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Business model innovation in the Indian hospitality industry

A study of the willingness to outsource specialty restaurants in luxury hotels

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Abstract

Purpose – This study aims to explore the reasons for the rise of independent, stand-alone restaurants and ascertains the benefits of outsourcing food and beverage (F&B) in luxury hotels in India from the perspectives of the strategic partners involved in such an alliance. The study also proposes different formats for F&B outsourcing in luxury hotels.

Design/methodology/approach – An exploratory study was carried out by collecting primary data from 16 Hotel General Managers and F&B operations experts through qualitative, semi-structured, personal and in-depth interviews. NVivo12 software was used to carry out a qualitative thematic analysis of the data. The primary data collected were triangulated with secondary data gathered through literature review of academic papers, industry reports and studies on the trends of restaurants in luxury hotels being outsourced.

Findings – The study focusses on the antecedents of the rise of stand-alone restaurants in the Indian hospitality industry. To combat the competitive disruption arising because of this trend, the study posits the business model innovation of outsourcing F&B operations in luxury hotels.

Practical implications – The benefits of a strategic alliance from the perspective of both parties – the luxury hotel and Michelin-star chef or branded/marquee restaurant – are elucidated. Further, three broad formats, which can be adopted for speciality restaurant outsourcing are also proposed. Practitioners, researchers and educationists in the hospitality industry would find the implications of this study useful in the context of the present customer-centric business environment where hotels are constantly striving to meet the exponentially rising bar of guest expectations in an increasingly globalised milieu.

Originality/value – The study proposes a preliminary road map for internationalisation of F&B operations through the business model innovation of outsourcing operations of in-house specialty restaurants by luxury hotels in the Indian context.

Keywords Innovation, Outsourcing, Hospitality, Michelin, Food and beverage service, Specialty restaurant

Paper type Research paper

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Introduction

The growth story of India's consumer economy is still current and on an upward trajectory. According to BCG (2017), India's consumer market is expected to triple in size over the next decade from \$1.4tn in 2016 to \$4tn by 2025. The consumption patterns are shifting significantly on the back of the fillip given by expenditure growth of the "elite" and "affluent" segments in the Indian economy, which, together, are expected to almost double their consumption spending to 40 per cent in the decade leading up to 2025.

Transformation on the global economic front and socio-cultural dynamics have given impetus to the Indian food service industry and pushed it on a trajectory of exponential growth. The "eating out" culture in India is seeing a steady uptake, driven by the young Indian demographics, increasing disposable incomes, and changes in lifestyle influenced by rapid urbanisation and the increasing number of working women (KPMG, 2016). According to the NRAI (2016) the food service market is expected to grow at an unprecedented rate of 10 per cent compounded average growth rate (CAGR) to stand at almost $70bn (INR5tn) by 2021 not only because of an increasing number of consumers eating out but also because of the rising frequency of dining-out occasions and a higher spend per meal. The BCG (2017) study revealed that in the "eating out" category in urban India, elite and affluent households are likely to spend 35 times and 13 times more, respectively, than the lowest income group segment in India. Within the food service industry, full-service restaurants account for more than half the sales, contributing 57 per cent of the total (KPMG, 2016).

The fine-dining segment is a niche segment in full-service restaurants that thrives on mainly the elite and affluent households and constitutes 3 per cent of the market (Grant Thornton, 2015). In India, this segment is currently dominated by the fine dining specialty restaurants located in luxury hotels (e.g. Golden Dragon in Taj Hotels, Bukhara in ITC Maurya and Le Cirque in Leela Hotels) (Condé Naste, 2017). However, this segment has also been witnessing increasing growth because of the entry of independent local (e.g. Olive, Punjab Grill and Smoke House Deli) and international fine-dining restaurants (e.g. Hakkasan and Benihana) and is expected to grow at 15 per cent CAGR (Grant Thornton, 2015). Thus, the two distinct sub-segments within fine-dining, which this study will be focussing on, are independent restaurants found on high streets and in food hubs, and specialty restaurants in luxury hotels.

Luxury hotel restaurants

In a luxury hotel, the two largest revenue generating departments are rooms (accommodation) and food and beverage (F&B). The F&B revenues in a hotel are usually an aggregate of revenues from five broad areas – the in-house all-day casual dining restaurants, speciality restaurants, bars, in-room dining (room service) and banqueting and conferences.

The very definition of a hotel presumes accommodation provision as the key service. Hence, historically, a hotel's F&B revenues have often been largely dependent on the level of room occupancy. Many global hotel chains include F&B facilities as a mandated product-extension to the room offering. The key areas where F&B is seen to be vitally support to the room product is via breakfast venue (usually in the all-day casual dining restaurant), a bar and the convenience of room service (Hemmington and King, 2000).

By rule of thumb, in an operational hotel, every rupee in revenue from "room sales" is significantly more profitable than the rupee in revenue from "F&B sales". Going by industry averages, the cost of sales for a room product is around 10-15 per cent based on the business segment and the brand's specific standards, but the same is 20-30 per cent or even higher for F&B products (De and Munjal, 2017). Thus, the room product does not only contribute to the majority of the hotel's revenues but also contributes to stronger profitability at a gross margin level in support of the fixed costs of the business, thereby ensuring healthy profitability at the net margin level.

However, times have changed over the past few years with several international hospitality chains ramping up their presence in India and intensifying the competition. The accommodation-driven revenue in hotels, that constituted almost 80 per cent of the total revenue and nearly 85-90 per cent of the net profit, is under pressure in an oversupplied market (HVS, 2015). Hotels have been able to respond to this pressure on room revenues and profitability by focussing on F&B as one of the key drivers to growing operating revenues. In the Indian context, the share of F&B in total revenue for luxury hotels stood at 41.5 per cent during the financial year 2015-2016, a testimony to the progression of the ratio of F&B to room revenue from 20:80 to 40:60 in recent years (FHRAI, 2016).

While the increase in F&B revenue in hotels has its antecedents in the steady rise of the "eating out" culture in India (Ghura and Mathew, 2014), it can also be attributed largely to an increase in the banquets and conference-related business segment. Hotels across India have added large meeting spaces, which have facilitated the growth of meetings, incentives, conferences and events, in the country. They have latched on to the opportunity by developing interesting banquet menus and promoting them at attractive prices, to compete with stand-alone restaurants and banqueting venues. The banquets segment in hotels is doing well, as many of elite and affluent Indians prefer hosting their weddings and other special events in five-star and luxury hotels because this is a status symbol, and this trend has led to an increase in banquet revenues, thus contributing to an overall growth in F&B revenues (De and Munjal, 2017).

Paradoxically, while banqueting and conference segments are increasingly contributing to the F&B top-line in hotels, the revenues from in-room dining (room service) and in-house F&B outlets within luxury hotels are not mirroring this buoyancy in banquet sales. Statistics in the Indian hotel industry show that while the banqueting and conferences segment recorded an increase of 12.2 per cent in 2015-2016 and has continued to chart double-digit growth, the overall F&B revenues grew by only 2.35 per cent (FHRAI, 2016), alluding to a situation where the overall revenues from the hotel's F&B outlets may be stagnant or even declining.

Objectives and approach

Trends indicate that F&B outlets of luxury hotels in India, particularly the specialty restaurants, are facing declining revenues and are turning into lazy assets. The objective of the paper is to delve deeper to examine the reasons for this decline. Further, to combat this trend, the study proposes that luxury hotels can bring an innovation to their existing business model by outsourcing the operations of their specialty restaurants to independent, signature restaurant brands or celebrity/Michelin-star chefs who could run them in partnership with the hotel or as independent business entities within the hotels. The benefits of F&B outsourcing in luxury hotels in India, from the perspectives of the strategic partners involved in such an alliance are also ascertained. Further to this, the study proposes different formats for this business model innovation based on the typology of the hotel ownership pattern.

The study begins by identifying the trends in the affluent-dining segment in the Indian hospitality industry, with special focus on the rise in independent restaurants in India and the impact of this trend on the performance of F&B outlets in luxury hotels in India, particularly their specialty restaurants. The paper then examines the opportunities in the affluent-dining segment due to the emergence of the new Indian gastronome (NIG) and also analyses the challenges faced by independent restaurants looking at entering this segment. To capitalise on the opportunities while mitigating the challenges, the study proposes a business model innovation of selective outsourcing of F&B operations in luxury hotels through a strategic alliance with signature restaurant brands or celebrity/Michelin-star chefs. The benefits of such an alliance, which may accrue to the strategic partners, are also evaluated. The research concludes by proposing various formats that can be adopted for these strategic alliances based on the different ownership patterns of luxury hotels.

Research methodology

This study is divided into two phases. Phase one of this study involved secondary research via a review of academic literature, industry reports and published observations and opinions of industry experts related to F&B. In phase two of the study, a qualitative enquiry was undertaken with the aim of securing multiple outcomes. The first was to delineate the reasons for the rise in independent restaurants in India, and second, the impact of this trend on specialty restaurants in luxury hotels. The third outcome sought was the practicability of outsourcing F&B in luxury hotels in India to signature restaurant brands or celebrity/Michelin-star chefs to combat this trend, and the fourth was to evaluate the benefits such a strategic alliance might accrue to the partners.

Two reasons underlie the use of a qualitative study. First, a qualitative deductive approach facilitates the capture of the diverse experience of general managers and F&B experts about the proposed business model innovation. Second, qualitative data offers rich description of the phenomenon of interest (Miles and Huberman, 1994) and may help reconcile existing work and suggest the reasons for the decline in the revenue of speciality restaurants, the benefits of F&B outsourcing and identify suitability of different formats for such a business model innovation.

An exploratory study was carried out by collecting primary data from 16 general managers and F&B operations experts of luxury hotels belonging to leading hospitality organisations in India such as the Taj Group of Hotels, The Oberoi Hotels and Resorts, stand-alone, single ownership luxury hotels such as The Lodhi and international luxury hospitality companies such as Marriott Hotels, Hyatt Hotels and Accor Group with a presence in the Indian market.

Data were collected through qualitative, semi-structured, personal and in-depth interviews. A purposeful sampling technique was used to help identify and select individuals from the hospitality industry who were particularly well-versed with the phenomenon being evaluated in terms of knowledge and experience – keeping in mind their availability, willingness to take part in the study, and ability to recount their experiences and express their opinions in a reflective manner (Palinkas *et al.*, 2015). The researchers interviewed the participants and asked open-ended questions, which were developed from the primary research questions.

NVivo12 software was used to carry out a qualitative, thematic analysis (Boyatzis, 1998) of the data. The unit of analysis was the interviews that had been conducted. The coding unit was "sentences" and this was deployed throughout the coding phase. Attempts were made to establish relevancy based on meaning and not solely frequency. The coding units were copied and pasted to the memo "coding process" and were read back. During this activity, the researchers asked themselves whether the coding units made sense, when read outside their context. Following Boyatzis (1998) five elements of a good thematic code, a code book was written to define each code with a label (name), a definition of what the theme is about, a description that flags when the theme is likely to occur, inclusion and exclusion criteria and examples of occurrences of the theme (Appendix 1). The coding scheme used was theory-driven. Deductive pattern-seeking as a method of scientific reasoning was used to analyse the qualitative data. The research findings were qualitatively analysed and compared with the literature review findings to assess if the theoretical findings were valid in given circumstances (Gulati, 2009).

Findings: food and beverage trends in the affluent dining segment in India

Decline in footfall in specialty restaurants in luxury hotels

In recent years, the economic performance of specialty restaurants in luxury hotels in India has been a matter of concern for the management due to declining footfall (Chaturvedi, 2018; Zachariah and Vipashana, 2017). Literature also indicates that there is a rise in the number of independent restaurants in India (Sanghvi, 2015; Singh, 2015). This helped the researchers form the proposition that "a rise in independent restaurants has an impact on the decline in revenue of speciality restaurants in luxury hotels in India". A coding query was run using NVivo12 to tease out this proposition. A pattern of code overlap was found for the codes "independent" and "specialty restaurants" in the same coding unit. It is in this context that the study proposes that there is an association between a rise in the number of independent restaurants and a decline in the revenue of speciality restaurants in luxury hotels in India. The interviews with the general managers of luxury hotels and F&B experts had 100 per cent of the respondents confirming this trend and attributing it largely to the growing competition from independent restaurants.

Thus, the decline in the footfall in these restaurants can be attributed to a two-fold phenomenon. Firstly, non-resident guests who constitute a key market for hotels' specialty restaurants are increasingly perceiving them as cumbersome dining venues in terms of accessibility because of the heightened security arrangements and also, from an ambience perspective (Khosla and Satyanarayanan, 2014). In the aftermath of the 2008 terrorist attack on major operators in the Indian hospitality industry, all hotels have extended security checks. Further, while very few fine dining specialty restaurants in India have a mandated dress code, non-resident guests usually feel obliged to dress and behave more formally when entering luxury hotels due to their intimidating ambience:

> The formal and upscale ambience and stricter security checks can be a deterrent to the more casual crowd – General Manager, Hyatt Hotels.

Secondly, there has been proliferation of independent stand-alone and chain restaurants in India that have managed to develop a loyal customer base and a distinctive brand identity for themselves and are creating stiff competition for luxury hotel restaurants:

> A wide variety of more pocket friendly stand-alone restaurants offering diverse cuisines have mushroomed in the past five years – General Manager, Marriott Hotels.

Growth of independent restaurants

The F&B service industry has been a sunrise sector and three factors have contributed significantly to the growth of independent restaurants in India:

- The emergence of chef-entrepreneurs and super-restaurateurs who are keen on experimenting with novel cuisines and restaurant formats to cater to the evolving gastronomical tastes of the Indian populace – prominent examples being chefs Rahul Akrekar and Manish Mehrotra who have created the hugely successful independent restaurants Indigo and Indian Accent, respectively (Financial Times, 2015). AD Singh and Zorawar Kalra conceptualised Olive and Farzi Café (also Pa Pa Ya), respectively, which have now grown into popular restaurant chains known for their innovative cuisines and dining formats (Chanda, 2018). Other super-restaurateurs include Jay Singh and Sanjay Mahtani of JSM Corp, which holds the master franchise for Hard Rock Café and California Pizza Kitchen and also owns independent resto-bar brands such as Shiro and Asilo; Riyaaz Amlani of Impresario that owns popular indigenous restaurant brands such as Smoke House Deli, Social and Salt Water Café and Kishore Bajaj owner of KA Hospitality that is responsible for bringing Yauatcha and Hakkasan – international Michelin-starred restaurant brands to India (Vishal, 2018).

- The emergence of dedicated F&B clusters, in the form of food districts and food hubs, food courts in malls and increased allocations for F&B in commercial buildings, encourages the aggregation of independent F&B service outlets in certain localities and venues. They provide F&B outlets with a conducive environment and centralised infrastructure benefits for smooth operations and are clearly indicative of the trend that planning for F&B is no longer an afterthought but integral to retail developments. The Cyber Hub in Gurgaon, Epicuria and Khan Market in Delhi and the re-developed mill areas such as Phoenix Mills and Kamala Mills in Mumbai, are all prominent examples of popular food destinations within these metro cities (CBRE, 2018).
- Thirdly, independent restaurants are perceived to be significantly easier on the customers' pockets than their counterparts in luxury hotels. This perception that luxury hotel restaurants are more expensive than independent restaurants is, firstly, driven by the clear-cut indirect tax differential enjoyed by independent restaurants. Diners in luxury hotel restaurants in India are subject to a levy of a higher goods and service tax (GST) of 18 per cent as compared to independent restaurants, which are required to collect only a 5 per cent GST from their patrons on their restaurant bills (Business Today, 2017). Further, the lavish ambience and premium brand image of luxury hotels also perpetuates this perception.

Thus, the research confirms that due to the consumer behaviour outlined above, and competitive and economic challenges, very few luxury hotels have been effective in carving out a separate identity for their F&B outlets and forging a bond with their customers despite the fact that they have enjoyed the captive audience of their in-house guests. Luxury hotels are coming to the realisation that their F&B business will be viable from a profitability standpoint only if, in addition to catering to the resident hotel guests, their in-house restaurants are able to continue to attract a significant volume of non-resident guests from the local market (despite the increasing competition from independent restaurants).

The new Indian gastronome

Of the total "eating out" population in India, the segment of the discerning, urban, upper class, affluent diners constitute approximately a quarter of the market (NRAI, 2016). Over the past five years, within the affluent eating-out segment, the Indian food space has seen the emergence of a niche segment of urban, internationally well-travelled, knowledgeable, brand-conscious, hedonistic restaurant-goers who are affluent and have a propensity to pay a premium for quality, comfort and experiences and patronise fine dining and upscale restaurants (Bharwani and Jauhari, 2013; Business Today, 2013; Vishal, 2018). The authors have labelled this micro niche segment the NIG. According the Collins Dictionary (2018), a gastronome is someone who enjoys eating good food and has discriminating taste for unusual or expensive food.

The emerging breed of the NIG has been attracting considerable interest from marquee, branded international restaurants and Michelin-starred restaurants that want to enter the Indian market to target this rising micro-niche "eating out" segment (Goyal and Goyal, 2017). Internationally, the Michelin guide (Guide Rouge) is the most respected ranking system for fine gastronomy and cuisine (Johnson *et al.*, 2005).

Challenges for prospective new entrants

The Indian F&B service landscape is fraught with several challenges emerging from the lack of ease in doing business, a complex licensing regime and rising real estate costs. In the case of Indian restaurants, real estate rentals account form 15-20 per cent of the revenues – much higher than the global average of 8-10 per cent. This is the single largest operating cost for restaurants after food costs and "restaurants find themselves paying global rentals at Indian prices" (Grant Thornton, 2015).

A restaurateur has to negotiate a labyrinth of licences before commencing operations in India. This involves a long lead time and a high cost of compliance and can be quite a challenging process. Until India manages to simplify its licensing requirements and speed up the process through a unified, single-window clearance approach, this will continue to be a challenge in setting up new F&B service businesses. In the light of these challenges, global food service brands and restaurateurs prefer the franchising or partnership route as a way of entering the Indian market (Grant Thornton, 2015) even though 100 per cent FDI is allowed in the hotels and tourism sector in India (DIPP, 2018).

Taking on an existing operator in the market, who is familiar with the F&B service landscape in India, as a partner or a franchisee, would offer the new entrant the benefits of a more market savvy and robust business base to build from. As potential partners or franchisees, they bring to the table a skill set, which facilitates easier navigation of the regulatory and statutory headwinds for a new operation. They are also more adept at reading the market and are agile in their responsiveness to market fluctuations and changes. Thus, the Indian partner, besides being a financial investor, can bring in expertise in terms of awareness of the market trends and tastes, negotiating the compliance and regulatory landscape, hands-on F&B operations, understanding of the local food supply and cold chain sector and knowledge of real estate management.

The solution of partnering with an existing Indian F&B service player further bifurcates itself into two sub-genres, in the form of the possibility of the new entrant aligning with either an existing luxury hotel or an independent restaurateur.

Business model innovation – selective outsourcing of food and beverage operations in luxury hotels

According to the BCG (2009), a business model has two broad elements – the value proposition offered by an organisation to its customers and the operating model that underlies the delivery of this value proposition. Value proposition refers to how an organisation creates benefits for and engages with its customers by fulfilling their needs and/or solving their problems. Operating model refers to how the firm is organised in terms of its resources, people and processes involved in delivering the value proposition to the customers.

Thus, to understand the business model of the F&B division in luxury hotels, it is important to gain an understanding of its value proposition and operating model by answering two insightful questions, respectively:

- *Value proposition*: What is being offered and to whom?
- *Operating model*: How can this offering be profitably delivered?

The answer to each of the above questions can be elucidated by examining the explicit choices made by the luxury hotel across three dimensions for each of the elements (BCG, 2009).

Value proposition

- *Target segment(s)*: Which customers are served? Which of their needs are addressed?
- *Product or service offering*: What is offered to customers to satisfy their needs?
- *Revenue model*: How is the compensation being provided for the offering?

Thus, the value proposition of F&B divisions in luxury hotels is that they offer superior F&B services and fine-dining experiences to their affluent, resident and non-resident guests who are willing to pay a premium for ambience, quality and experience.

Operating model

- *Value chain*: How is the organisation configured to deliver on customer demand? What is done in-house and what is outsourced?
- *Cost model*: How does the organisation configure its assets and costs to deliver on its value proposition profitably?
- *Organisation*: How does the organisation deploy and develop its people to sustain and enhance its competitive advantage?

The F&B divisions in luxury hotels in India are an integral part of the full-suite of service offerings in the hotel, and benefit from the ease of intra- and inter-departmental mobility of both front-line and managerial employees. The various departments within the F&B division such as banquets, in-room dining, bars, all-day dining restaurants and specialty restaurants are treated as individual revenue centres and some hotels may even prepare separate profit & loss accounts for each individual outlet. However, none of the luxury hotels allocate notional rent as a cost to in-house F&B outlets, which would be a means to presenting a realistic calculation of true profitability of the premium real estate asset that is deployed:

> Business model innovation is the art of enhancing advantage and value creation by making simultaneous - and mutually supportive - changes both to an organization's value proposition to customers and to its underlying operating model (Lindgardt and Ayers, 2014).

With diminishing differentiation in hospitality products and services, there is a need for unique, value-added innovations in luxury hotels to renew their competitive advantage (Bharwani and Mathews, 2016) as this would help combat the stagnation (and even a fall) in footfalls and reignite the growth in revenues of the specialty restaurants in luxury hotels in this environment of intensified competition:

> We need to constantly evolve and up our game in F&B offerings [. . .] our guests are extremely discerning, well-heeled and well-travelled and always on the lookout for a superlative experience – General Manager, Oberoi Hotels and Resorts.

In such a scenario, luxury hotels could innovate by revisiting the business model of their F&B division in terms of both the value proposition and operating model. This could be done by enhancing the value proposition by offering international standard, world-class fine-dining experiences to its elite customers and especially the NIG, by partnering with signature restaurant brands or celebrity/Michelin-star chefs. This would be supported by altering the operating model by outsourcing the running of their one or more specialty restaurants to established restaurant brands or celebrity/Michelin-star chefs, while retaining operational control of the rest of the F&B departments within the hotel itself. The cost model could be based solely on rental where the luxury hotel rents out the physical space to the outsourcing partner and allows them freedom to operate as a separate business entity. Alternatively, a strategic alliance based on profit-sharing could be formed with a celebrity/Michelin-star chef, whose name and brand equity could be leveraged along with him/her acting as consultant and sharing expertise in developing new product concepts and menu designs and also training the hotel employees involved in the operation of the restaurant (Vila *et al.*, 2012).

This trend of outsourcing the running of a hotel's specialty restaurant to a signature stand-alone restaurant brand or a celebrity chef who runs it as an independent business entity is quite well-established outside India. For example, the Caesar's Palace Hotel in Las Vegas hosts Nobu – the signature Japanese restaurant of Chef Nobu Matsuhisa, and Chef Gordon Ramsey's restaurant Hell's Kitchen. Gordon Ramsey also runs a two-star Michelin restaurant Le Pressoir d'Argent at the InterContinental Bordeaux in France. Pioneering and celebrated Chef Alain Ducasse runs a three-star Michelin restaurant named after him at London's iconic hotel – The Dorchester. Similarly, the Mandarin Oriental, Geneva in Switzerland houses Chef Vineet Bhatia's Michelin-starred Indian restaurant Rasoi (Oakes-Ash, 2016).

Therefore, instead of allowing super-restaurateurs to add marquee, branded international restaurants and Michelin-starred restaurants to the existing pool of competition, luxury hotels could look at collaborating with new entrants (marquee, branded international restaurants and Michelin-starred restaurants) via a strategic alliance as a means to channel competitive disruption into a win-win situation for both parties.

Benefits of outsourcing specialty restaurants in luxury hotels

The benefits of a strategic partnership between luxury hotels and signature restaurant brands or celebrity/Michelin-star chefs can be assessed from the perspective of the luxury hotel, as well as from the restaurant partner's perspective.

For the luxury hotel

For the luxury hotel, the primary benefit that emerged from the thematic analysis of the interviews was that such an alliance could rejuvenate the business of the specialty restaurant and lead to increased footfalls from both resident and non-resident guests, which, in turn, boosts revenues and leads to a positive impact on the bottom line. Partnering with a signature restaurant brand or celebrity/Michelin-star chef could also infuse novelty in the type of cuisine offered or creativity in the restaurant format and elevate the overall customer experience, which again would lead to a positive economic impact. Further, tying up with a strong, internationally well-known brand or a world-renowned celebrity or Michelin-star chef could also improve the global visibility of the luxury hotel, which could benefit from a positive brand impact.

Finally, if a rental agreement is considered with a marquee brand or celebrity/Michelin-star chef, outsourcing F&B operations of the speciality restaurant could help luxury hotels in mitigating financial risk. As the hotel's high-value real estate asset yields a guaranteed rental return, the variable costs associated with operating a restaurant are no longer a concern, and guests enjoy a premium dining experience. However, in our study, respondents were unequivocal in stating that their acquiescence to outsourcing F&B was not based on "getting rid of the problem". They were amenable to the suggestion of F&B outsourcing because they saw this as a means of enhancing customer experience rather than as a method of mitigating their risk in the game by hiving off the speciality restaurant to an external party and protecting their bottom lines with an assured rental.

For the prospective new entrant

For a new entrant restaurant partner, an alliance with a local luxury hotel partner proffers an array of benefits, too. Most existing hotels have an over-arching need to be strategically located as a primary advantage in their basic business model. This benefit then automatically flows through to any new entrant who co-locates his operation in the hotel and acts as a springboard for prime positioning of the new entrant's offering in the local context. A well-established local hotel operator could share its expert understanding of the market to enable the new entrant to adapt its core-offering and business model to maximise its appeal to the local populace. This would help overcome the challenge of cross-cultural adaptability faced by a new entrant.

The prevalent tax and duty regimes applicable to luxury hotels offer a two-fold benefit to the new entrant. The first advantage cascades in the form of the input tax credit (ITC) permitted by the GST regime against the 18 per cent GST charged on sales in luxury hotel restaurants. In contrast, if the new entrant operated as an independent entity or tied up with an independent stand-alone restaurant operator, it would have a distinct disadvantage. As per the notification no. 46/2017-Central Tax (rate) dated 14th November 2017 the lower 5 per cent GST collected from independent restaurants disqualifies them from enjoying the ITC on the raw materials and other inputs (Business Today, 2017). Second, cost-effective access to a global farm-house of high-quality ingredients can be the key to effective pricing, which is fundamental in ensuring the long-term success of a new restaurant project. In India, as per the current legal dispensation, businesses that have high foreign exchange earnings prospects, can avail themselves of the benefit of a certain value of duty-free imports of raw materials and ingredients. Hotels are prime candidates to profit from this and the advantage of such economies spills over to new entrants too.

Additionally, cost savings arise because of the bulk-purchasing necessitated by the sheer volume of a hotel's operations. Furthermore, the basic law of economies of scale posits that costs such as utilities, laundry, repair and maintenance, recruitment, liaison for local permissions, etc., would all be available at more beneficial rates to a member of the larger hotel operating ecosystem, than to an independent, stand-alone operation.

Thus, restaurant operations in luxury hotels have the cost-padding of being a part of a larger eco-system, and hence, the need to compensate for every cost in a "naked cost-structure" model is less over-arching. Given that some bare-knuckle costs are often defrayed in the larger ecosystem, the commercial terms luxury hotels might demand may be less stringent. The trade-off for the new entrant is, however, the need to fit into a scripted "bigger picture" where they may need to adapt and in some cases, cede some creative control to fit in.

Implications of the study

The study has quite clearly established that luxury hotels need to act decisively to address the inexorable downward trajectory of the declining footfall and revenues their speciality restaurants are currently experiencing. A deeper analysis of responses indicated a polarisation of solution choices, dictated largely by the ownership pattern of the hotel.

The large international hotel chains seemed not to favour the idea of an alliance with a marquee restaurant brand or a celebrity/Michelin-star chef as the panacea for their malady. Instead, they all seemed to profess an affinity for intra-organisational collaborations as a means to deal with the concern at hand. They preferred to either completely reincarnate their F&B offerings, where the new restaurant they open uses one of their own brand-developed restaurant concepts (such as Soul, Sensen and Miro by Svenska and Prego by Westin) (Svenska Hotels, 2018; Marriott, 2018) or to rejuvenate the dining experience in an existing restaurant using frequent pop up offerings. The latter concept is facilitated by their easy ability to draw from the wide pool of talent (e.g. from sister hotels) that the global footprint of their international chain affords them. Hyatt's Café Kitchen concept is an interesting example of hard-coding the pop-up experience into the restaurant's very design and ethos (Lee, 2016).

The second bastion was hotels that were part of larger India-based luxury chains such as Taj Hotels and Oberoi Hotels. As a grouping, they showed a distinct predilection for the chef-alliance model. There seem to be several reasons for this. In light of their established reputation as market leaders, a rental model was seen as tantamount to an admission of defeat and a repudiation of their organisational abilities to successfully run an F&B operation. A chef-alliance, on the other hand, was an acceptable olive branch that allowed them to prismatically influence the market perception of the alliance. It allowed them to introduce internationally acclaimed culinary offerings to bolster the bottom line, while retaining a fig leaf of acceptability in being able to claim that their superior pedigree was the reason for their brand being selected for the partnership. Examples of successful chef-alliances in India include Ziya at the Oberoi, Mumbai with Chef Vineet Bhatia, and Wasabi by Morimoto at Taj, Mumbai and Delhi (Banerjee, 2014; Sanghvi, 2018).

Stand-alone, single ownership luxury hotels, however, seemed open to the idea of a pure rental partnership, as their need to maximise the monetisation of every available square inch of space. The absence of a larger corporate safety-net that comes from being part of a chain, seems to trump any brand dilution or commonality of target-market concerns they might have. A striking example of this in the Indian F&B landscape is the recent move of Indian Accent, (crowned India's best restaurant several times) from its stand-alone location in a residential area, to The Lodhi, an independent luxury hotel in the heart of Delhi (Vishal, 2017). This pure rental partnership is one of the few use-cases of the pure F&B outsourcing innovation business model in the hospitality industry and has so far resulted in a win-win situation for both parties.

Conclusion

To conclude, the implications of this study are useful in the context of the present a customer-centric business environment where hotels are constantly striving to meet the exponentially rising bar of guest expectations in an increasingly globalised milieu. Technology, travel and an innate thirst for novelty and innovation have all combined to create a maelstrom of change in India and have led to the emergence an experientially-evolved micro-niche customer segment – the NIG. Couple this new phenomenon of the NIG with the growing appeal of the Indian market and it is easy to understand the lodestone effect this platform has in attracting key international operators in the food service space to this market.

This paper posits that rather than treating the onslaught of new international entrants as rank competition, a more creative strategy that existing hotels can adopt is to welcome their fresh presence as a collaborative opportunity to reinvent kaleidoscopic offerings that further enhance customer experience. A strategic alliance with the new entrant is, thus, the most efficacious and innovative business model that hotels can adopt. It also allows them to leverage their existing strengths so as to attract marquee, branded international restaurants and Michelin-starred restaurants, who aspire to enter the Indian market, in a collaborative way rather than via a confrontational skirmish.

Further, the findings of this study indicate an intriguing trifecta of options – internal brand innovations, chef-alliances and pure rental partnerships. The more note-worthy take-away is the polarising of the options chosen based upon the nature of the ownership pattern of the incumbent operation. Global brands display a marked predilection for either installing a new company-created cuisine concept or periodic pop-ups by sister hotels from their global family. With a smaller palette of differentiated offerings to choose from, domestic players seem to prefer the chef-alliance model, while stand-alone hotels find that the pure rental partnership model best fulfils their dual need for a steady revenue stream and marquee visibility.

Directions for further research

Further empirical studies could be carried out to consider the perspectives of restaurant partners (Michelin-star chefs/branded restaurants) on partnering with luxury hotels and the most viable format for such a partnership. Research could also be conducted to assess the hospitality consumers', especially the NIG segment's attitude towards this F&B outsourcing model. Studies could be carried out to evolve the criteria that should be kept in mind while entering into such an alliance from the perspective of the right fit with respect to the service provider's brand, quality and consistency to assess the transfer effect of hotel-restaurant co-branding on consumer-based brand equity. Aspects such as the type of cuisine, service format, the brand equity of the outsourced restaurant and the financial implications of such a tie-up could also be explored.

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Appendix

Codes:

Labels: Rise in independent standalone restaurants.
Definition: Increase in the number of independent or standalone restaurants.
Description: Passages where increase of standalone is discussed.
Inclusion criteria: People mention standalone.
Exclusion criteria: People talk of specialty restaurants.
Example: We have witnessed a rise in the stand-alone.
Labels: Revenue of specialty restaurant.
Definition: Restaurants within the five-star luxury hotels.
Description: Passage where revenue of specialty restaurants is discussed.
Inclusion criteria: People talk of revenue of specialty restaurants.
Exclusion criteria: People mention revenue of standalone/independent restaurants.
Example: There has been a decline in the revenue of specialty restaurants.

Sub-themes:

Labels: Accessibility.
Definition: The quality of being able to be reached.
Description: Passage where accessibility of the hotels is discussed.
Inclusion criteria: People talk of ease of approaching a standalone or specialty restaurants.

Exclusion criteria:
Example: Customers believe that accessibility of speciality restaurants involves high security checks.
Labels: Chef entrepreneurs.
Definition: Chefs with business acumen and a passion for food.
Description: Passages where chef entrepreneurs are discussed.
Inclusion criteria: People mention chef entrepreneurs.
Exclusion criteria: People talk of entrepreneurs.
Example: There has been a rise in number of chef entrepreneurs.
Labels: Food districts.
Definition: A dedicated area of a city, especially for restaurants.
Description: Passages where dedicated food zones are discussed.
Inclusion criteria: People mention dedicated food areas/food clusters and food malls.
Exclusion criteria: People talk of restaurants in general.
Example: Metros has seen a rise in food districts.
Labels: Expensive.
Definition: Costing more money.
Description: Passages where food cost, is discussed.
Inclusion criteria: People mention perception of high food price.
Exclusion criteria: People talk of nonfood cost.
Example: People have perception that food is expensive at specialty restaurants because of differential taxes food at specialty restaurants are more expensive.

Codes:
Labels: Chef alliance.
Definition: Association formed between chef and luxury hotels for mutual benefit.
Description: Passages where Marquee/headliner partnership is discussed.
Inclusion criteria: People mention marquee headliner, celebrity chef or Michelin-star partnership.
Exclusion criteria: People mention rental model.
Example: Michelin-star trains our staff as a part of alliance.
Labels: Pure rental model.
Definition: Regular payment for use of property.
Description: Passage where rent is discussed.
Inclusion criteria: People mention rent of property.
Exclusion criteria: People talk of rent for other than property.
Example: Stand-alone has a high rental as cost, specialty restaurants do not have separate rent component.

Sub-themes:
Labels: Celebrity chef.
Definition: Celebrity chef is a kitchen chef who has become famous.
Description: Passage where celebrity chef is discussed.
Inclusion criteria: People mention Michelin-star chef and Celebrity chefs.
Exclusion criteria: People talk of standalone.
Example: We have a chef alliance with Michelin-star chefs.
Labels: Branded restaurant.
Definition: A chain of restaurants.
Description: Passage where branded restaurants or chains of restaurants is discussed.

Inclusion criteria: People mention branded restaurants.
Exclusion criteria: People mention only restaurants.
Example: There has been a rise in branded restaurants in the city.

Codes:
Labels: Rent.
Definition: Regular payment for use of property.
Description: Passage where rent is discussed.
Inclusion criteria: People mention rent of property.
Exclusion criteria: People talk of rent for other than property.
Example: Stand-alone has a high rental as cost, Specialty restaurants do not have separate rent component.
Labels: Payroll.
Definition: Money paid to company employees as salary.
Description: Passage where salary of hotel staff or stand-alone is discussed.
Inclusion criteria: People mention salary.
Exclusion criteria: People mention tips.
Example: Salary is high for five-star hotels as we have a union of employees.
Labels: F&B cost.
Definition: Procurement cost of F&B.
Description: Passage where costing of F&B is discussed.
Inclusion criteria: People mention cost of F&B.
Exclusion criteria: People mention cost other than F&B.
Example: Procurement cost for specialty restaurants is more.
Labels: Marketing expense.
Definition: Cost of promoting and selling products or services.
Description: Passage where cost of marketing is discussed.
Inclusion criteria: People mention marketing cost of specialty restaurants and stand-alone.
Exclusion criteria: People talk of transporting or delivery cost.
Example: Marketing cost is low for us as we leverage on the five-star hotel brand.

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