

“Hummingbird India- home away from home: a case study of revolutionary Business concept in corporate stay solution in India”

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ABSTRACT

The case had been prepared in the context of hospitality industry in India with a company called Hummingbird Corporate Travel and Stay India Pvt. Ltd. henceforth, in this case study, Hummingbird Corporate Travel and Stay India Pvt. Ltd would be mentioned as Humming Bird India. The case study is developed on the framework of organizational life cycle. The case study briefly describes the journey of Humming Bird India from being the first of its kind and the milestone in the story of providing corporate stay solution in India. This case study aims to explore the purpose of existence of the organization, the philosophy behind the foundation, the critical success factors, various challenges in growth, and diversification of business in complex market conditions. In addition, the road to success will be analyzed in order to understand how challenges are managed and reduced in order to achieve success. To do so, the detailed analysis of the organizational life cycle is done and it also studies in detail that how Hummingbird emerged as a maiden player in corporate stay business and became threat to the existing and upcoming players.

Keywords

Business Cycle, New Business Launch, Entrepreneurship challenges

PROLOGUE

It was a regular corporate party where senior executives of a lot of companies were assembled in a posh five star hotel in Banguluru in 2004. A fine pleasant sight of elite class people talking to each other on the strategic frameworks and the economic conditions of the country. There were two brothers Vivek Madappa and Vinod

Thimayya also attending this party, Madappa as a marketing executive with Tata Tetley was a 1989 passed management graduate from Jamnalal Bajaj Institute of Management Studies, and Thimayya as a business development executive at Countrywide also a 1989 passed management graduate from Jamnalal Bajaj

Institute of Management Studies. During the long evening full of fruitful discussions upon the challenges faced by modern organizations they heard a senior VP, finance of a large company complaining on how they were exploited by hotels charging them exorbitant tariffs and these tariffs heavily impacting their bottom line. This created a jolted reaction to the minds of both the brothers and they kept on thinking about a potential gap that was existing in the market and an opportunity which was not availed till now. They came back home that night but could not sleep at all as both of them were looking for a roadmap to being entrepreneurs and this was possibly the stumbling block for them. They both decided to take this idea in the long run and to materialize this they left their jobs and somehow mustered the courage to take a leap into the unknown, as neither had any experience in hospitality. The world including their friends and family, of course, thought they had lost it. Banks didn't give them money because they had no idea who they were and what market they were entering. "When you become an entrepreneur, you are a nobody, a faceless entity," says Madappa. To condition himself for what seemed like an 'impossible' challenge, Madappa went on a 100-kilometre Himalayan trek. "Like a trek in harsh conditions, you somehow complete the journey along the way," he says. The brothers pumped in their savings, which amounted to a princely sum of Rs 3 lakh. They had no choice but to follow an "asset

light" strategy. Instead of acquiring properties, Madappa decided to lease second and third homes from tenant-weary owners. The duo initially rented some apartments in central Bangalore. They then approached Philips with an offer it couldn't refuse: Rs 4,500-5,000 per night for a fully furnished apartment, compared to the Rs 10,000 that service apartments charged. "We were cash strapped, so we offered Philips a discount in exchange for a cash advance. This gave us our initial push," says Madappa.

At the end of the first year, the company had earned Rs 1.5 crore in revenues and made a profit which was like dream coming true for the brothers, as they themselves have not thought about the profit propagation of such quantum.

In 2008, Humming Bird India posted revenues of Rs 11 crore. Along the way, it expanded to Hyderabad, Pune, Mumbai, Chennai and Gurgaon, while setting up more locations in Bangalore. However, the brothers kept coming up against funding walls. Most venture capital funds said they were bit players, that there was no reference model for the business. "But we were eventually noticed, because we were the only player in a virgin market," says Madappa. In 2008, Bangalore-based venture capital firm, Helion Venture Partners, invested \$4 million in Hummingbird, acquiring a 30% stake.

THE EVOLUTION PHASE

Mr. Vinod Thimayya and Mr. Vivek Madappa other than being twins also shared one common passion and that was to create a “Unique Business Proposition”. Till 2004, both of them were happily working at senior positions in various MNCs but after attending this eye opening party in 2004 their entire mind frame got changed and they gave birth to a unique concept in corporate stay solution business in India.

According to Mr. Thimayya, when he attended this party with Mr. Madappa and discussed with the senior executives from various corporate about the contemporary issues related to the cost and expenses of companies, they were astonished to realize that transit accommodation is one major concern for the expenses in overall business. The hotels were charging exorbitant price and companies were worried how to minimize the expenses in the area of travel and transit accommodation. Both of them, then critically analyzed the situation and what they have found out through the gap study was that companies pay very high price to hotels for the travel and stay need of their middle and upper level managers as the hotels had a monopoly and the options were limited, they also concluded the fact that there were scarcity of options when it comes to appropriate venue for the various training, workshops, executive programs conducted by various Companies. Mr. Thimmaya and Mr. Madappa realized that there was a lot of potential in such kind of Business as till then

Companies had never treated “Stay”, as a proposition and a tool, which, if managed rightly, the overall expenses of any company can be decreased.

Being attracted by Rs. 300 crore domestic market of corporate stay and having all these ideas in mind with a seed capital of Rs. 3,00,000 they started “Hummingbird corporate travel and stay India Private Limited” in 2005 with a handful of people. In last 10 years Hummingbird corporate travel and stay India Private Limited has travelled its long journey of expanding to 750 rooms at 8 Locations in India.

When being asked about the secret behind the success and making Humming Bird India a more than Rs. 33 Crores Company in less than five years of establishment, Mr. Vivek Madappa, shared a very interesting insight about the basic philosophy behind the genesis of Hummingbird India, He said during an interview that when they started Humming Bird India they never thought about the threats of competition in his words, “whenever one uses word ‘compete’ one look at a fight while whenever one uses a word ‘create’, it suddenly becomes a completely new opportunity. He said that the USP of Hummingbird is that “we partner with companies to help reducing their stay cost, here stay is a proposition in itself that they are talking about which could be competing with the hotels or could be redefining their segments”. Mr. Madappa also mentioned that the success mantra had not been the structure but the success mantra

behind Humming Bird India had been the cleverly structured negotiations with various members of the Enterprise be it Vendors, Client or Guests. He said that “As long as we create value and as long as you see everyone stands to gain in business you have a business that work”.

EMBROYIC YEARS- THE INITIAL HICCUPS IN MARKET

The first and foremost roadblock in the conception of Humming Bird India was to “Sell the Concept”, as the companies were so used to of the typical image and usage of hotels for any kind of Stay needs. Team Hummingbird also faced the cruel Indian system wherein there is no support ecosystem available to support budding Entrepreneurs. Team Hummingbird had a very tough time to convince investors as there were no spinal references available (Domestic or International). To overcome the challenge of gaining familiarity in market team Hummingbird segregated the market on the basis of different kinds of business lines (Financial, Pharma, Technology, BPO etc.) and started approaching various top and medium level managers in facility departments.

Team Hummingbird started its operation by leasing and furnishing a 3 BHK apartment in Ulsoor area of Bangaluru city. The furnishing was done keeping in mind the most contemporary look and feel major emphasis was put more on a very new approach which was the amalgamation of

personal and professional approach towards the end users. They used this apartment as their flagship showcase product and started inviting their corporate clients to experience the new “home away from home” concept. Very soon they received a positive response from the market leaders and they bagged their first dedicated contract from Philips India Ltd. They expanded from one apartment to five in the same Ratnalayam and henceforth there was no looking back.

Vivek and Vinod invested on resources in sales force by way of hiring and training a sales team at the time when there was a global slowdown in market, corporates were laying off. This idea later paid off to the HB team to emerge with largest clientele on PAN India level.

Team Hummingbird started these dedicated contractual Properties for these Corporate and the presence of Humming Bird India started shining on the sky.

The Modus-Operandi for Serviced Apartment – Team HB imbibed the **spoke-hub distribution paradigm** (or **model** or **network**) where there system of connections arranged like a wire wheel, in which all traffic moves along spokes connected to the hub at the center.

Where one apartment with kitchen, dining area, Resident Manager’s room was Hub whereas the other apartments were the spoke. Hubs were the touch-points for any need of guests and this system had provided

guests with a lot of convenience, privacy and clarity, being a singular point of contact with the guests this Manager used to act like a CRM Catalyst and the services provided were quite personalized.

As value differentiator Humming Bird India prominently spent a major chunk of capital in technology by developing software called HB-Nest through Inflexion technologies, an IT firm based out of Bangalore. The software efficiently and effectively focused on sales management, inventory management, procurement management, finance, bookings and cancellations, clientele management and vendor management.

Another value differentiator Humming Bird India had focused on was to provide uniformity in services like food and beverages, housekeeping, front office (by rotating the resident managers across the locations) and identical look and feel, ambiance, at all its properties irrespective of place and regions to make the guests have similar stay experience anywhere he travelled. To make this a reality, Vinod had made sure they have a central procurement team and centralized vendors and suppliers. They had a project and interior designing team to ensure that all their rooms have similar upholstery, white goods and all other minute aspects like linen, crockeries and cutleries etc.

DEVELOPMENTS

2006, 2007 and 2008 were the golden years in the growth cycle of Humming Bird India

as they reached at the pinnacle of success in very short span of time during these years.

Team Hummingbird divided the Product offerings as follows-

- Short Durational Stay of various Middle and Senior Level Managers from Corporate
- Relocation Stay (Various people from Corporate who had been relocated from one part of the Country to another
- Expat Housing (People coming from abroad for a short stay in different Country)
- Large Group Stay (Basket of Locations are needed)
- Training Needs

Humming Bird India acquired different properties in Mumbai, Bangluru, Pune, Delhi/NCR, Chennai & Hyderabad. These properties were taken on long term lease and furnished as per the requirements of the clients.

AWARDS & RECOGNITIONS

The Company was honored by the Confederation of Indian Industry in 2011 for their 'strong commitment to excel'. The Company has also received the best Emerging Company in Travel and Tourism in ICICI Bank & CNBC-TV18's Emerging India Awards, 2009.

In 2008, Humming Bird India received \$ 4 Million in Private Equity Investments from Helion Ventures.

THE STUMBLING STONES – What Went Wrong and Where?

Not to forget, there were some major runtime challenges Humming Bird India team had to face. These challenges are essentially needed to be mention.

Acquisition: Humming Bird India team had initially worked hard on acquiring apartment properties in posh locations of the city of Mumbai, Bangalore, Pune and Hyderabad. Out of these, the major challenge off late was acquiring and retaining apartment properties in Mumbai. With time the cost of acquiring a property in Mumbai was very high and also major RWA's started raising objections on running a serviced apartment set up in societies, which later lead to the closure few of its inventories which were running in the locations of Lokhandwala and Andheri in Mumbai.

The new apartment set-up cost with inflation, refurbishment cost and amortization altogether started hitting the overall PAT as the costs were increasing wherein the GOPs and ARRs either remained intact or increased with very minor margins.

With lot of new companies penetrating the market with similar concept, Humming Bird India had to increase the sales force to increase the client base and strengthen the

market share. Humming Bird India however was adamant not to compromise on its values and brand equity.

One of the challenges Humming Bird India faced was on remote handling. With the Head Office and all operation based out of Bangalore, there were lot of controlling issues which were needed to be handled delicately and effectively. There had to de-centralization of authorities to have a proper functioning of teams at regional level.

Cash flow: The industry showed a dramatic shift from the direct mode of payment to Bill to company with maximum credit period to be given to corporate clients to retain them, which started affecting the cash flow of the company as a whole. Most of the corporate needed at least 45-90 days of credit cycle.

Managing the Invoices and keep a proper tab on payment realization from the corporate clients at different locations became a big concern for the organization. The company desperately needed a strict process to get it done effectively and efficiently.

A new corporate trend to move from dedicated model to non-dedicated model increased the risk of setting up new locations.

Emergence of small regional level player offering lodging services to corporate client and a major chunk of corporate client to cut the cost further for their entry level resources started using their services.

Humming Bird India started with a mission of providing home like accommodation to the corporate travelers by way of a professionally managed set-up and provide homogeneity in service(includes food, house-keeping and other minute aspects), ambience, look and feel. The cost of maintaining this homogeneity was once a challenge for the company.

RECENT SCENARIO AND THE ROAD MAP AHEAD

Hummingbird divided its overall business into SBUs for the effective monitoring of business and a control over the cost. Hummingbird incubated the revenue sharing model with the existing small players with a Service level agreement to sustain in market instead of setting up its own inventories. Which would be win win situation for both hummingbird and the existing small scale regional player. Hummingbird capitalized on increasing the sales force in all the regions to increase the market share. Hummingbird entered into Online travel desk model and started maximizing on the tie-up inventories Pan India.

EPILOG

In the year 2011 after reaching a defined decline in the life cycle of the Humming Bird India, the following challenges has led to the need of changing the core model of business where Humming Bird India sought to capitalize on its huge clientele base by way of working as an aggregator to many of its regional partners with the help of

software and technology, who were the regional small guest house owners operating their small inventory of rooms by themselves. It was a win-win situation for both Humming Bird India and regional operators in their own ways. The major challenges that caused the decline of this original form of business were:

1. Growth of many regional operators who slashed the pricing that eventually started attracting the corporates
2. Long credit periods offered to corporates affected the overall cash flow of the organizations
3. This led to the layoff within the company in a short period of time
4. Intervention of RWAs in many societies led to the closure of many properties in Mumbai, Pune, Gurgaon and Bangalore
5. Humming Bird India couldn't attract further venture capitalist to fund this business model as companies like CSR(Corporate solutions redefined) and Intech hotel solutions(a Yatra.com company) has emerged as technology based companies who did business contract with regional operators with a strict SOP model attracted more of VCs attention.

INFORMATION SOURCES

The co-author of the case Sushil Upadhyaya was working with Humming Bird India in capacity of regional sales manager taking

care of entire north region (February 2010 – December 2012). He was reporting to Mr. Bharath Aiyappa, National sales manager, who was closely associated with the founders of the company from the early stages. Mr. Aiyappa was one of the stumbling blocks for the client acquisition and sales strategy instrumentation in the company. The information given in the case

had been extracted from the inputs received by Mr. Aiyappa. Sushil was heading the business development for the entire north managing a huge team of key account managers, executives and also coupling with the operations head Major Ajit Singh, some inputs on the outsourcing of kitchen had been taken from Major Singh.

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