

Leveraging HR Analytics to Turn Around Fortunes of Hotel Laadlo Regency: A Case Study

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ABSTRACT

This case study is based on general experience and industry insight. The case highlights the role of HR analytics in turning around the fortunes of the Hotel Laadlo Regency. It captures the narrative of a start-up which was struggling in terms of employee retention. The hotel faced difficulty in maintaining service quality and attracting as well as retaining the customers. The promoter of the hotel was trying hard to figure out why his employees were leaving the organization despite a competitive compensation package and generous benefits. In each quarter, the attrition rate was about 8-10% which resulted in a loss to the tune of 14.8% and 15.2% in two consecutive years. This case tells how the organization turned around using HR analytics.

KEYWORDS: Attrition, HR Analytics, Hotel, Hospitality, India

INTRODUCTION

Tourism and hospitality have become one of the most significant industries in India. This industry is growing at a much faster rate than many others in the service sector. The booming tourism industry gave rise to the emergence of budget hotels in India. Budget hotels cater to the needs of that population who seeks affordable stay during travel. The growth potential of budget hotels inspired Harshvardhan to enter into this sector. He invested in land in his home town in Jaipur and established Hotel Laadlo Regency in September 2012 by utilizing his savings and loans from the bank. The hotel boasted a capacity of 150 luxurious rooms with elegant decor. All rooms were elegantly equipped with modern equipment and amenities to offer the guests home-like feelings. The hotel was a grand combination of contemporary life at a Heritage City, which makes every guest's stay pleasant & memorable.

As a start-up venture, Harshvardhan had to work round the clock along with a team of dedicated 312 staff members who were putting their heart and soul in work to make this business profitable. Due to the average room rates, initially, there was a gradual increase in the occupancy rates of the hotels. Substantially, the occupancy increased tremendously due to the rigorous marketing and promotion done through print, digital and social media. The hotel also had tie-ups with companies like MakeMyTrip, Goibibo and TripAdvisor etc. for enhancing its hotel bookings.

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THE PROBLEM

For the first two years of its establishment, everything went on smoothly, but after that, there was an increase in employee attrition. Employee turnover increased significantly leading to day-to-day problems at Laadlo Regency. The hotel was already facing challenges in an increasingly competitive market, the rush of new hotels in Jaipur had already created a glut in room inventory leading to fierce competition and unsustainable price war, and this problem of high employee attrition aggravated the graveness of the situation. Harshvardhan could not fathom out the reasons why employees were quitting their jobs. He was offering competitive salary packages along with generous employee benefits, but these did not seem sufficient to lure employees into staying back. Around 8-10% of employees were leaving in each quarter. This upheaval at Laadlo regency led to a 14.8% decline in their profits in 2015 and a 15.2% decline in 2016.

TOURISM & HOSPITALITY INDUSTRY IN INDIA –A SNAPSHOT

In India, the hotel industry primarily thrives on the growth in tourism and travel. Due to the increase in foreign and domestic tourists, the hotel sector is bound to grow at an accelerated pace. India is one the most digitally advanced traveller nation in terms of digital tools that are being used for planning, booking and experiencing a journey. India's rising middle class and increasing disposable income have always supported the growth of domestic and outbound tourism. There is an emergence of budget hotels in India to cater to the needs of the middle-class population seeking an affordable stay at nominal rates.

During 2018, the foreign tourist arrivals (FTAs) were 10.56 million in India, depicting a growth rate of 5.20 per cent year-on-year. In January 2019, FTAs were at 1.10 million, up 5.30 per cent as compared to 1.05 million year-on-year. Tourism in India accounts for 9.4% of the GDP and it is the 3rd largest foreign exchange earner for the country and ranked 7th in terms of tourism total contribution to GDP in 2017.

The hotel industry is expected to post robust growth of 7%-9% in FY18-19, according to a report by CARE Ratings. Competition is escalating as international hotel chains are increasing their presence in the country, they will account for around 47 per cent share in the Tourism & Hospitality sector in India by 2020 & 50 per cent by 2022.

During the period from April 2000-December 2018, the hotel and tourism sector attracted around US\$ 12 billion of FDI (Foreign Direct Investment), according to the data released by Department for Promotion of Industry and Internal Trade (DPIIT). Under Budget 2019-20, the government allotted Rs 1,160 crore (US\$ 160.78 million) for development of tourist circuits under the scheme 'Swadesh Darshan'. For the safety and security of tourists, as of July 2018, 14 states had deployed tourist police. The tourism industry is also looking forward to the expansion of the E-visa scheme, which is expected to double the tourist inflow to India.

The travel & tourism industry in India accounted for 8 per cent of the total employment opportunities generated in 2017 in the country, employing approximately 41.6 million people during the same year. This is expected to rise by 2 per cent annum to 52.3 million jobs by 2028.

Jaipur as Tourist Destination

Jaipur is popularly known as 'Pink City', and it is an integral part of the Golden triangle itinerary, possessing a rich culture with its spectacular Forts, Havelis and Palaces that are continually attracting tourists from all over the world, making it one of the top leisure destinations in the country. Jaipur has also become a significant MICE (Meetings, incentives, conferences and

exhibitions) destination, primarily known for its destination weddings and large scale conventions. In FY18 (Financial Year 2018), the city witnessed about 7.3% growth in room supply. Despite the increase in supply, the city ORs (occupancy rates) reached 67.3% and saw about 6% growth in average room rates.

REVENUE STRUCTURE OF HOTELS

Revenues in hotels can be classified under three broad heads:

- Room revenue (revenues received as room tariffs)
- Food & beverages (F&B) revenue
- Other revenue

While the room revenues are a direct function of room rates and occupancy rates, the F & B revenues comprise of revenues from banquets/convention centres and restaurants. Other revenues are mainly obtained from income generated by auxiliary services provided by the hotel such as laundry, telephone services, spa services and transport. In terms of expenses, employee cost is the most significant cost component for hotels.

ROOM REVENUE

The total room revenue for a hotel can be calculated as:

Room revenue = Room nights sold * Average room rate

Where, Room nights sold = No. of rooms * Occupancy rate * No. of days (Time period)

Generally, the revenues from rooms constitute about 50 – 55% of total hotel revenues.

F & B REVENUE

This includes revenues from banquets and restaurants. Generally, the revenues from the F & B division are approximately 35-40% of the total hotel revenues. F & B revenue depends on various factors such as occupancy rates of the hotel, size of banquets and conferences, connectivity and technology in hotel location and banquet area etc.

OTHER REVENUES

Other revenues include revenues from dry cleaning and laundry services, telecom services, spa services and transport facilities offered by the hotel. These revenues usually constitute about 10-15% of the total hotel revenues.

HUMAN CAPITAL CHALLENGE IN HOTEL INDUSTRY IN INDIA

Indian hotels are facing a persistent challenge of shortage of trained and skilled employees, especially at the middle management and supervisor levels. One of the main reasons for this employee shortage is the absence of organized educational and training institutes for the development of skilled employees like in the aviation industry and other service sectors. Very few Indian players like Taj, ITC and Oberoi have set up their training institutes with a few international brands like IHG, Carlson etc. Further to this, hotel and catering management institutes approved by All India Council of Technical Education (AICTE) are less than adequate for meeting the hotel industry demands. To a large extent, the talent of graduating each year is unsuitable for direct employment in the industry due to lack of required skills. Workforce retention even through training and development in the hotel industry is a tedious task as attrition levels are too high. One primary reason for this attrition is unattractive salary and wage packages. Though the hotel industry has been growing at a quiet, fast pace, many of the hotel management graduates opt to join other sectors like aviation and catering services where they have been paid higher compensation packages.

REORGANIZING THE HR SYSTEM AT HOTEL LAADLO REGENCY THROUGH HR ANALYTICS

Looking at the high employee attrition at Laadlo Regency, Harshvardhan understood that Human Resource management is undeniably one of the most critical functions from a business management perspective. He decided to upgrade the systems and processes at the hotel. With the advancement in technology, in the first quarter of 2018, Laadlo saw a huge technological shift in all aspects of business management. Apart from digitizing all other business aspects, Harshvardhan incorporated technology and data into HR practices as well.

Since Laadlo Regency was suffering from a high turnover of employees, the hotel decided to install analytics in employee data to evaluate the main drivers of attrition and do forecasting for their occurrences. An HR Analytics Management Company was contacted, which developed an integrated tool for workforce analytics and implemented it at the hotel. This tool could capture attrition results and their drivers and do forecasting based on trends. The workforce analytics team had built an algorithm that included sources like recruitment data, tenure, performance, role, promotion history, salary, location, job role and more. The company also included employee perception, measured through a psychometric tool. By building a predictive model that included 180 attributes, including team size and structure, supervisor performance, compensation, holiday packages and length of commute, etc., they were able to predict flight risk. The analytics team also identified flight risk triggers through which they not only were able to predict who might quit, but they even could recognize *why* these people might leave. Anonymously, this information was provided to managers so they could reduce employee turnover risk factors and retain their talented people better.

The forecasting report predicted that 57 of the 312 employees were going to quit in the next six months. Better employee retention policies were to be designed, which included rewards and incentives apart from better people strategies.

Some specific measures were taken up on an urgent basis, such as, some managers were trained to retain the high performing employees who had a high flight risk. Apart from this job enlargement and job rotation practices were introduced. Although getting promoted encouraged people to stay, lateral moves were also a strong motivator for people to stay.

A significant outcome was that the employees with the highest flight risk in the next six months were approached and the Senior Management was able to move 40% to a new role. Making these lateral moves increased an employee's chance of staying with the hotel significantly. HR analytics was applied to compensation and benefits analysis to optimize rewards packages for the hotel employees.

HR analytics also helped in tackling employee absenteeism. For example, one analysis of the employee data was that a lack of a long holiday once a year as part of leave policy was inducing an employee to be absent from job sometime during the year. This insight was communicated to managers to improve holiday approval policies.

By implementing HR analytics for managing its HR operations, Laadlo regency Hotel was able to save approximately \$100172 (around 70,00,000 Indian Rupees) a year.

Resources

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