



# The Vendor, the Hotel and the Yawning Chasm

**Better communication, sound business and a willingness to grow in concert can do wonders to the industry, says Rajat Pandhi, President ARCHII in this free-wheeling article.**

**T**here is a clear need for procurement systems adopted by various Hotels in India to be seriously revamped. A lot needs to be done to bring about changes in the same for the mutual benefit of Hoteliers and vendors in India. Currently the systems are different from one Hotel to another and each system leaves a lot to be desired. The growth, deterioration or expansion, depending on which side of the mood spectrum one is on, illustrates a varied history.

Circa 1981

Most suppliers used to be surprised at the warmth and cordial reception they used to get at Indian Hotels Taj Group when they called on them for their requirements in the early 80's. Pleasantly surprised, they would ask senior Procurement Directors there why this extra ordinary treatment was afforded to junior partners in the hotel business. The explanation was that Taj Group followed the policy laid done by Mr. JRD Tata who had instructed his employees doing procurement to "Treat every Vendor with the same respect and courtesy that they would give to him as all vendors were his business partners" What high noble thoughts and hats off the to the people there who followed this practice.

Then, there was the Late Rm. KK Mehra of East India Hotels who used to look after procurements for the Oberoi Group. He was a close relative of the owners.

A very hard task master with a Military background. One used to walk on egg shells in his office and speak in soft whispers. Once he came to address the vendor's conference of suppliers and everyone was pleasantly surprised to see his cheerful behavior that day. He went through the vendors in detail and kept asking so many questions about everything and giving his inputs.

He addressed everyone cordially and said, "No procurement Manager in the World can know everything about everyone's products. Only the vendor knows his product the best"

He felt it was his duty to try to understand to the best of his abilities from the vendors themselves. It was, he said, his most pleasurable moments of learning more and more of the latest and best in the Industry.

We are all aware of the very high standards of this group which remain unmatched even today. The same philosophy continues to encourage vendors to explain as much as is relevant.

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Circa 1995

MacDonald's comes to India. Now one can see how they work. They develop their backend, spend huge sums of money developing the right type of potatoes, Chicken, Breads with various vendors, sit in their factories for days, travel the length and breathe of the country on dusty road in villages finding the right things needed. They didn't have the benefit of the EPCG Policy and they had a person watching over it all who was a passionate Indian. Their teams taught the vendors new strategies and, held hands as they taught them how to reduce costs. And it worked wonders. Many Indian manufacturers benefited from their tie ups with Mac D,

Circa 2000

WalMart plans to come to India. Their buying teams are some of the best in the world. Very knowledgeable and most importantly compassionate and understanding. They sit with you in your works, get you to improve your products, keep costs down and offer financial help where required. They don't have EPCG. And today there are success stories of over 400 to 500 Vendors they developed who are supplying Wal Marts worldwide. That was perhaps the fading days of the glorious era.

Circa 2014

The world has changed in India in 40 years. 5 star Hotels are opening a dime a dozen. Hotels are mushrooming everywhere. Demand has exploded. The Indian manufacturer, common knowledge should dictate, must be laughing his way to the Bank you might think. Nut that is not to be.

The famous EPCG Policy for Hotels is the undoing of it all. Under EPCG the Hotels pay no Import duty (could be a max of 5 %), Excise Duty or VAT. A straight 25 to 30 % saving. Why should a foreign manufacturer open a Factory in India when he gets huge sales from Hotels in India without any effort because of this Policy?

This is a policy that has been grossly abused by everyone. Items allowed to be imported under this policy is open to one and all, Whereas it should be limited to Foods and Beverages not available in India or high tech equipment for which there are no manufacturers in India, Furniture, crockery, Mattresses, cutlery, linens everything under the sun being imported.

Why should a sane business person go through that effort? It's easily available under EPCG so why bother to develop Indian manufacturers? Of course, if they develop on their own and come back to the local ones it is a different thing.

And when you do consider them equal in quality the Duty free imports will give the foreign vendor the price advantage of 25 %. Hence either way the local vendor gets the short end of the stick.

And then come the well heeled Indian Agents of these Foreign Companies, rich and powerful with loads of money world traveled with extensive PR networks. And the best part of the bias of Hotels to foreign suppliers is that are ready to pay or commit through LC 100 % payment in advance, but for the Indian manufacturer it's a max of 25 % against Bank Guarantee..

Today there is a plethora of Foreign Hotel brands in India. With their expat Managers, they have certain set standards of products and set suppliers abroad. They are simply not ready to discuss development of products in India. Why should they go through the hassle and re create the wheel?

EPCG helps them get what they want anyway. One does not see these Brand Managers, ever in exploring local vendor relationships works or for that matter even exploring the environs

of the AHAAR shows or other exhibitions. If at all they come they are happy visiting the stalls of the foreign manufacturers to see their new products. . There is news of even simple Kitchen tables being imported.

Is it that the Indian manufacturers are that bad? Not at all!

These professionals do hold the power of the brands in their hands and it is a rare story that Indian manufacturers get a chance there in their brands for capital goods.

The Indian Hotel owner signing the agreement of the particular brand should be very clear what all he is PERMITTED to buy from the home Country and what he is not allowed to . The grouch is that local manufacturers have just become quotation factories. They work hard, do costs, sampling everything. only to be told "The Brand has asked us to place the order with their preferred vendors abroad."

Did anyone ever visit the local manufacturers works, see their products?? No. the new professionals do need to keep an open mind on what Indian manufacturers do and cannot do. Precious Foreign Exchange is wasted; owners saddled with huge import bills all in the name of Brand Standards. Many manufacturers aver that the owners should insist as a clause in their agreements that the Brands must first try the Indian Manufacturers and only if not satisfied after trying their best should they import.

One Hotel I went to recently surprised me They informed me that under instructions from their US office they will like to try our samples and if not found right would give us in writing what they didn't like and ask us to improve on the same. If we couldn't do the same within a specified time, only then would they import.

Another bone of contention for vendors comes in the form of an entity that is actually meant to facilitate their operations- the Indian Purchase teams. These 'committees' rarely meet outside their preferred circle of vendors. Catalogues are sent by emails and there is no knowing what happens to it later on. There is barely any information about who makes the decisions. The usual answer is 'Higher Management' whose decisions are communicated down to Purchase teams to negotiate the best prices. Thus they only look for discounts. Few follow Mr. Mehra's example.

However, the rung indicated as the 'higher management' is seldom defined. Often it seems as if there is a reluctance to meet up new vendors or even give them time to explain their stand and offering of quality.

In owner driven properties, the scene is much more discernible. The Purchase guys have worked hard, the specifiers have worked hard to develop and the best rates obtained and given to the owners but one fine day the owner buys a ticket to China and goes shopping himself! He buys everything from there and informs the Purchase team back home. This embarrasses he purchase team and one does feel sorry for them as they are exposed as having no say at all in decision making in the long run.

Our trade imbalance with China is 36 billion \$, Our Hoteliers love Shanghai, the poor (or penny wise) man's New York that gets orders for at least 2 to 3 billion a year from China alone.

#### **MAKE IN INDIA NOT A DISTANT DREAM.**

It is time for the government to help create a level playing field. The best way to do this is to remove EPCG on most items. Make the buyers pay at least Excise and VAT. That will show up the real talent and inventiveness. A majority of the so called biggies' Brand procurements are done from China. Indian companies can deliver as good and better but the lopsided laws like EPCG go a

long way in stifling the local inventiveness and efficiency.

The Defence department in India has a clause on contracts with foreign sellers. It underlines the absence of agents, and a condition that over a period of say 5 years they will set up manufacturing in India and transfer technology. Does this happen in our hospitality Industry? The answer is- never.

### THE LESSONS

What are the takeaways and learning from this? At the end of the day it must be a win-win situation for all. The hotel owners are delighted with the quality and prices and visible money saved, the Brands are happy that their Brand specs have been followed and the Indian manufacturer is happy that they got a level playing field at long last. To get there the following actions from various groups need to be taken-

As per JLL report released in FHRAI Jaipur Convention in Aug 2014 on Management contracts the owners are now getting better and better contracts from the brands. Now they are in a position to pick and choose. They must ensure contracts carry a Procurement freedom clause also where their hard earned money can be saved.

Late Mr. Mehra referred to above was a shining example of this. Like him, owners and decision makers must be more accessible to vendors to understand what they have to offer and how it can meet their demands. They must encourage Indian manufacturers to improve if needed and discuss R and D with them. There is no reason to rush off to China and buy anything that comes at a bargain price.

Hotels have suffered huge losses because of the bad quality that comes with bargain process.

The authorities should also take some sharp decisions. There is a subtext of class and status involved in a strange unbusiness-like manner. For some Hotel owners meeting a vendor seems below their status. If one were to try to follow the philosophy of Mr. JRD Tata, working and professional relationships would be a pleasure both ways.

Foreign Brand Owners and Expat Managers in India in Hotels can also step outside the comfort zone of tried hands in faraway lands and interact with Indian companies as well. Ultimately it is about service, efficiency and ease of business. And as for the Purchase teams, no one knows their functioning better than them. Like everyone else they too must be more aware of what Indian manufacturers have to offer.

The Hotel Procurement teams are first level of contact for vendors and manufacturers. They screen the chaff from the grain. But many a times the good also gets thrown out with the bad. They should set aside time on fixed days for vendors to come and make presentations. For this they can try to get the user departments involved as well.

The case for getting indigenous manufacturers and vendors involved in the hospitality supply business in a big way is getting stronger by the day. The idea that it is only about the vendors' profits only is not correct. It involves the entire industry.



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