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RESEARCH ARTICLE

PROGRESS AND PERFORMANCE OF OYO ROOMS- A RESEARCH BASED CASE STUDY

^{1,*}Guruprasad, M., ²Vijay Tandon, ³Chahat Mishra, ⁴Harshit Khandelwal, ⁵Ditrilla Borana, ⁶Bedant Kumar and ⁷Abhishek Arya

¹Director- Research, Universal Business School, Mumbai, India

²Program Director- PGDM and International Courses, Universal Business School, Mumbai, India

^{3, 4, 5, 6, 7}Post Graduate Diploma in Management- 2018-20, Universal Business School, Mumbai, India

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*Corresponding author: Guruprasad, M.

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ABSTRACT

OYO Hotels & Homes is one of the most exceptional hotel industry growth stories of recent years. OYO has raised massive funding from major players, namely Japanese conglomerate Soft Bank Group and the American company, Airbnb. The hotel chain now has over 1,70,000 rooms in India and claims it is witnessing a 3X growth in transactions year-on-year in the country. OYO rooms start at very affordable rates and the company earns a significant commission from hotel owners for the bookings done on its platform. By the end of FY 2018, its top line had scaled to Rs 415 crore. Year on year, OYO saw its revenues climb almost thrice year-on-year. OYO has an ambition of becoming a full-scale hospitality company, and today it leases or franchises over 18,000 buildings across 22 countries. The research study focuses on understanding the exponential growth of OYO rooms globally and its correlation with the investment made by the company. A key facet of this study is to analyse the increasing demand for affordable hotel services across the globe and understand the gap in the market.

INTRODUCTION

Online platforms for budget hotels in India have been in the news. OYO Rooms was a startup platform in the space which commenced its operations earlier as Oravel in 2011 by the then 18-year-old Ritesh Agarwal. OYO Rooms is an Indian virtual hospitality brand. It aggregates budget hotels and guesthouses, making inventory discoverable and bookable online. Its branding provides a franchise-like consistency of product. It's a managed marketplace of properties. From a single hotel in May 2013 to over 23,000+ hotels at present, OYO's journey has been phenomenal. Its aim is to become the world's most trusted hotel brand. OYO's objective is to change the way people stay away from home. OYO is the second-most valuable Indian startup after One 97 Communications Paytm's owner. OYO Hotels & Homes is one of the most significant hotel industry growth stories of recent years and attracted funding from major players, notably Japanese bank Soft Bank Group and Airbnb. *OYO Hotels & Homes is already among the Top 10 Hotel chains in the world and is growing exponentially to be the World's #1 hotel chain.* (Gupta, Oyo Rooms, 2019) OYO, which began with one hotel in Gurgaon in 2013, has grown to over 7,00,000 rooms in 500 cities globally. Today, OYO is India's largest hotel chain and also the world's third largest, with over half a million rooms over the 18,000 properties that it currently franchises and leases in 500 cities

across 22 countries. OYO Hotels & Homes is not just a disruptor but also an innovator which is fundamentally re-industrializing how small-hotels were looked at and is bringing better living spaces for the common-man globally. The comparative study of domestic and international market penetration of OYO rooms has been carried out to understand the growth of OYO that has been exponential and its implementation strategy that boosted the diversification of OYO internationally. Hence, this study will serve as a ready reckoner to delve deep into analyzing OYO's penetration gradually to the global front.

Objectives and Hypothesis:

1. To understand the progress of OYO Rooms
2. To understand the strategies adopted by OYO Rooms
3. To understand the performance of OYO Rooms
4. To analyze the increasing demand for affordable rooms globally and how OYO is filling the gap in the current market.

Research Design/ Methodology Plan:

As part of the research study, both primary and secondary researches have been conducted to arrive at a conclusive analysis of the domestic and international penetration of OYO globally. With regards to the secondary research, some of the

leading news articles have been referred to and the official blogs and annual reports of OYO along with their investment thesis have also been duly studied. The research is also a result of the interaction with various department heads at OYO based pan India. Primary research was carried out by understanding the expectations of the respondents by a survey through an online questionnaire. To achieve the above-mentioned objectives, we had the following research design. The sample units of study consisted of OYO customers across India through online responses. The sample size was 100. Moreover, a correlation matrix has also been provided in the research to help arrive at investment to growth over the years and analyze the change in business model or its offerings to penetration. To further substantiate the analysis, a demand supply study of affordable rooms have been carried out along with potential for OYO to fill in the gap. The data was analyzed through various tools such as charts for analyzing the trends, correlation matrix to understand the investment growth and Gap analysis. The method of the research study conducted is purely through OYO database and the online responses provided by customers. The research was conducted as a part of experiential learning exercise which is a unique learning process as UNIVERSAL BUSINESS SCHOOL by the Post-Graduate Management students.

Limitation: Primary research was conducted for Indian clients, access to international clients was not possible due to paucity of time and access to data.

Literature Review

OYO rooms have become an online aggregator of budget hotels. Online customers express their loyalty to a service provider in various ways (Viitanen *et al.*, 2003). It is indicated in return and repurchases behavior and favorable word of mouth. In online purchase behavior, word-of-mouth can spread quickly. On-line customers can use e-mail, often offered in the form of a link, to recommend their favorite web site to friends and family. Mu Zhang *et al.* (2015) paper adopts Gap model and SERVQUAL questionnaire as a reference, builds six service quality dimensions of online travel booking which based on data analysis and research, namely, "tangible", "reliability", "guarantee", "responsiveness", "empathy" and "user friendliness", with 18 specific measurements, the online travel booking service quality measurement instrument is eventually established. The authors gave following conclusions:

1. There is significant difference between customer perceived service quality standards and customer expectations of service quality level of online travel booking.
2. The online travel booking service quality dimensions positively correlated with overall satisfaction. O'Neil *et al.* (2012), assessed the service quality using Gap analysis. In this study the perceived quality of a given service is the outcome of an evaluation process during which customers compare their prior expectations of the service with that they have received. i.e. having perceived service against the expected service.

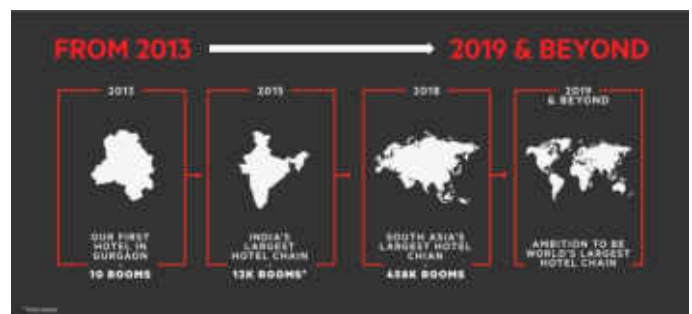
According to (Szwarc, 2005), it was much more costly to gain new customers than to preserve the existing ones because it is quite difficult to detect the expectations and behaviors of new consumers with additional costs. Anderson *et al.* (1989)

address four issues: (1) a– strategic versus a tactical view of operations; (2) the synergies between integrating business and operations strategic issues; (3) how operations decisions demonstrate strategic opportunities; and (4) how conceptual structures define operations strategy. Barney (2002 p. 9) makes a useful connection when he– says: "a firm experiences competitive advantages when its actions in an industry or market create economic value and when competing firms are engaging in similar actions. Guha (1981), while highlighting the importance of the hotel industry in Indian tourism has suggested that the hotel has to provide basic hospitality services besides doing marketing (promotions) of rooms, supply of food, etc. He suggests ways of maximum utilization of the capacity and ways to increase tourist inflow. Kachru, Arun (1981), in his paper, concludes that each hotel room gives employment to 3 direct workers while indirectly 9 workers are employed. Further important role of hotel industry is the generation of employment and foreign exchange earnings. According to Amadeus, the global hotel industry is driven by globalization, new technology and a new breed of customers. The hospitality industry is undergoing a period of extraordinary transformation with unparalleled opportunity. (Ferguson, 2008) opined that branding is increasingly crucial for building credibility amongst travelers. Holloway and Taylor (2006), pointed out that the hotel product is primarily a mix of five characteristics: its location, its mix of facilities, its image, the services it provides and the price it charges.

Analysis

Secondary Data Analysis - Initial years (2013 – 2015)

It has been a fast growth for OYO, which started its operations full-fledged in 2014 from one city – Gurgaon. In its first year of operations, OYO clocked a revenue of Rs 32.86 crore and a steep loss Rs 496.31 crore. After the market validation in Gurgaon, the team decided to scale up and from January 2015, began to expand to other cities, starting with Bengaluru, Mumbai and Delhi. By March 2015, OYO had already raised three rounds of investment from Lightspeed Ventures, Sequoia Capital and Greenoaks Capital and by August 2015, raised another \$100 million from Softbank. These investments went a long way in helping it scale rapidly across the country and even look at the Southeast Asian markets. By December 2015, OYO had touched 150 cities. The number of hotel tie-ups, a mere 72 that January, rose to 4,200 by the end of the year. The bookings saw a growth of close to 110x.

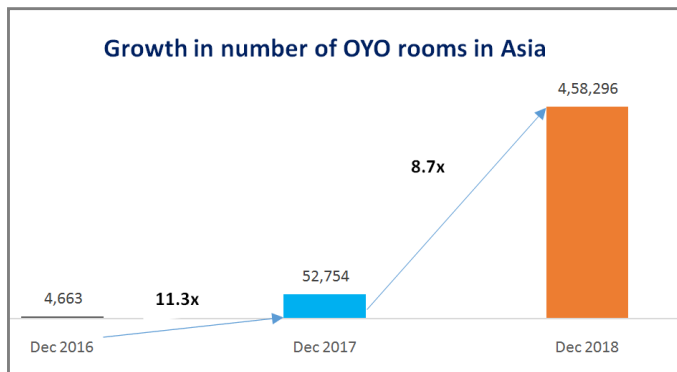


Source: OYO Rooms Official Blog

Analysis - Growth Years (2015 – 2018)

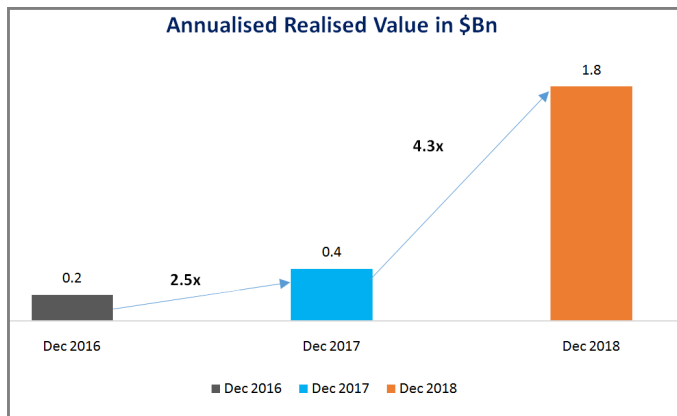
OYO Hotels and Homes is a homegrown hospitality chain which has forayed across five hundred cities and eight countries and has announced 4.3x Y-o-Y (year-on-year) global

sales growth, with a realized value run rate of \$1.8 Bn as of December 2018, from \$0.4 Bn in 2017 (Pradhan, 2019).



Source: OYO Rooms Official Blog

OYO has expanded 11.3 times from Dec, 2016 with 4663 rooms to 52,754 rooms as at Dec, 2017. However, the growth at Dec, 2018 stands tall with a figure of 458,296 OYO rooms across Asia. There has been a growth of 8.7x from the previous year (2017).



Source: OYO Rooms Official Blog

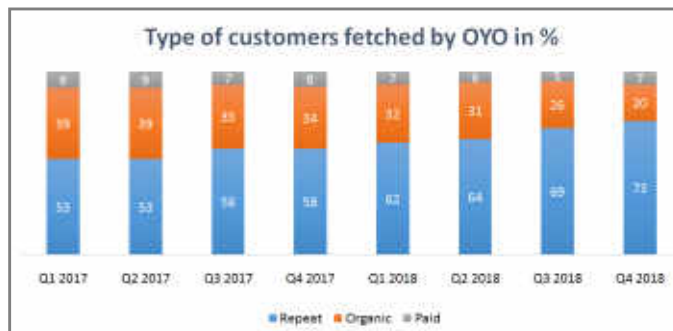
It is important to note that the annualised realised¹ value of OYO rooms has increased from 2.5x to 4.3x as at Dec, 2018. The realised value in Dec, 2016 stood at \$0.2Bn and it grew on to \$0.4Bn as at Dec, 2017. However, the Dec, 2018 value has grown exponentially with a figure at \$1.8Bn. (Gupta, OYO Rooms, 2019)



Source: OYO Rooms Official Blog

Further, the company claims that its global stayed room nights has increased from 6 Mn in December 2016 to 13 Mn in

December 2017 and reached its peak with 99 Mn in December 2018. The Gurugram-headquartered OYO Hotels and Homes announced that its India operations revenue witnessed a jump of 3.5x to INR 416 Cr (\$58.1 Mn) in FY 2017-18, from INR 120 Cr (\$16.7 Mn) in FY 2016-17. The company had reported a net loss INR 360 Cr (\$50.2 Mn) in FY 2017-18. It is noteworthy to mention that 13m+ customers have used OYO Hotels & Homes globally until December 2018. Majority of OYO's demand is repeat with word of mouth customers accounting for 93% of revenues in Q4 2018 (Oct-Dec) and hence ensuring lower marketing spends. 29.3% of customers of July-September 2018 returned to stay at OYO spaces between October-December 2018. These are industry best repeat metrics. It is heartening to note that OYO had 10.4% of customers from as early as April-June 2016 coming back to stay with them.



Source: OYO Rooms Official Blog

The above figure aptly brings out a clarity on the repeat customers OYO fetches in order to sustain in the market thereby also roping in newer customers for availing its services. The statistics mentioned below shows India's financial metrics of OYO. It clearly depicts a 3.5X increase in revenue from FY 2016-17 to FY 2017-18. There has been an improvement in economics by 54.3%. The data below is for India operations only.

OYO's Financial Metrics of India

(In INR CR)	FY 2016-17 (Audited)	FY 2017-18 (Audited)	FY 2018-19 (Estimates)
BUSINESS METRICS			
Realised Value	798	1768	4921
Growth Year-on-Year	2.0X	2.2X	2.8X
Franchisee Fee (% of Realised Value)	8.3	18.7	
STATUTORY FINANCIAL METRICS			
Revenue	120	416	1481
Growth Year-on-Year		3.5X	3.5X
Net Loss	355	360	
Losses (As a % of Realised Value)	44.5	20.3	10.4
ECONOMICS IMPROVEMENT Y-O-Y(In %)		54.3	48.7

Source: OYO Rooms Official Blog

(Statutory Financial Metrics refer to extracts from consolidated audited financial statements. Realised value implies realised value net off future bookings, discounts and cancellations. Economics Improvement signifies the improvement in net loss)

Analysis – Last Year and Projections

OYO Hotels & Homes is one of the most phenomenal hotel industry growth stories of recent years. The hotel chain now has over 170,000 rooms in India and claims it is witnessing a 3X growth in transactions year-on-year in the country. OYO rooms start at \$25 a night and the company earns a 25% commission from hotel owners for the bookings done on its platform. By the end of FY 2018, its top line had scaled to Rs 415 crore while losses stood at Rs 360 crore. Year on year, OYO saw its revenues climb 245 percent while losses widened

¹Realised value run rate, which is similar to GMV (Gross Merchandise Value) for the hospitality business also referred to as hotel sales, calculates realised value, net of cancellations, discounts and forward bookings annualised every December of the respective year.

marginally from Rs 355 crore to Rs 360 crore. OYO has an ambition of becoming a full-scale hospitality company, and today it leases or franchises over 18,000 buildings across 10 countries. Globally, the world's accommodation market stands at 160 million rooms and is a \$3.6 trillion opportunity and growing. With OYO capturing less than one percent of the larger pie, they are just scratching the surface. They foresee an enormous opportunity for them to build a truly world-class brand. OYO is aggressively moving ahead to not only become the largest hospitality brand but also become the most-loved hospitality brand in the world. They are investing heavily on strengthening their capabilities in technology, talent and network, while creating an ecosystem of efficiency through which they are able to deliver higher yields for our asset owners. They have invested (heavily) in CapEx, appointed hundreds of GMs to oversee operations and customer experience, created job opportunities for over 100,000 people in India alone and set up 26 OYO Skill Institutes for hospitality enthusiasts. On an average, over 75% of hotel owners associated with OYO have seen an increase of 20% to 30% in occupancy, a 2.5-times jump in (revenue per available room) and a significant jump in profit for every asset operating as an OYO-branded building. In the last five years, OYO has seen a 4.3-times year-on-year growth with realised value run-rate of \$1.8 billion annualised. The value delivered to asset owners by OYO in China is remarkable as there has been a 2X jump in occupancy in 90 days.

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Jan-18	67%	54%	97%	86%	96%	90%	109%	98%	81%	79%
Feb-18	19%	55%	58%	72%	75%	79%	80%	65%	61%	61%
Mar-18		27%	58%	63%	61%	63%	65%	63%	65%	65%
Apr-18			48%	59%	63%	73%	78%	73%	75%	75%
May-18				28%	48%	48%	63%	71%	66%	65%
Jun-18					26%	53%	60%	60%	62%	62%
Jul-18						33%	53%	52%	56%	56%
Aug-18							35%	43%	52%	52%
Sep-18								29%	44%	44%
Oct-18									30%	30%

Source: OYO Rooms Official Blog

Cohort for china above. early trends from countries including uk and indonesia show similar trends

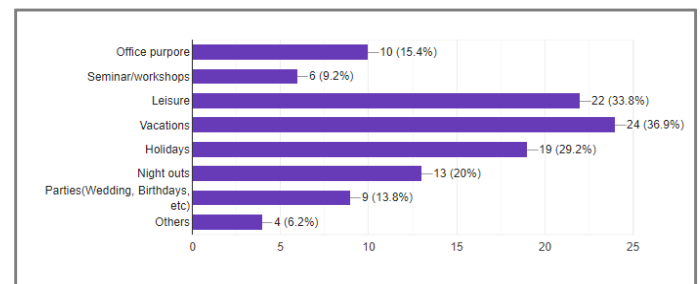
The above graph presents a clear picture of OYO's penetration in China by delivering yield increase on an average from 25%-60%+ in less than 3 months' time. The SoftBank-backed company, OYO Rooms, has signalled its revenue from global operations to touch INR 1,400 Cr (\$197 Mn) in FY 2018-19. Currently, the company has 458K rooms across more than 500 cities in eleven countries — India, China, Japan, Malaysia, Sri Lanka, Nepal, UK, UAE, Indonesia, Philippines and the US. The company claims that it is all set to surpass its incumbents by adding more rooms to its platform than the world's top three hotel chains combined. The market is undoubtedly large and deep with continuing, significant gaps in demand and supply growth. OYO continues to create more value for its asset owners. OYO is in the early stages of rolling out its hotel services in the US. It has already launched four townhouses, 10 hotels with 200 rooms in London and has hired a former mid-level manager at Airbnb and executives from online food-ordering company EatStreet looking after its US expansion plan. The company operates as a full-stack fulfilment-led model where it fully acquires hotels and homes on franchise or leases and renovates. It then deploys technology for seamless management of the property including revenue, pricing, customer experience. OYO Hotels & Homes will invest ₹1,400 crore (about \$200 million) during the current year for expansion of its India and south Asia business

while improving customer experience. The hospitality chain also announced the addition of its sixth brand-'Collection O'-under its portfolio. OYO's Mr. Ritesh has committed to invest \$600 million in China. It is set to expand across middle east and south east Asia actively. (The Hindu, 2019) With positive results in London, after monitoring the growth trends, OYO will double its operations in Europe as well.

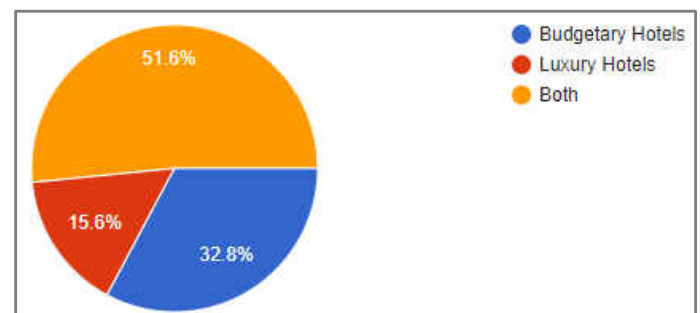
Primary Data Analysis

The demand for affordable stays across India is increasing manifold. The responses from the primary research support the same. A sample of 100 respondents across various geographies of India have been the target audience for the questionnaire to understand their preference of travelling and their perception for OYO rooms. People go out for stay in OYO for a single day, two days, three-four days or more. The details of the results of this primary research is mentioned below:

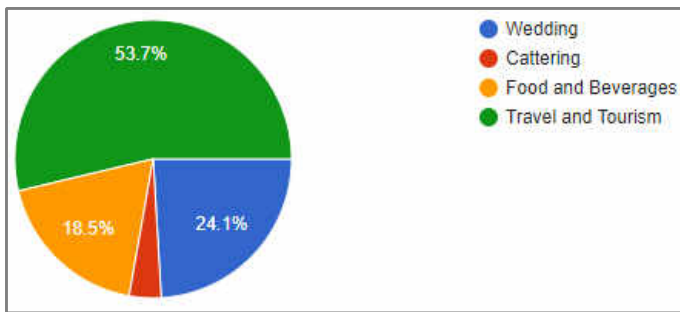
- 32% of them stay for two-three days, followed by people who stay for three-four days is 31%. Around 23% people stay for a single day and 14% stay for more than 4 days.
- Most of the people go for stay in OYO for leisure purpose which is 37%, on the other hand very few people i.e. 9% go to OYO for attending business and workshops.



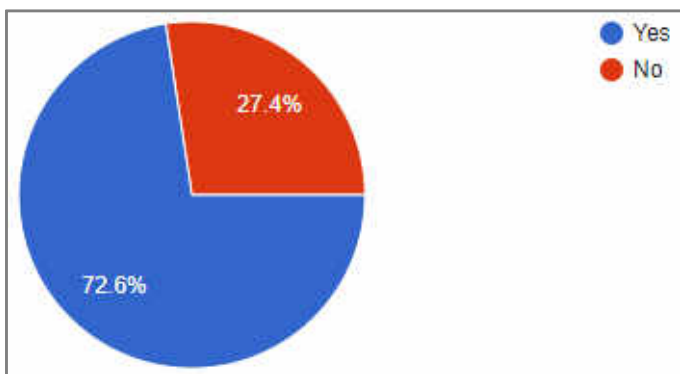
- Around 15% have availed OYO facility for corporate meetings followed by birthday parties, night outs and 34% go out for vacations.
- More than 50% of the respondents prefer both budgetary and luxury hotels. However, 33% prefer budgetary and remaining 16% prefer luxury hotels.



- It is remarkable to know that around 83% of the people prefer OYO as their only budgetary hotel preference. As per the responses received, 46% of the people prefer staying in as unmarried couples, 27% visit with their families and 17.5% as corporate team.
- OYO can be trusted other than hospitality for travel & tourism i.e. 53.7%. For marriage purposes, OYO occupies a share of 24%.



7. On the scale of 1 to 5, 46% of the respondents have rated the OYO services 4 out of 5, 31% rated it as 3 followed by 20% who have rated 5 out of 5. Approximately 80% are totally satisfied with the basic standards of OYO rooms.



Around 73% will prefer OYO while traveling abroad, whereas 27% may not visit OYO rooms whilst being out of India. Majority of them wished for full fledged functioning of OYO rooms in the US. Maximum of the respondents expect OYO hotels to be in the center of the city, providing good toiletries and clean linens. People have also recommended for more comfort stay, better and exclusive breakfast, and budgetary accommodation. As far as improvements are concerned, the respondents want OYO to level up their security, continue providing quality food and should maintain their guest's privacy.

Gap Analysis

Globally, majority of the hotel chains operate properties that have over 100 rooms, while nearly 80% to 90% of the assets in the hospitality industry are small or independent hotels with less than 100 rooms. This was an opportunity that was not realized by large chains and created a unique space for OYO Rooms. (Balasubramaniam, 2019) It is OYO's mission to create quality living spaces. They believe that hospitality and real estate are broken categories. There is a huge disconnect between demand and supply of quality living spaces, forcing travelers and city-dwellers to compromise on location, quality and price. OYO uses technology and talent to fix this problem. The macro environment for OYO to operate in any country remains that majority of the hotels are unbranded and operate at sub-25% occupancy versus the branded ecosystem at 75%. The OYO teams across international geographies have observed local nuances with respect to the hotel industry in each of the countries it is present in. These observations help them in highly localizing and personalizing the experience for their guests. (Balasubramaniam, 2019). For instance, in The Philippines, as the country has a lot of devout Christians, most hotel rooms keep a copy of the Bible in the drawer or on the

table in the rooms for guests; in Indonesia, most hotel rooms have the Qibla sign, also known as Arah Kiblat in the local language Bahasa, (signifying) the direction in which daily prayers should be offered; as Malaysia hosts a lot of Indian tourists, hotels provide information on the nearest Indian/South Indian restaurants (Balasubramaniam, 2019). Every country OYO has opened its hotels in, they have increased the occupancy from 25% to 65% in less than three months on average, and as consistently high as 90%. They have received overwhelming support for their high-quality and affordable offerings across all their geographies. OYO's expansion across India and international territories is backed by its strong operational capabilities and the ability to use technology to improve efficiencies at every touch point.

SWOT Analysis- OYO Rooms

Strengths:

- Innovation at its best:** The root idea or need from which OYO rooms were conceptualized is a highly innovative one for a budget stay in India. The company continues to maintain its strong spirit of innovation as is evident from the policy to standardize rooms amongst many others.
- Subsidizing Hotel stays:** OYO subsidizes rooms to make them affordable for customers and similar to Ola and Uber have emerged successfully in their line of business.
- Exponential Growth:** What started off as a one room one hotel thing in Gurgaon now has around 170,000 rooms in India alone to its credit.
- Standardization:** The OYO rooms are mostly owned by various providers but have just been standardized under the OYO franchise and thus people are guaranteed of standardized service in all OYO rooms wherever they may be located.

Weaknesses:

- Co branding:** OYO does not own any of the rooms that it lets out. Being a hotel aggregator, OYO is a platform where the buyers and sellers can transact with each other through a common window. Thus, they just cobrand with various budget hotels but do not own the rooms.
- Service Quality:** Though OYO has tried to standardize its services, however it has not fully been able to justify its services. Thus, it may take some more time for it to become fully reliable.
- Tight Margins:** Hotels that are on a tie-up with OYO can also loop in other agents for which OYO cannot do anything much to circumvent. In this context, the model thrives solely on how well the margins work!

Opportunities:

- Booming demand for Aggregators:** As the world reels from the aftermath of repeated recessionary trends, pay cuts, and job losses, most higher end hotels are struggling to balance supply and demand. This increases the scope for aggregators like OYO since most hotels would prefer to take external support for sourcing new business.

2. **Budget Accommodations at an all-time high:** Earlier the trend was more biased towards luxury and boutique hotels but not anymore. People are trying to minimize spending and focus on saving and thus budget hotels that can provide decent boarding and lodging facilities are on a high demand today.
3. **Increase in business travelers:** The number of people who travel for business purposes have grown profusely in emerging economies. This has resulted in a demand for budget stays.

Threats

1. **Tough Competition:** Barriers of entry being low, every new entrepreneur is looking at aggregating services. There are a lot of online portals like ibibo, trivago, makemytrip etc. which offers a gamut of services similar to OYO.
2. **Safety concerns:** Today, unsafe stays are becoming rampant and the number of cases of harassment is on an increase. Though OYO does not guarantee safety at any point in time for its hotels, they have a moral commitment to ensure that no such untoward incidents happen (Bhasin, 2019).

Strategies adopted by OYO

Content marketing

It is a marketing technique of creating and distributing valuable relevant and consistent content to attract and acquire a clearly defined audience with the objective of drawing profitable customer action. The result of content marketing is phenomenal. Potential customer finds the content value in it and eventually get consumed to buy the product and service. However, the crux lies in clearly defining the customer segment and positioning the product/service with the right message (Content). OYO room has adopted the strategy of hitting at upwardly mobile demographically defined techno savvy youth of the country. The case clearly brings to limelight capacity of the company's clarity about their customer segmentation and respective targeting prepositions.

Segmentation/Targeting/Positioning

The concepts of segmentation/targeting/positioning (STP) are interwoven in the case. The base chosen for segmentation is largely a multi attribute demographic segment. Demographics are most popular bases of distinguishing customer groups. For targeting, the OYO rooms adopted the strategy of product specialization with an aim to reach out to an undifferentiated market. It seems OYO rooms had initiated the penetration strategy of entering into a single segment market (App users/budget segment) at a time with an intention of spreading the coverage into the super segment of online branded mid and premium level hotel spaces.

Social Media Marketing

The case also indirectly explores the popularity of Social Media Marketing, for creating and delivering online value proposition (OVP) to the customers through the power of network effect or social graph. The human need for social communication and affiliation to 'communities' in social media is a very powerful tool for co-creation of business through customer engagement techniques.

Summary

The future belongs to hotel brands which will create significant value for consumers, partners and the overall ecosystem. OYO entered the market when there was a pressing need for a hotel brand that could offer predictable experiences, operate at scale and master the whole gamut of on-ground operations, online distribution and omni-channel customer service. Its young and dynamic team rose to the challenge to deliver against all odds. The response of customers and feedback on service and experience highlights the trust and preference enjoyed by OYO. Continuing to live up to this trust by delivering exceptional stay-experiences in affordable and beautiful living-spaces is OYO's guiding mantra. OYO has a unique business model – it is the first brand which is a Hotel chain with OTA-like distribution capabilities. Solving for predictability, it set out to fix real problems on ground and brand-building was more of an output than input metric. It represents all the strengths of the traditional model with none of the inefficiencies. It is re-engineered, a perfect hybrid combining technology and hospitality to optimize customer experience, space utilization and business performance. Multiple rounds of investments in OYO went a long way in helping it scale rapidly across the country and cover the Southeast Asian markets. Remarkably, OYO had touched 150 cities across India by 2015. The ability to use technology to improve efficiencies and increase operational ease at every touch point catapulted OYO into expanding globally. The world's accommodation market stands at 160 million rooms and is a \$3.6 trillion opportunity and growing. OYO just captures one percent of the larger pie so they foresee an enormous opportunity for them to build a truly world-class brand in times to come. Every brand stands around some core values. For OYO, the initial acceptance criteria and the upfront investment in upgrading any hotel before it becomes an OYO is one of the most fundamental differentiators. The core ethos has always been putting the customer before any other metric or choice. With one of the youngest CEOs at its helm, OYO surely has managed to disrupt the hospitality sector in India so far.

Thus, there is no stopping for OYO. Wherever there is a scope of hospitality industry, there should be OYO!

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