OYO is one of the eight startups in India to enter the unicorn club in 2018. Undoubtedly, OYO Rooms has made significant use of technology to provide customers hassle-free standardized experience, but still there are numerous challenges in maintaining sustainability in the long run. The case highlights the growth story of new age startup OYO Rooms, its business model, and the challenges faced by OYO in expanding its business overseas.

Keywords : Budget Hotels, business model, innovation, OYO(On Your Own)

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Over the past few years, we have seen a surge in the budget-hotel segment in India and its mark on the hospitality industry. The proliferation of 'budget brands' has kindled the expansion of this sector, fuelled by the forceful, seemingly unrealistic pricing that they have introduced.

According to hospitality consultants, hotel chains pay 10-25% of space revenue as commission on every booking, losing a big chunk of their revenues. This hurts hotel chains particularly, which are engaged in a price war to fill up their rooms in a below 60% occupancy situation. Hotel chains get nearly 20% of their bookings through aggregators. For travel portals, almost 35%, and generally as high as 50% of the business comes from hotel bookings.

As per Indian Credit Rating Agency (ICRA) estimates, one in every four hotel rooms in India is booked by online means. This is low as compared to a 70% online booking rate in Europe, leaving a huge opportunity for innovation in the sector. Even in bigger Indian cities, long forgotten heritage villas and summer homes of Maharajas are now becoming available for as low as ₹ 999 a night, which was unheard of a few years ago. Even as occupancies have increased, average room rentals (ARRs) have remained constant as per ICRA. This indicates a clear case of disruption.

While sites such as Make My Trip, Expedia, Booking, Yatra, Clear Trip, and Goibibo have existed for over a decade, the entry of startups such as OYO Rooms, Treebo, Fab Hotels, Go Stays, etc. has disrupted the segment. It has made even five-star and four-star properties list on budget room aggregation sites.

* Associate Professor, School of Management Studies, KBC North Maharashtra University, Jalgaon, Maharashtra - 425 001.

E-mail : rame23sardar@gmail.com

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Case Objectives

This case was mainly prepared with the following objectives in mind:

- To illustrate how a new entrant startup with a great idea can disrupt a fiercely competitive market.
- To analyse the growth story of the new age startup OYO Rooms.
- To understand the landscape of online budget hotels, discuss, and deliberate on the role of aggregators.
- To discuss the impact of OYO's franchise model on the other aggregators or competitors.

OYO's Journey from ORAVEL to OYO

Ritesh Agarwal would often holiday with his parents. As a middle-class family living in a small town in Odisha, vacations meant visiting religious sites. Most middle-class families in India travel for broadly two reasons, weddings and events in the clan, or pilgrimage. Their travels are holiday, entertainment, school vacation, and pilgrimage, all rolled into one. Young urban professionals may have the disposal income for weekend breaks and may travel purely for leisure, but for millions of Indian families, vacations mean trips to religious sites. Ritesh and his family had two options for lodging. Either a relative's home, which meant cramped quarters, with two families squeezing into one house, or un-branded inns or hotels. There was almost no budget hotel that offered a uniformly clean experience (Sharma, Jain, Kapoor, Gaur, & Roy, 2017).

When Ritesh was just at a tender age of 19 years, he was chosen for the prestigious Theil Fellowship started by Peter Theil, an eminent venture capitalist and co-founder of Pay Pal. After coming back with the fellowship fund and learning, and hands-on experience which he had during his stay at 100 bed and breakfast rooms while running Oravel, he found that discoverability isn't the problem, rather it is certainty and standardization of experiences that the customers are missing.

Ritesh traveled continuously for three months searching for property and during this time he realized that there was something wrong about each place; they were unpredictable and there was a surprise every time he used to check-in. In one place, the beds would be tall, in another, the washrooms were not clean.

This is where the idea of solving this problem came about; the offer of millions of rooms of un-branded hotels on a technology platform. Ritesh branded this offer OYO (On Your Own). An earlier version was called Oravel, but it was renamed OYO. By an estimate, there are 1.8 million un-branded hotel rooms in India, but barely 2% can be reached online. OYO created a platform that created as much trust among hotel owners as among potential travellers. While technology brought all the rooms under a common brand, a ground team of a few hundred people would visit every hotel, guiding each on how to upgrade its services. A checklist of thirty items was prepared to ensure consistency in quality standards across hotels and rooms. The OYO ground team is connected to the main platform through their tablets as they visit and inspect hotels. The aim is to constantly monitor and assess adherence to the checklist for quality parameters.

OYO is also working to train professionals for the hotel sector. Hotel and hospitality management schools are not able to churn out enough professionals to cater to the demand, mostly because a large population of candidates, especially from small towns in India can't afford the fees of colleges. To manage this, OYO has also launched a digital training programme for young candidates who want to work in the hotel and restaurant industry. Ritesh decided to build a fully democratic technology solution where anyone can work with his organization. This was meant to ensure that quality of talent is retained and hospitality is seen as the choice of industry to work with in times to come. In the next three to five years, they decided to target more than 1,00,000 rooms. The technology being deployed by OYO is not just the web-based platform. It also removes many functions and creates others. Most of OYO's customers use its system for automated and web check-in. With this option, the front-desk team in all hotels can be reduced and redeployed. This means that hotel professionals who are manning the front desk can be redeployed for other functions in customer care.

In India, where OYO says it is close to reaching profitability, the startup has an estimated 1,25,000 exclusive rooms under its management. It has presence in 230 cities. Between January, 2018 and June, 2018, OYO hotels in India

clocked 17 million booked room nights.

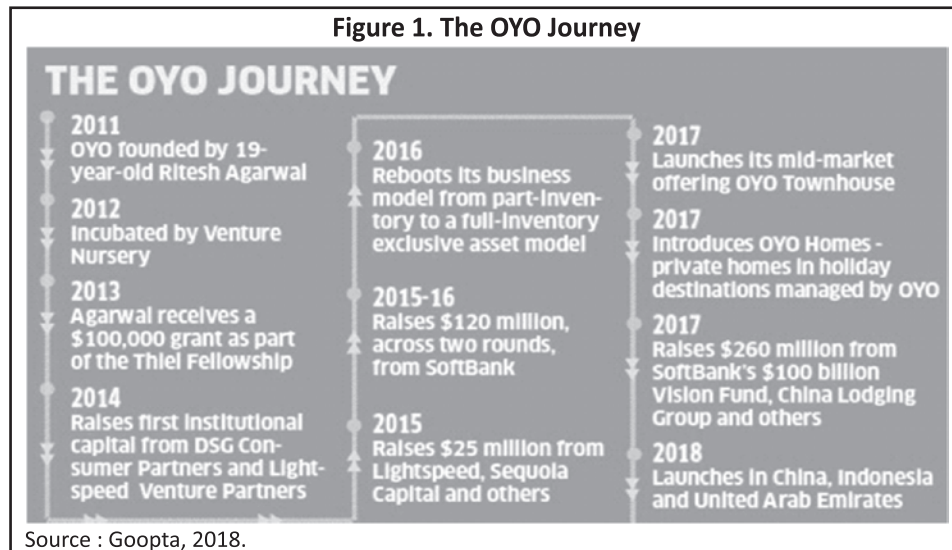
OYO's Indian transactions are growing thrice on a year-on-year basis. It has enhanced user loyalty with 67% of top line now coming from repeat customers. OYO has an occupancy rate of over 65% in India. It competes in the country with formidable startups such as FabHotels and Treebo.

OYO recently took over Weddingz, an online marketplace for wedding venues and vendors. At present OYO is spread across 171 cities in China with a combination of lease, and franchise relationships with asset owners. The average occupancy on these assets has gone upto over 60% from 25% within three months of their owners joining the chain. In both China and India, OYO is looking at a market share of 15-20% of the overall hotel market. India and China would be the core markets for the company and these would see major investments. The company is also present in Malaysia, Nepal, and the United Kingdom, where it entered recently. Further, OYO is also exploring new markets like the Middle East.

Today, Ritesh is one the successful entrepreneurs in India. He has won numerous accolades including national and international awards like:

- Forbes “30 under 30” in the consumer tech sector.
- Top 50 entrepreneurs in 2013 by TATA First Dot powered by NEN awards.
- TiE-Lumis Entrepreneurial Excellence award in 2014.
- Business World young entrepreneur award.

Barclays Hurun India Rich List 2018, which featured Ritesh as the 'youngest self-made entrepreneur' under its 'young and rich' category, said, "Youngest self-made entrepreneur under 40 is Ritesh Agarwal, 24, of OYO Rooms with a net worth of ₹ 2600 crore.”



OYO Entered Unicorn Club List of Indian Startups

India's start-up ecosystem has a new unicorn - OYO Rooms. The Gurgaon based budget hotel chain has raised \$800 million in a funding round (September, 2018) led by Japan's Soft-Bank, Vision Fund, the world's largest private technology investor, and has received an additional written funding commitment of \$200 million from its investors. So, the total capital raised is \$1 billion in this round, one of the largest for homegrown start-ups this year. It values OYO at \$5 billion, up from the \$850 million that it was valued at when it last raised funds in September, 2017.

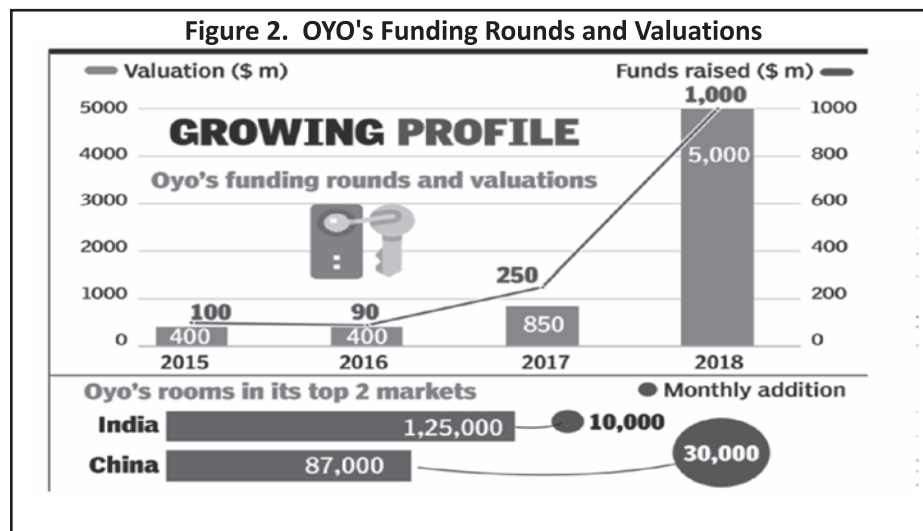
OYO is one of the eight startups to enter the unicorn club in 2018. SoftBank Vision Fund, the world's largest private technology investor has led an \$800 million round in hospitality company. Joining SoftBank are other existing investors, namely, Sequoia Capital, Lightspeed Venture Partners, and Greenoaks Capital. The fundraise includes an

additional commitment of \$200 million.

The latest round conducted during September, 2018 values OYO at about \$5 billion, an almost six-fold jump from what it was valued at 12 months ago. At the time OYO had raised \$260 million across two rounds which valued it at \$850-900 million.

This makes OYO India's third most-valued startup after Flipkart, prior to its acquisition by US retail behemoth Walmart earlier this year, and One97 Communications, which owns and operates digital payments platform Paytm. The latest capital infusion into the Gurgaon-based company will give it further ammunition to expand its footprint globally, particularly in China, which has emerged as a core market for OYO outside India. Of the overall \$1 billion that it will raise, about \$600 million will be pumped into its China operations, with the rest being directed towards its home market, overall hiring, and other international markets such as South East Asia, and the UK.

SoftBank could also bring in We-Work as an investor when the \$200 million is pumped into the company. The official announcement comes a little over a month after ET reported, in its August 16, 2018 edition, that the company was close to sealing its next round of funding, estimated at \$1 billion that was likely to value it at over \$4 billion.



Source : OYO in unicorn club after SoftBank, others put \$1bn. (2018, September 26).

Competitive Rivalry

OYO is the eighth Indian startup to enter the unicorn club in 2018. Being an Indian startup, OYO faces stiff competition from different start-ups and companies. This start-up covers all category of hotels right from budget upto presidential suites, whilst offering good booking deals. In India, OYO is close to reaching profitability. The company has an estimated 1,25,000 exclusive rooms (Figure 2) under its management, with a presence in 230 cities. Between January, 2018 and June 2018, OYO hotels in India clocked 17 million booked room nights. However, it faces stiff competition from Treebo, which seems to be the main competitor of OYO. In the competitors list, there are other players also in the budget hospitality space, namely, Zen Rooms, Vista Rooms, Red Doorz, Keys Hotels, Your Own ROOM, Nest Away, Grab house, No Broker, Square Plums, and Cleartrip.

Business Model of OYO

OYO, which started as a hotel aggregator has changed its business model from aggregation to franchise. All hotels under its aggregator model shifted to its franchise model in December 2017 under the OYO brand. It had started leasing hotels in 2016. OYO is currently generating more than 90% of its revenue from hotels that it has leased from owners. The shift in its business model has also allowed OYO to raise its commission by 5% to around 22%. Earlier, under the aggregator model, OYO used to charge 18% as commission from hotel owners every month (Ravish, 2018).

All hotels are currently operating at 76% occupancy rate on an average. Shifting to a franchise model had very little impact on pricing of rooms, and according to Ritesh Agarwal, the budget category of rooms priced at ₹ 1,000 to ₹ 1,500 per night will continue to remain unchanged. The budget OYO Rooms category under the franchise model will now cost anywhere between ₹ 1,000 and ₹ 2,500. The franchise model allows the company to manage its hotel inventory and speed up the time taken to sign agreements with new hotel partners. Typically, getting a hotel owner to sign a franchise agreement would take months, but OYO claims to bring down this time frame to just 5 days.

The company makes use of an in-house mobile application and software suite named ORBIS that lets the potential hotel partner to estimate revenues, gross operating profits, and other expenses once the property is brought under the OYO brand.

If the owner is okay with the numbers, a civil engineer from OYO visits the hotel and estimates the capital expenditure to run the hotel. At the end of the fifth day, the agreement is signed using the ORBIS app, rather than the fifty pages agreement on paper with six lawyers sitting across the table and doing negotiations. After the agreement is signed, OYO's designers and architects put together a renovation plan and the company is able to renovate the entire hotel property in 3 to 14 days depending on the size of the property.

Apart from this, OYO is also able to hire few hotel staff to take care of overall operations. Traditional hotel chains appoint one floor manager to manage around 20 keys (rooms). However, OYO is able to put more than 100 keys or rooms under one floor manager's control.

OYO uses data science to simplify the floor manager's work. Instead of checking upon every hotel everyday, the auditor instead checks 30% of the hotel every day on the basis of historical bad ratings of rooms.

OYO Forays Into Long-Term Rental Sector

Budget hotel chain OYO Rooms has recently entered the long-term housing rental segment. It is working with independent owners and large builders to lease out properties for long-term housing needs of young professionals. OYO has onboarded about 36 properties with 2,000 beds, and the plan is to scale upto about 50,000 beds in the next one year across the top 10 metros.

OYO shall seek to solve typical pain-points like steep deposits, advance rents, and maintenance of properties in co-ordination with landlords, and not restrict itself to discovery and booking services, which is what some of the others in the space do.

A substantial part of the fresh funds raised by OYO will be allocated for this new business. OYO Living is being rolled out initially in Noida, Gurgaon, Bengaluru, and Pune. To nudge property owners to lease their properties, OYO is assuring guaranteed rental yields.

“This is a big opportunity for us and we have done several pilots over the last six months that have shown good opportunity in this space. We are targeting young professionals who are typically in their first or second job, and are migrating to new cities. While we are leveraging OYO's existing expertise from the hospitality business, about 85 persons are working solely on the housing rental business,” said Kavikrut who is heading this new business referred to as OYO Living. “The company is making an effort to look for standalone properties and full towers from developers for OYO Living, instead of going for a few flats in several buildings in a housing complex,” Kavikrut added.

Marketing and Branding

Since the beginning of OYO, the competition in online hotel booking is increasing day by day. So, to retain their customers and to attract new leads, OYO rooms uses both mass marketing and digital marketing for further customer acquisition. It has put its encumbrance on mass marketing as well as digital marketing for further customer acquisition. It has a powerful presence in social media as its Twitter following exceeds 8,000, and Facebook following is 2.7 lakh. Nearly 1.5 million apps have been downloaded with a high percentage of active users. OYO has organised campaigns on social media platforms like #AurKyaChahiye videos which can be viewed on YouTube, for example, Dubsmash Contest, and Jai Hind campaign featuring actors Raveena Tandon and Manoj Bajpai.

Its latest campaign has targeted holidayers with the locution 'One For Everyone'. It includes eight short films where customers express their happiness with brand OYO. The emphasis of the films is on varied expectations of customers and how the company is able to fulfil their expectations successfully. It has entered into deals with major brands like Airtel to offer Wi-Fi support.

OYO Opens New Tech Development Centre in Telangana

To harness technology expertise in the background, OYO has also opened a tech development centre in Hyderabad. The centre will look after management and development of various verticals, including holiday packages, sales technology along with products and solutions for corporate travel and travel agents. It will concentrate on building supply chain technology and transformation technology teams, growing to 300 engineers by 2018 end.

Ritesh Agarwal, founder & CEO, OYO stated, "OYO is at the forefront of transforming India's hospitality experience. Technology has been the biggest driver towards our growth and expansion in the last four years. This new Centre of Excellence for Machine Learning (ML) and Artificial Intelligence (AI) initiatives will help us consolidate our technology leadership. Additionally, strategic partnerships with NITHM and TSTDC will not only impart skilling, but also create gainful value for the industry at large.

After Gurugram, this is OYO's second tech development centre. The facility in Hyderabad will focus on developing innovative products for customers, partners, and employees. The company is also in discussion with National Institute of Tourism and Hospitality Management (NITHM) to boost employability in the hospitality sector by leveraging OYO's expertise in the hospitality segment to develop a hybrid learning program. Also, in works is a collaboration with Telangana State Tourism Development Corporation (TSTDC) to maintain, market, and promote select properties under the corporation.

OYO has recently also ventured into new territory through OYO Asset Management. The service is geared towards building a nationwide network of hotels through a partnership with real estate asset owners.

Conclusion and Discussion

So far, this brief journey of OYO has been nothing short of exceptional. This business involves a very high cash burn rate. Since companies are in their expansion mode they are offering lucrative discounts to acquire customers. Standardization is one of the major issues. In the race for growth, quality of services, and their conformance is often compromised. This is the biggest pain point of the customers. The customer does not know to which hotel he is going, and on reaching the destination if one receives sub-standard or below expected service, it can result in losing the customer forever.

Since OYO is dealing with non-branded hotels, the level of professionalism may be low and thus, it becomes a challenge for the aggregators to delight its customers at every point of contact.

If its expansion and sustenance goes well in China, OYO will become one of the rare foreign internet start-ups to succeed in China. If it doesn't, OYO will join a long list of companies, including Amazon and Google, which had to withdraw from China due to various reasons. Unlike the US and India, China's internet sector is strictly regulated and international companies are either explicitly banned or forced out. OYO enjoys strong support from Soft Bank's influential founder, Masayoshi Son, but the company is facing formidable challenges. OYO is presently unavailable on a large online travel agent, Meituan. At present, even OYO's own website does not allow one to book properties in China. The properties are also not available on other online travel agencies (OTAs) such as Expedia and Booking.com.

Thus, the challenges for OYO are its international operations in the near future. Despite the constraints, OYO has reached the highest level, and has gained a huge competitive advantage over its rivals, but will OYO be able to maintain this over a period of long run and how the company will handle all its international operations is a billion-dollar question.

Entrepreneurial Implications of the Case Study

The present study provides valuable insights and guidelines for budget hotels in the hospitality industry. The study highlights that budget hotels need to observe the predictors of customer behaviour that can work as change agents. As most of the middle-class families in India travel for entertainment, school vacation, and pilgrimage, all rolled into one, and they want budget hotels that can offer uniform clean experience. The case study highlights how OYO was among the first to identify the opportunity to initiate the process of branding the domestic budget hotel segment, and introduced its innovative business model that shook the roots of well established companies (Kesharwani, & Kumar, 2016). The study stresses the fact that millennial entrepreneurs should look beyond their traditional perspectives and should look for new ways of value creation. The value created should be unique and sustainable so that the competitors may find difficult to imitate it. The youngsters who wish to join the bandwagon of startups in India should follow the footsteps of Ritesh Agarwal.

Limitations

This research work was a sincere attempt in the form of a case study to provide implications for both researchers and consumers for budget hotels in the hospitality industry. The study has some limitations, and provides pointers for future research. First, in the long run, government policies or regulations for hotel aggregators in India may change in future and some of the existing laws would cease to exist. Secondly, this case highlights the achievements and business model of OYO only. Thirdly, this study deals with secondary data only and this is a major limitation of the study.

Scope for Further Research

As far as scope of further research is concerned, comparative study of all the budget hotels in India can be undertaken and quantitative research can also be undertaken to identify the perception of consumers and service quality. Further, similar studies can be undertaken for other emerging economies in the world.

Teaching Notes

(1) Synopsis : The premise of this case study was to enable a discussion on the fast evolving hospitality industry and the surge of budget hotel segment in India. The discussion highlights how Ritesh Aggarwal's painstaking endeavours bore fruits and OYO went on to become one of the largest hotel chains in South Asia, and is swiftly expanding to international markets. OYO has recently entered the unicorn club list of Indian startups in 2018. Soft Bank Vision Fund, the world's largest private technology investor, has led an \$800 million round in the hospitality company OYO in the process vaulting the five-year old startup into the unicorn club of private companies valued over a billion dollars. Barclays Hurun India Rich List 2018 featured Ritesh as the youngest self-made entrepreneur under 40 with a net worth of ₹ 2600 crore. This is testimony to how OYO became the top brand in India in the branded hotel segment. With these insights, the case study illustrates the successful Journey of OYO, its business model, and its international presence and the probable challenges which the company might face in its global expansion.

(2) Learning Objectives : The case has the following objectives:

- (a) To study how business model innovation can be a source of competitive advantage
- (b) To discuss the impact of OYO's Franchise model on other aggregators or competitors.
- (c) To illustrate the marketing and branding aspects of OYO.

(3) Use of the case : The case has been written for courses in marketing, technology, and innovation. However, the case

is very apt for illustrating the concepts of franchise model in the hotel industry. It also explores the entrepreneurial spirit and leadership qualities of successful young entrepreneurs.

(4) Application : The case of OYO rooms is suitable for discussion amongst the students of Masters of Business Administration (MBA) and undergraduate management courses.

(5) Prerequisite Conceptual Understanding (PCU)/Before the Classroom Discussion:

- Amit & Zott. (2012). Creating value through business model innovations, *Sloan Management Review*, 49, 41-49
- Wheelen, Hunger, Alan, & Charles. (2016). *Strategic Management and Business Policy* (14th ed.). Pearson Publication.
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Organizing Discussion Using the Current Case

- (1) Discuss about the hospitality industry in India with reference to budget hotels in India.
- (2) Enumerate the business models of OYO in detail.
- (3) Discuss how OYO is leveraging technology in its business to stay ahead of its competitors.

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About the Author

Dr. Ramesh Sardar is working as Associate Professor with School of Management Studies, KBC North Maharashtra University, Jalgaon, Maharashtra. He has more than 15 years of experience in teaching and research. He holds a doctorate in Management and an M.B.A degree from Dr. Babasaheb Ambedkar Marathwada University, Aurangabad. His research activities have been concentrated in the areas of entrepreneurship, marketing, and strategic management. He is also a member of Board of Studies.