

## The Growth of OYO

The Indian tourism and hospitality industry has emerged as one of the key drivers of growth in the services sector in India. During April 2000 - December 2018, the hotel and tourism sector attracted around USD 12 billion of Foreign Direct Investment (FDI), according to data released by the Department for Promotion of Industry and Internal Trade (DPIIT).<sup>1</sup>

### What is OYO?

On Your Own (OYO) has emerged as a leading player in India's hospitality sector. Launched by Ritesh Agarwal, OYO has expanded from a single hotel in May 2013 to becoming India's largest hotel chain with 173,000+ rooms under its management. OYO currently franchises and leases in 500+ cities across 10 countries and over 18,000+ properties. In India alone, it operates in 230+ cities and 8500+ properties. OYO started off with a single hotel, named Oravel Stays Pvt. Ltd in Gurugram in 2013 (later changed to Oyo Rooms).

OYO is an online hotel aggregator targeting comfortable and budget accommodation for travelers. OYO targets budget hotels and increases its performance through standardized amenities and consistent service, while also helping the traveler get access to affordable and quality living spaces. Through use of its proprietary Apps for inventory management, room service, revenue management and customer relationship management, OYO has delivered predictable, affordable and available budget-room accommodation to millions of travelers in India and across the globe.

### Structures of OYO

With the increased expansion of OYO rooms and also to cater to the needs of customers across various segments, OYO launched a multi-brand strategy which includes the following components.

- **OYO Hotels and Homes:** These are completely short-term rental private homes that have predictable high-quality amenities and are serviced by the OYO team.
- **OYO Townhouse:** OYO Townhouse is based on the needs of the millennial traveler and mid-segment travelers. OYO townhouse hotels currently operates in India and UK.
- **OYO SilverKeys (Corporate Apartments):** Launched in April 2018, SilverKey provides furnished accommodation equipped with modern amenities and are customized for business travelers looking for a short or long-term duration personal stay. SilverKey is currently operational in 10 major Indian cities/metros – Gurgaon, Delhi, Noida, Pune, Chennai, Hyderabad, Bangalore, Coimbatore, Trivandrum and Kolkata and with this fast expanding network will see SilverKey launch in 19 cities across India by the end of 2019.
- **OYO Living/ OYO Life (millennial housing):** OYO has made its entry into the long-term rentals segment in Noida, Pune, Gurgaon and Bangalore backed by a SoftBank-backed company. It provides comfortable spaces, with basic amenities, and no hassle of brokerage charges, hefty security deposits or lock-in period. This segment mainly targets millennials and young professionals. OYO Living aims to expand to the top 10 metros by the end of 2019.
- **Studio Stays:** OYO Rooms also provides fully furnished rooms and flats for long stays for internships, corporate stays, etc. The rooms/flats can be rented on single occupancy as well as on twin sharing basis (other provisions are also applicable).
- **OYO Palette Resorts:** In 2018, the upscale hotel category was introduced by OYO called Palette Resorts in Pondicherry.
- **Collection O:** Targeting the millennials again, Collection O was introduced in 2019 as a mid-scale business hotel catering to corporate travelers.

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<sup>1</sup><https://www.ibef.org/industry/tourism-hospitality-india.aspx>

## **OYO Business Model**

Initially, OYO started off as an aggregator business model. In the aggregator business model, the firm collects the information about particular goods/service providers (hotel owner), makes the providers their partner, and sells their services under its own brand (OYO). Likewise, OYO as a brand, provides services with uniform quality and price. OYO does not own any of these properties and instead, invests in marketing and manages in improvement of quality for the hotels under its fold. The partners/service providers also do not become the employees of OYO, but functions as owners independently.

Simply put, the business model of OYO is an asset light business model where minimum capital is invested to start a business venture. The business strategy is based on the principle of bringing an unbranded hotel under a standard brand ecosystem and connecting the customers with the hoteliers through their site and proprietary Apps.

By the beginning of 2016, with its growth and investment from SoftBank and others, OYO pivoted towards a 100 percent inventory-exclusive franchise. In this model, the company gets a fixed number of rooms from the hotelier for a fixed amount in return. With this franchise model, OYO ceased to be a hotel aggregator and instead started operating hotels under the OYO brand.

In 2018, OYO Hotels & Homes completed its transition to becoming a 100% leased & franchised hotel chain. Following this, the entire hotel is renovated as per OYO brand and quality standards with capital expenditure invested in assets primarily by asset owners to deliver core promises to customers and ensure higher returns to asset owners.<sup>2</sup>

However, the operating model of OYO remains the same (like the hotel aggregator business model), but has the essence of the franchise model as well:

- Lease a part of hotel's inventory;
- Organize those hotel rooms under their brand name – OYO Rooms;
- These partner hotels provided standardized service to customers of those rooms as per contract with OYO; and,
- Bookings are made through the OYO Rooms website and mobile App.

The current operating model of OYO is similar to what it was before. What has changed is simply that the company does not lease the hotel rooms anymore, but operates with the hotel partners as a franchise.

## **Growth, Expansion and Future of OYO**

Founder and CEO, Ritesh Agarwal believes that by 2023, OYO will become the largest hotel chain in the world. In March 2019, OYO announced its intention to invest USD 200 million towards upgrading of infrastructure, building technology and internal capability. The shift to a franchise model also allowed the company to better manage its hotel inventory and speed up the time taken to sign agreements with new hotel partners.

To further expand the hospitality sector in India, OYO has raised nearly USD 1.1 billion in funding—first from SoftBank in September 2018 for USD 800 million, then Singapore's ride-hailing giant Grab in December 2018 for USD 100 million and China's ride-hailing major Didi Chuxing in February 2019 for USD 100 million. In March, Airbnb also took a stake in OYO for USD 75 million. OYO is also backed by leading global investors, including, Lightspeed India, Sequoia Capita, Greenoaks Capital, Hero Enterprise and China Lodging Group.

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<sup>2</sup>OYO Annual Report Card 2018

Having witnessed exponential growth in the home market, OYO started its operation in the international market including Malaysia, Nepal, the United Kingdom, Indonesia, China, Philippines, Saudi Arabia and Japan, making it perhaps one of Asia's fastest growing chain of hotels, homes and living spaces.

OYO has earmarked USD 950 million to bankroll a multipronged expansion across Asia over the next five years. Of that amount, about USD 600 million will be spent in China, the world's fourth-largest tourist destination and where OYO already has 270,000 rooms. The rest of the funds will be spent in Indonesia, India and the Philippines.<sup>3</sup>

OYO's efforts to penetrate richer markets and higher value segments have already begun. OYO Life started in Japan through a joint venture with Yahoo Japan in March 2019. OYO Life is an ideal solution with ready-to-move-in beautifully designed homes. There is also financial freedom with minimal deposits and no lock-in periods and privacy so that users can save and spend the way they like.<sup>4</sup> Japan has also launched OYO Hotels Japan G.K., a joint venture with Tokyo-based SoftBank Corp. and SoftBank Vision Fund.

OYO's market in China is bigger than that of India. OYO has over 320,000+ franchised and leased rooms across 7,000+ hotels in 290 Chinese cities under the franchise, managed and leased formats. In China, unlike in India, OYO has focused on Tier 2 to Tier 6 towns.

Despite huge competition in the online hotel business, OYO is increasing its footprint in Southeast Asia, Middle East, to Europe and parts of America, and not ignoring its domestic presence in various cities of India.

### **Take-away**

With its aggressive expansion, OYO offers lessons learned for foreign real estate business, including Thais, who are looking for business opportunities in India. First, growth of hotels and tourism business in India is evident. Investment in such sectors would offer great benefits in the long run. Second, there is huge demand for basic hotel rooms with standardized services in Indian and global cities. For India, the increase of Indian millennials who are major customers supports this argument. Investing in budget hotels and providing constant quality is, therefore, what foreign investors should take into consideration.

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<sup>3</sup><https://www.forbes.com/sites/anuraghunathan/2019/04/15/this-25-year-old-college-dropout-has-softbank-and-grab-backing-his-plan-to-dominate-budget-hotels/#160e42325a7f>

<sup>4</sup><https://www.oyorooms.com/officialoyoblog/2019/02/22/living-the-oyo-life-japan>