

OYO Hotels USA: Coming to America

Jakayla Michel, a second-year MBA student, stood in the hallway gazing at her smartphone. She flicked her finger across the screen, reading through the job postings on Indeed.com for OYO Hotels USA, the new American arm of the fast-growing Oravel Stays Private Ltd. (OYO) that had been launched in February 2019. OYO had grown in just six years from a single room listing in India to one million rooms spanning the globe—one of the largest hotel chains in the world.¹ The company boasted a tech-driven solution for making economy hotels discoverable and bookable online that had attracted leading investors like SoftBank, Sequoia Capital, Lightspeed Venture Partners, and Airbnb, attaining a heady \$10 billion valuation. OYO’s 25-year-old wunderkind founder, Ritesh Agarwal, had produced what the *Wall Street Journal* was calling an “emerging-market unicorn² among unicorns.”³ After first becoming the leader of hotel rooms in India, OYO had begun in 2017 to export its formula into Malaysia, Nepal, China, Indonesia, and the United Arab Emirates (UAE). In fall 2018, OYO entered its first developed market, the United Kingdom. And now it was spending \$300 million to enter the United States.

Michel, who had been a junior investment banker for four years after college, was looking for a career shift. She didn’t mind taking a short-term step back in pay to join a company with growth potential, but wanted to make sure the opportunity was real. OYO seemed to be hiring for every type

¹ Corinne Abrams, “India Hotelier Leads \$2 Billion Share Buyback from Investors,” *Wall Street Journal*, July 22, 2019.

² A “unicorn” was a “startup company with a value of over \$1 billion.” See James Chen, “Finding the Unicorns in Finance,” Investopedia, July 22, 2019, <https://www.investopedia.com/terms/u/unicorn.asp> (accessed Sept. 23, 2019).

³ Corinne Abrams, “Hotel Upstart Takes Aim at America after Shaking Up India—OYO’s 25-Year-Old Founder Seeks to Upend the Hospitality Business, but He Faces a Bumpy Rollout of His Company’s Formula in the U.S.,” *Wall Street Journal*, June 23, 2019.

of position in the United States: human resources director, field sales director, territory operations leader, and business development manager. She spotted opportunities in Dallas, Texas; Los Angeles, California; Portland, Oregon; Las Vegas, Nevada; Miami, Florida; and Myrtle Beach, South Carolina—and even near her family’s home in Washington, DC. With a few taps, Michel saved the positions that seemed most interesting to her (**Exhibit 1**), made a note to herself to further research the company later, and found a seat in her operations class.

When she got home, she looked through OYO’s website, which described OYO’s secret sauce as “design cool, in spaces whenever you need them, at fantastic prices.”⁴ The company seemed to be operating a franchise model wherein it spent hundreds of thousands of dollars to upgrade small, unbranded hotels, hang the OYO shingle, and charge the hotel owner around 20% per transaction. The company’s team of engineers created apps to streamline such things as customer procurement, front desk management, room pricing, food and beverage offerings, and even room cleaning. The company said its upgrades increased hotel utilization and profitability.

Michel went to Expedia to have a look at what OYO was offering there. She perked up as she found OYO properties in Dallas and in Memphis, Tennessee, with fancy-looking linens, flat-screen TVs, and modern bathrooms. Some even had hardwood floors. But the prices were as low as the cheapest motel—between \$40 and \$60 per night. She even found a few in the mid-\$30s. “How could they make money charging these rates?” Michel wondered. What if the company was just burning through its venture money? Also, some of the customer complaints on Expedia were alarming. On other websites, she read a few things about OYO’s founder that gave her pause. Was this business

⁴ “The OYO Way,” OYO website, <https://www.oyorooms.com/about> (accessed Sept. 16, 2019).

model sustainable? Would it translate to the American market? Reports said the company was thinking about an IPO in a few years. Should Michel apply for a job?

The Early Days: Youth, Bravado, and Entrepreneurship

Agarwal's rise read a bit like a fairytale—and some seemed to think parts of it might have been. The story Agarwal told went like this: born in 1993, he grew up in Bissamcuttack, a small village in the Indian state of Odisha, as the son of middle-class shop owners. At the age of eight, Agarwal began computer coding. Self-taught and with an early aptitude for entrepreneurship, he took on odd jobs at his parent's shop and learned to sell SIM cards, among other things. When he was 16, Agarwal was among 240 teens selected to attend the Tata Institute of Fundamental Research's Asian Science Camp.

The next year, Agarwal wrote a book called *The Encyclopedia of Indian Engineering Colleges*, an admissions guide to college entrance. At 17, he was also appointed the self-described “world[']s youngest CEO”⁵ of Worth Growth Partners, a seven-person consulting business focused on guiding foreign companies doing business in India. Agarwal had prepared for the job from the age of 12 to 17 by being “an entrepreneur, technology executive, social marketer, sales executive and even a salesman.”⁶ At 18, Agarwal moved to Delhi and enrolled in the University of London's program at the Indian School of Business and Finance. After three days, Agarwal decided to take a leave to start his business, and he never went back.

⁵ Ritesh Agarwal, “17 Year Old Entrepreneur and CEO of Worth Growth Partners Ritesh Agarwal on Consulting Foreign Companies That Are Entering Indian Markets,” YourStory, May 19, 2011, <https://yourstory.com/2011/05/17-year-old-entrepreneur-and-ceo-of-worth-growth-partners-ritesh-agarwal-on-consulting-foreign-companies-that-are-entering-indian-markets> (accessed Sept. 16, 2019).

⁶ <https://yourstory.com/2011/05/17-year-old-entrepreneur-and-ceo-of-worth-growth-partners-ritesh-agarwal-on-consulting-foreign-companies-that-are-entering-indian-markets>.

Agarwal called the business Oravel Stays, incorporated it in February 2012, and modeled it after Airbnb. For months, Agarwal backpacked across India, staying at a new budget hotel every night to learn the business. Oravel Stays was attempting to simply aggregate hotel rooms and offer a touch point to customers, but Agarwal heard a flood of complaints about faulty plumbing, a lack of room service, or untidy staff at many small hotels. As money became tight and his business struggled to gain traction, Agarwal was forced several times to sleep on the stairs outside his flat until he came up with rent money.

Agarwal Spots a Problem: The Birth of a Real Business

Closely observing budget hotels in India led Agarwal to an epiphany that would change his life. The problem at the small mom-and-pop hotels seemed to be their wild variability in service and customer experience, more than difficulties in simple discoverability. It was true that many small Indian hotels lacked sufficient online presence, but even those that did often featured false claims. Customers didn't know whom to trust. Rather than simply aggregating hotel rooms, Agarwal decided to make an important pivot. He vowed to bring transparency and a standard experience to budget travelers. During fundraising efforts, Agarwal caught the eye of VentureNursery, a start-up accelerator in India, which agreed to invest on one condition: Agarwal needed a cofounder. Enter Manish Sinha, owner of a small bed-and-breakfast called Cinnamon Stays in Gurgaon, India. Agarwal and Sinha worked to up-fit a nondescript hotel.⁷ The owner, desperate for business, let them transform the hotel with technology. They added check-ins via tablets, posted real-time photos of the rooms on the web to build trust, and standardized products across the rooms. VentureNursery funded Oravel Stays in

⁷ Anakha Arikara, "From SIM Card Seller to Multi-Millionaire: A 24 Year Old's Incredible Journey," The Better India, <https://www.thebetterindia.com/133859/ritesh-agarwal-oyo-dropout/> (accessed Sept. 16, 2019).

October 2012, stating, “In Ritesh, our Charter Angels found exceptional passion, high energy and ability to overcome tough situations.”⁸

Early success at the property level they had upgraded, Agarwal’s raw ambition, and a transforming vision for changing the global hotel industry soon attracted Silicon Valley’s interest. Agarwal was just 19 when he applied for the prestigious Thiel Fellowship, a \$100,000 grant given to 20 entrepreneurs under the age of 20 who promised to skip college and commit for two years to found a business. The fellowship assured exposure to Peter Thiel, the former founder and CEO of PayPal, and mentoring at the highest level. Among the top 1% of applicants flown to Silicon Valley for a rigorous three-week selection process with four rounds, Agarwal became one of two Indian entrepreneurs to win the 2013 award. The experience was transformative. “When I went there,” Agarwal remembered, “there were two big things I learned. The first was to be able to do innovative things. The second was that if you are thinking anyway, think big.”⁹

Oravel Stays was about to enter a hyper-growth phase rarely seen in start-ups. Agarwal now had mentors from Thiel’s foundation, including luminaries such as Mark Zuckerberg, Larry Page, and Elon Musk. Agarwal’s story was splashed throughout the business press. It was all happening. But not everyone turned out to be a fan of the founder.

As Oravel Stays grew, claims that Agarwal may not have been truthful about his rise in the early days included that of Kunal Pandya, the NCrypted CEO. Pandya licensed his Airbnb clone software to Agarwal and claimed that Agarwal never paid NCrypted for its license and all the custom coding it did. “The truth is that the early days of Oravel and OYO were built on a foundation of lies,” Pandya

⁸ Team YS, “Founded by an 18 Year Old, Oravel Stays Raises Seed Funding from VentureNursery’s Angels,” YourStory, October 15, 2012, <https://yourstory.com/2012/10/founded-by-an-18-year-old-oravel-stays-raises-seed-funding-from-venturenurserys-angels> (accessed Sept. 16, 2019).

⁹ <https://www.thebetterindia.com/133859/ritesh-agarwal-oyo-dropout/>.

said, “and Ritesh seems to have faked almost everything that stands as his founding pillars, from his education to funding rounds.”¹⁰ There were also comments from several early employees who believed Agarwal made false promises about stock grants in lieu of salary, which were never honored. Agarwal’s cofounder said Agarwal had forced him to sell his shares.¹¹ Critics also said that Agarwal had inflated claims of room listings and growth to win the Thiel Fellowship.¹²

The Uber of Hotels?

In 2013, Oravel Stays recast itself as OYO—which stood for “On Your Own”—and created strict operating procedures for hotels that wanted to partner. Things that were not always guaranteed in developing-market hotels—such as free Wi-Fi, toiletries, a clean bathroom, air conditioning, a free breakfast, and quality linens—were suddenly made available and transparent in the budget market. To accomplish this, OYO initially signed reseller contracts, promising the hotel owner a certain rate for a block of rooms that OYO was allowed to up-fit (initially subsidized by OYO and later paid for by the hotel owner with help from third parties OYO introduced). OYO then resold the rooms under its own brand using its proprietary app and pricing algorithm. Rather than simply aggregating hotel rooms and taking a commission like other players, OYO offered to become a true partner to Indian budget hotels in a way not tried before. The new strategy of paying a partner for the use of an existing asset optimized with technology and marketing expertise was Uber-like in some ways. To attempt it in the hotel arena required significant money to scale construction costs, cobranding costs, and employee salaries required to manage the partners, technology offerings, and customer interactions.

¹⁰ Kunal Pandya, “The Real Story of Oyo Rooms’ Ritesh Agarwal,” *Gadgets 360*, February 9, 2016, <https://gadgets.ndtv.com/internet/opinion/the-real-story-of-oyo-rooms-ritesh-agarwal-783004> (accessed Sept. 16, 2019).

¹¹ <https://gadgets.ndtv.com/internet/opinion/the-real-story-of-oyo-rooms-ritesh-agarwal-783004>.

¹² Ashish K. Mishra, “Will the Real Ritesh Agarwal Please Stand Up?,” *livemint*, January 7, 2015, <https://www.livemint.com/Companies/7CN7u5d4i3bfYgBAZLdLpM/Will-the-real-Ritesh-Agarwal-please-stand-up.html> (accessed Sept. 16, 2019).

But if it worked, OYO believed it could bring a standardization to the customer experience that would increase hotel profitability and create a world-class business.

Initially, competing Indian hotel aggregators like MakeMyTrip, Goibibo, and Cleartrip refused to list OYO's rooms on their sites alongside rooms in the same hotels already in their systems. Soon, however, OYO started to gain traction. Because of the strict standardizing guidelines, OYO customers started to trust the brand. Word spread. Soon, the various unorganized budget hotels across the country started to see value in partnering with OYO. Many users began to leave other booking platforms to use OYO's simple three-tap-to-buy mobile app interface.¹³ The hotel stopped mattering as much as the rooms did, and suddenly OYO had the best-value rooms in India. OYO charged about 18% commission from hotel owners every month and promised a speedy transformation of a property: between 3 and 14 days. Occupancy, which in many of the run-down hotels had been miniscule, soared to as much as 80% in OYO rooms.¹⁴

In time, some higher-quality hotels also began to partner with OYO in order to benefit from its technology and expertise. If the standard of service was already high enough to avoid capital improvements, OYO would buy rooms at a bulk discount, then market them at cheaper prices in order to drive up the occupancy. Some argued that working with higher-quality hotels might actually have been a loss leader used to improve the perception of OYO's budget hotel rooms. The rooms were shown side-by-side on OYO's app with the budget rooms added to the brand. But this also highlighted a risk inherent in the model. OYO was on the hook to pay its monthly fixed amount to

¹³ OYO stated on its website, "Fastest hotel booking process. It takes only 5 seconds and 3 taps to book a room on the OYO App." See OYO's mobile app website, <https://mobileapp.oyorooms.com/> (accessed Sept. 16, 2019).

¹⁴ Kitty Gupta, "What Is the Business Model of OYO Rooms," December 14, 2017, <https://www.freelancinggig.com/blog/2017/12/14/business-model-oyo-rooms/> (accessed Sept. 16, 2019).

the hotel owner regardless of OYO's ability to resell rooms.¹⁵ Sometimes its pricing algorithm (which made millions of small changes each day based on demand, arriving train and flight schedules, weather, the time of year, and so on)¹⁶ would undercut the other rooms at the hotel significantly, causing tension with OYO's partners, who listed un-upgraded rooms at the same hotel at higher rates than OYO's rooms.

Another Pivot in 2016

By 2016, OYO had grown to become India's largest branded network of budget hotels, buoyed by the trend of middle-class expansion and the increasing taste for business and vacation travel. OYO's scale allowed it to sign deals with Biotique for soaps and shampoos, Airtel for Wi-Fi, and Samsung for TVs. OYO had become the largest customer for many laundromats in India's capital territory of Delhi. It was time to think even bigger. Beginning with Malaysia, OYO sought to export its brand and business model abroad. In the years that followed, the company would enter China, Nepal, the UAE, Saudi Arabia, Indonesia, and the Philippines. But before it did, OYO decided on another important change in strategy. No longer was the company seeking only to partner on a block of rooms in a hotel; now it sought to franchise fully with local hotel owners and use its rising brand power and technology to offer an updated product at a low price. By completely controlling the room and hotel experience, OYO would end the inherent conflicts of interests with hotel owners on rooms OYO didn't resell. In short, OYO would become a franchisor. Shifting its business model allowed OYO to raise its commission by five percentage points—to around 22%—depending upon the

¹⁵ <https://gadgets.ndtv.com/internet/opinion/the-real-story-of-oyo-rooms-ritesh-agarwal-783004>.

¹⁶ Corinne Abrams, "OYO Has Remade India's Hotel Business. Now It Is Going Global," *Wall Street Journal*, June 23, 2019, <https://www.wsj.com/articles/oyo-has-remade-indias-hotel-business-now-it-is-going-global-11561311205> (accessed Sept. 16, 2019).

services provided by the brand. Franchise fees could be in the low single digits, with concessions made in China and other markets to aid initial penetration.¹⁷

Typical franchising meant that an entrepreneur paid some upfront amount, around \$50,000 in the US budget market, plus ongoing commissions to the brand of around 20%. The entrepreneur managed the property but benefited from training, brand muscle, customer lead generation, and marketing. OYO tried to differentiate its offering in three key ways. First, through its intuitive app (downloaded over 10 million times) and positive brand, it generated most of its demand directly rather than through aggregator sites like TripAdvisor, Expedia, and Hotels.com, which charged hotels a booking fee between 5% and 25%. Second, with an offering targeted to tech-savvy millennial travelers, OYO leaned heavily on technology as a differentiator. By 2019, the company offered over a dozen apps for the hotel partner and end customer, employing over 1,000 engineers who worked on programs to optimize pricing, back-end reservation management, food and beverage offerings, and procurement of inventory. For instance, OYO claimed that hotel owners didn't need a layer of management over the cleaning staff because the OYO KEEP app for the housekeeping staff automatically notified each staff member via their mobile phone that rooms needed cleaning. The technology then offered the staff cash bonuses for positive ratings by guests if they posted a picture of the cleaned room for the hotel owner to view. Finally, by focusing on the budget market, OYO was targeting undermanaged real estate assets that could best benefit from the company's brand and technology.

¹⁷ S. H. Salman, "OYO Now Gets Over 90% of Revenue from Hotels under Franchise Model, Says CEO," *livemint*, January 18, 2018, <https://www.livemint.com/Companies/yWrc6mPjkdLAQ5xczUO23J/Oyo-now-gets-over-90-of-revenue-from-hotels-under-franchise.html> (accessed Sept. 16, 2019).

According to OYO, the occupancy rate of a small budget hotel in India typically increased between around 25% and 65% within a month of that hotel joining OYO.¹⁸ What it found in the rest of the world wasn't much different. An OYO spokesperson said the occupancy rose from 25% to 65% in less than three months on average and led to "consistent occupancy levels of 90% plus."¹⁹ Although the company hadn't earned a profit yet, Agarwal believed in the franchise model. "Remember, for hotels," Agarwal said, "the return is based on two multipliers, price, and occupancy. Even if you keep the price 10 percent lower, and increase the occupancy three times, the return is still roughly 2.8 times. Not bad!"²⁰ OYO hoped that profitability would come in part through the efficiencies brought by its technology. For instance, floor managers at traditional hotel chains managed around 20 keys (rooms). OYO's technology raised the number to more than 100. "We use data science to simplify the floor manager's work. Instead of checking up on every hotel every day, the auditor instead checks 30% of the hotel every day, based on rooms that have a history of bad ratings," Agarwal said.²¹

With OYO, everything seemed to move at lightning speed, aided by technology. 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. While it normally took months to sign a franchise agreement, OYO claimed it could sign partners in five days by using proprietary software named ORBIS. The software let hotel owners instantly estimate revenues, gross operating profits, and other perks of becoming an OYO partner. "If the owner is okay with the numbers, a civil engineer from OYO visits the hotel and estimates how much capital expenditure is required to run the hotel,"

¹⁸ Sean O'Neill, "OYO Enters the U.S. Budget Hotel Market," Skift, February 5, 2019, <https://skift.com/2019/02/05/oyo-enters-the-u-s-budget-hotel-market/> (accessed Sept. 16, 2019).

¹⁹ Sangeeta Tanwar, "OYO's Growing Faster Overseas than It Is in India—But It Needs to Watch Out," <https://qz.com/india/1589669/indias-oyo-is-expanding-where-uber-google-amazon-failed/> (accessed July 24, 2019).

²⁰ <https://qz.com/india/1589669/indias-oyo-is-expanding-where-uber-google-amazon-failed/>.

²¹ <https://www.livemint.com/Companies/yWrc6mPjkdL.AQ5xczUO23j/Oyo-now-gets-over-90-of-revenue-from-hotels-under-franchise.html>.

Agarwal said. “At the end of the fifth day, the agreement is signed using the ORBIS app, rather than the 50 pages agreement on paper with six lawyers sitting across the table and making negotiations.”²² Soon after, architects would put together a renovation plan, and usually within two weeks, the property was transformed.

By any measure, OYO’s growth had been staggering. By 2018, nearly all its hotels had been switched to the franchise model and the company was adding roughly 500 hotels and 60,000 rooms every month, according to Agarwal.²³ In less than two years after entering China in late November 2017, OYO became the largest hotel group in the country by expanding to 320 cities, most of which were Tier II through Tier VI. The growth in China was so explosive that it quickly eclipsed the rooms offered in India: there were 450,000 rooms in China compared to 173,000 rooms in 259 Indian cities. Total rooms for the company topped one million in the summer of 2019. OYO believed there was still ample headroom for growth both in India (where OYO held around 4% of the market of four million hotels and guest rooms) and worldwide (OYO held less than 1% of the world’s approximately 160-million-room-accommodation market opportunity).²⁴ While the company claimed to be the sixth-largest hotel chain operator in the world and said it hoped to be the world leader based on rooms by 2023, by the fall of 2019, OYO was already nearly double the size of number-two player Wyndham Hotels & Resorts, based on the number of properties in its network.

OYO Enters the United States

²² <https://www.livemint.com/Companies/yWrc6mPjkdLAQ5xczUO23/Oyo-now-gets-over-90-of-revenue-from-hotels-under-franchise.html>.

²³ <https://www.livemint.com/Companies/yWrc6mPjkdLAQ5xczUO23/Oyo-now-gets-over-90-of-revenue-from-hotels-under-franchise.html>.

²⁴ <https://qz.com/india/1589669/indias-oyo-is-expanding-where-uber-google-amazon-failed/>.

OYO's entry into the United States in early 2019 was closely watched. While several Indian start-ups had grown by copying Western models, OYO was "the first to try to take a homegrown business model world-wide."²⁵ The company believed its brand equity and reputation best served expansion using its aggregator/franchise business model with its key differentiators. By early 2019, all its revenue from hotels came under this franchise model. It was the model being exported to the developed world: the United Kingdom in the fall of 2018, and Japan and the United States in 2019. OYO had expanded its offerings to include mid- and higher-end hotel collections called OYO Townhouse, OYO Home, Collection O, Capital O, SilverKey, Palette Resorts, and OYO Life. But in the United States, OYO seemed to be going after the budget market with its classic OYO brand. To make its continued expansion possible, OYO had raised a fresh billion dollars in the fall of 2018 (see **Exhibit 2**). Of the new funding, \$800 million was led by SoftBank, with participation from early OYO investors Lightspeed Ventures, Sequoia, and Greenoaks Capital. In the winter of 2019, two Chinese investors added an additional \$100 million each under the same terms, and in April 2019, Airbnb invested \$100 million. \$300 million of these funds was earmarked for US expansion.

Michel wondered if the model would work in the United States, competing with brands like Days Inn by Wyndham, Tru by Hilton, Holiday Inn Express, Choice Hotels, and Extended Stay America. Branded hotels in the United States controlled 71% of the hotel market, compared to the more fragmented Asia Pacific (50%) and European Union (40%), although the US economy market was more comparable (53% branded). OYO had made its bones by transforming unbranded hotels through property renovations; a proprietary technology managing revenue, pricing, inventory, food and beverage offerings, and front-desk operations; as well as a guarantee of services such as air

²⁵ <https://www.wsj.com/articles/oyo-has-remade-indias-hotel-business-now-it-is-going-global-11561311205>.

conditioning, free Wi-Fi, and clean bathrooms and linens. In short, “Chic-design hotels for everyone,” as the company’s website promised. Would that translate in the United States? Some thought OYO’s proposition looked tantalizing to 18,000 unbranded hoteliers. One research analyst noted, “The US hotel market isn’t clamoring for it, but the business model will be very attractive to a lot of small hotel owners who are not being well served by the lower tier hotel franchise brands...Its focus is on technology and operations. They totally control their distribution. That’s pretty different from the US franchise approach that is almost totally branding, with some centralized technology and hit-or-miss property-level operational technology that owners have to deal with.”²⁶

OYO had high hopes for the United States, which was already further along than China had been at the same stage. “The US is a very special market, and our initial results say this is what we want to do,” said Agarwal. “We see the US as a home market, and will continue to invest as that is the case.”²⁷ OYO’s website said it had delivered a 100% increase in revenue within six months for its partners and 70% occupancy every day (see **Exhibit 3**). Part of the success to ramping up that occupancy was artificial intelligence in the pricing algorithm that adjusted throughout the day to data inputs. For instance, when arriving train and flight schedules showed more arriving travelers, the algorithm tended to lower prices to increase the chance for an occupancy jump while generally optimizing margins. OYO’s average daily rates mostly stayed between \$60 and \$110 in the United States, but prices could fall as low as \$27 in cities like Dallas and Houston during peak hours. Dynamic pricing at OYO’s Inn Dallas South, for instance, had increased occupancy from 24% to 92% since the beginning of 2019 to

²⁶ Mitra Sorrells, “Can OYO Capture the Unbranded Hotel Market in the U.S. and Europe?,” February 7, 2019, <https://www.phocuswire.com/OYO-U-S-Europe-expansions> (accessed Sept. 16, 2019).

²⁷ Danni Santana, “OYO Is Betting U.S. Strategy on Aggressive Dynamic Pricing,” Skift, July 8, 2019, <https://skift.com/2019/07/08/oyo-is-betting-u-s-strategy-on-aggressive-dynamic-pricing/> (accessed Sept. 16, 2019).

September of that year.²⁸ This brought revenue per available room (RevPAR), a key metric in the hotel industry, at the property up more than fourfold to \$50.

OYO's largest selling point to US property managers seemed to be its ability to predict and improve returns on investment and RevPAR on a real-time basis using its dynamic pricing algorithms along with marketing (OYO's website and app received 350,000 daily visitors) and customer service (OYO had a 24/7 customer support center) benefits.²⁹ But that only mattered if OYO determined the right room design for each partnering hotel. And who paid for that? OYO's typical deal with US property owners was to offer up to \$2,000 per room and make a minimum guarantee of up to 100% of the asset owner's annual revenue in exchange for 10% of gross revenues (exclusive of any booking fee related to exchanges such as Expedia or Hotels.com) and 20% additional revenue share on incremental revenue over the minimum guarantee amount.³⁰ According to the OYO website, "the entire hotel is renovated as per OYO brand and quality standards with capex invested in assets primarily by asset owners..."³¹ A hotel industry publication noted: "Its venture capital partners, including SoftBank, Sequoia Capital, and home sharing giant Airbnb, fund all renovations."³² The range of renovations varied by property. Some required a full rework—new cabinets, flooring, and wall décor—while others just required new beds and televisions. Piyush Patel Jariwala, who managed the Oyo Hotel Fort Worth East Gateway Ballpark in Fort Worth, Texas, took a deal: OYO offered to pay \$200,000 for renovations in return for 5% of his revenue. He said his rates were reduced to as

²⁸ <https://skift.com/2019/07/08/oyo-is-betting-u-s-strategy-on-aggressive-dynamic-pricing/>.

²⁹ Author interview with an OYO representative, September 9, 2019.

³⁰ Author interview with an OYO representative, September 9, 2019.

³¹ Abhishek Gupta, "Annual Report Card 2018," Official OYO Blog, February 5, 2019, <https://www.oyorooms.com/officialoyoblog/2019/02/05/annual-report-card-2018-2> (accessed Sept. 16, 2019).

³² <https://skift.com/2019/07/08/oyo-is-betting-u-s-strategy-on-aggressive-dynamic-pricing/>.

little as \$15 from his previous lowest rate of \$60 once OYO took over. “US market is very different because the overheads are not the same,” he said.³³

Decision Time

Michel studied the “Annual Report Card 2018” that OYO posted in February 2019 (see **Exhibit 4**). She opened a spreadsheet and made two columns for the pros and cons of applying for a job at OYO. On the one hand, the company’s success was undeniable. And a lot of very smart people had bet on its potential. On the other hand, OYO hadn’t turned a profit yet, although the company had said on its site that, “as a percentage of realised value OYO Hotels’ sales run rate is reducing year-on-year from 44.5% in FY 2016–17 to 20.3% in FY 2017–18. In FY 2018–19, OYO estimated further improvement in the economics of close to 50%, with losses estimated to go down to 10.4%.”³⁴ Michel also wondered about the criticism of the founder. Then again, didn’t Facebook and Twitter’s respective owners face their own critics and detractors? Nothing had yet stopped their massive success.

Overall, Michel believed in OYO’s mission of bringing a clean bed and safe environment to all travelers at a budget price. And more people seemed to be joining the company every day. Most recently, a former Uber general manager had joined OYO to lead its Seattle office. After only half a year in the US market, OYO already had more than 50 hotels in 35 cities. The company was adding a hotel a day and hoped to push that number to five a day by the end of 2019. OYO seemed to be in the sweet spot for millennials, who were spending more money on experiences like travel than on

³³ <https://www.wsj.com/articles/oyo-has-remade-indias-hotel-business-now-it-is-going-global-11561311205>.

³⁴ <https://www.oyorooms.com/officialoyoblog/2019/02/05/annual-report-card-2018-2>.

goods and products. The US hotel market was on track for its 10th consecutive year of growth, with a fifth straight record year for hotel occupancy (near 66%), and OYO seemed poised to ride the wave. Reports said the company was thinking about an IPO in a few years.

As Michel pondered what to do, she received a new Google alert. OYO had just agreed to purchase the Hooters Casino Hotel in Las Vegas, a 657-room property. Hooters, a brand known for waitresses in tight tank tops, was an interesting acquisition in Michel's mind.

Michel knew her skill set and ambition could help her carve out a meaningful career with the company. Yet she had many questions:

- Did OYO's strategy make sense?
- What challenges did it face, and how could it overcome them?
- What were its prospects for the future?
- Was this business model sustainable?
- Would the business model translate to the American market?

And, most importantly for Michel, should she apply for a job?

Exhibit 1

OYO Hotels USA: Coming to America

Summary of OYO Job Postings on Indeed.com

Position	Job Summary
HR Director, Dallas Salary: \$100,000 – \$150,000/year	<p>Lead and create a strategic HR framework from the ground up, work with senior executives to deliver high quality of HR services. Lead across functions in performance management, career development and management development, change management, succession planning, organizational design, and employee relations.</p> <p>Assess the organization’s strategic and operational obligations; select an efficient HR delivery model, develop and/or implement human capital programs, plans and interventions necessary to achieve high performance.</p> <p>Identify and implement talent acquisition and retention strategies.</p> <p>Develop corporate plans for compensation, benefits, health and safety etc.</p> <p>Develop strategies for performance evaluation, staffing, training and development etc.</p>
Field Sales Representative	<p>Driving new revenue by identifying new hotel and hospitality leads to add to the OYO network. Lead prospective new partners in the hospitality industry onto the OYO network by leading the structuring and negotiating new contracts. Thrive in a high growth, disruptive and technology led business that is transforming the era of the hospitality industry!</p> <p>Identify key properties which can be acquired to do business with OYO; meet property owners and sell OYO's Vision of providing comfortable stays for many; build a joint business plan with the property owners to have a profitable business association.</p>

Exhibit 1 (continued)

Summary of OYO Job Postings on Indeed.com

<p>Business Development Manager, Los Angeles Salary: \$90,000 – \$125,000 a year</p>	<p>Drive quarterly and annual sales and revenue targets for a defined territory. Generate new business through prospecting, cold calling, scheduling appointments and building relationships. Responsible for end-to-end business development of the assigned area; includes planning and building short-term and long-term sales pipeline. Utilize CRM software daily to track sales calls and sales funnel Need strong organizational and time management. Excellent written and verbal communication. Must be self-motivated and have the ability to work independently in a fast paced, multi-tasking environment.</p>
<p>Territory Operations Leader³⁵</p>	<p>Manage new and existing hotels in the OYO network. Ensure delivered success of all hotel functions and stakeholders while initiating new processes to improve the customer experience. Monitor, analyze, and improve the efficiency of local hotels in the OYO network. Drive 100% occupancy of rooms, analyze market trends, and share inputs with revenue and pricing team. Manage overall recruitment, training and development towards building a team of world-class hospitality professionals and enable them to gain know-how of systems & processes. Engage with stakeholders remotely—vendors, property owners, local and central cross-functional teams to ensure best customer experience. Challenge the existing processes as per local market requirement for operational effectiveness.</p>

Source: “HR Director,” OYO Indeed.com posting, <https://www.indeed.com/viewjob?cmp=OYO-Rooms&t=Human+Resource+Director&jk=14222d8ed75b8f78&q=oyo&vjs=3>; “Field Sales Representative,” OYO Indeed.com posting <https://www.indeed.com/jobs?q=oyo&vjk=d04998801685daa5>; “Business Development Manager,” OYO Indeed.com posting, <https://www.indeed.com/jobs?q=oyo&vjk=941dec01c123f5bc>; “Territory Operations Manager,” OYO Indeed.com posting [missing the final one because the link is broken] (all accessed Sept. 16, 2019).

³⁵ <https://www.indeed.com/jobs?q=oyo&l&vjk=7251585f7edf14fc> (Accessed Thursday, July 16, 2019).

Exhibit 2

OYO Hotels USA: Coming to America

Significant OYO Venture Capital Investments

Date	Financing		Millions of US Dollars Invested	
Oct-12	Angel	VentureNursery and others		
Oct-19	Grant	Thiel Fellowship	\$	0.10
Mar-14	Equity Funding	DSG and Lightspeed Venture Partners	\$	0.65
			<hr/>	
			\$	0.75
Mar-15	Round A	Sequoia Capital Greenoaks Capital Partners LLC Lightspeed Venture Partners		
			<hr/>	
			\$	25.00
Aug-15	Round B	SoftBank Capital Greenoaks Capital Partners LLC Sequoia Capital Lightspeed Venture Partners		
			<hr/>	
			\$	100.00
Aug-16	Round C	SoftBank Capital InnoVen Capital		
			<hr/>	
			\$	90.00
Sep-17	Round D	Sequoia Capital Lightspeed Venture Partners Greenoaks Capital Partners LLC Hero MotorCorp SoftBank Vision Fund		
			<hr/>	
			\$	250.00

Exhibit 2 (continued)

Significant OYO Venture Capital Investments

Date	Financing		Millions of US Dollars Invested	
Sep-18	E	SoftBank Vision Fund Sequoia Capital Lightspeed Venture Partners Greenoaks Capital Partners LLC		
			\$	1,000.00
Dec-18	E-2	Grab Taxi	\$	100.00
Feb-19	E-3	Didi Chuxing Technology Co.	\$	100.00
Apr-19	E-4	Airbnb	\$	100.00
Total Raised			\$	1,766.50

Data source: "OYO Rooms," PrivCo Private Company Financial Report, July 23, 2019; Sainul K Abudheen, "OYO Rooms Raises Funding from Lightspeed & DSG Consumer Partners, Launches Branded Marketplace for Budget Rooms," May 14, 2014, VCCircle, <https://www.vccircle.com/oyo-rooms-raises-funding-lightspeed-dsg-consumer-partners-launches-branded/> (accessed Sept. 18, 2019).

Exhibit 3

OYO Hotels USA: Coming to America

OYO Asset Management



Asset Management

Asset returns that we deliver for our partners:



100%

Increase in revenue in 6 months



70%

Occupancy everyday



15000+

Hotels Worldwide

Why partner with us?



Double Your Business



We have only one mission - to increase occupancy and revenue by bringing quality living spaces to a billion plus people.



How do we do it? By using everything that's available to us: An app, a website, a call centre and corporate sales agents - all personalised to make sure your space does maximum business every day, every week, every month.



Before we set up shop, we assess the space. How big is it? Where is it? Who's most likely to visit? These answers help us decide a suitable brand for your space that will make it stand out and perform better than the competition.



Exhibit 3 (continued)



Top Quality Property Makeover



We can make all manner of tweaks and changes to your spaces. From structural changes to partial makeovers and minor aesthetic touches. But don't worry, maybe your property is fine as is. We're okay with that too.



We transform your real estate to provide a memorable guest experience. Because when they're happy, everyone's happy.



Hassle-Free Operations



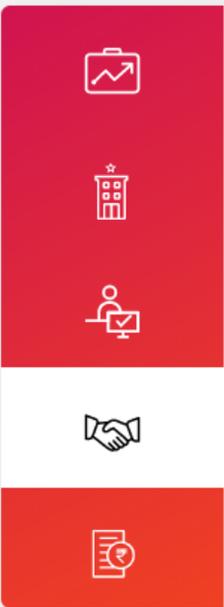
Who runs the space? You decide. To save you hassle and time, we too can run the space for you.



Our vast network of hotels has ensured access to some of the best, most reliable staff in the hospitality business, all trained in our very own school. Which means, staff members that are unobtrusive and efficient, leaving you very little to worry about. If anything at all.



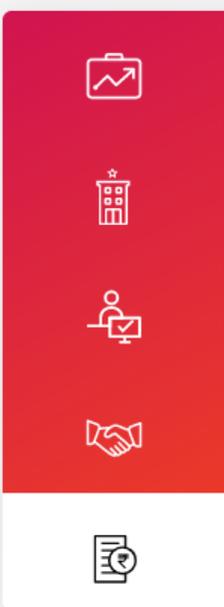
Exhibit 3 (continued)



Complete Transparency With Reviews

Out of sight, out of mind, right? Wrong.

Our simple OAM app helps you keep track of your performance daily. Our business managers are at your service to discuss business performance regularly and understand feedback or recommendations that you may have. So help us help you and we will go the distance together as partners.



Financial Support

Our strategic partnerships with financial institutions have disbursed loans to more than 100 properties. Loans are available for upgrading space, working capital and other needs. In more ways than one, we are here to help.

Source: "Partner with Us," OYO Asset Management, <https://partner.oyorooms.com/us> (accessed Sept. 16, 2019).

Exhibit 4

OYO Hotels USA: Coming to America

Select Slides from OYO Official Blog

In the last year 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 capex invested in assets primarily by asset owners to deliver core promises to our customers and ensure higher returns to asset owners.

OYO has also seen global stayed room nights (Annualized based on December run-rate) increase from **6m** in December 2016 to **13m** in December 2017 to **75m (99m based on December 2018 peak) in December 2018 (with a growth of 5.7x on y-o-y basis)**.



Exhibit 4 (continued)

OYO ROOMS

IN INR CR		FY 2016-17 (AUDITED)	FY 2017-18 (AUDITED)	FY 2018-19 (ESTIMATES)
BUSINESS METRICS	REALISED VALUE	798	1,768	4,921
	GROWTH Y-O-Y	2.0X	2.2X	2.8X
	FRANCHISEE FEE (% OF REALISED VALUE)	8.3	18.7	
STATUTORY FINANCIAL METRICS	REVENUE	120	416	1,481
	GROWTH Y-O-Y		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

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. ESTIMATES FOR FY2018-19 REPRESENT MANAGEMENT GUIDANCE FOR INDICATIVE PURPOSES AND ARE NOT AUDITED AS PER GAAP.

- Revenue as per consolidated financial statements increased from INR 120 cr to INR 416 cr, which is a **3.5X growth in FY 2017-18**. Revenue for FY 2018-19 is trending at **INR 1,481 cr with a 3.5X increase**.
- Realized value (net off cancellations) **trending at INR 4,921 cr for FY 2018-19**.
- Margin expansion and high degree of operating leverage in the business model has resulted in, losses as a % of total realized value (net of cancellations) coming down from 44.5% in FY 2016-17 to 20.3% in FY 2017-18 and is **trending at 10.4% in FY 2018-19**. The robust business model with limited marketing spend generates double-digit positive contribution margins. OYO continues to invest in technology and to build long term capabilities while getting on-board, the top talent in the country.
- **Majority of our demand is repeat with word of mouth customers accounting for 93% of revenues in Q4 2018 (Oct-Dec) and hence ensuring lower marketing spends.**