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. The company boasted a tech-driven solution for making economy hotels predictable, 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 unicorn” among unicorns. 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 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.” 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 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” 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 sales man.” 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.

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 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.

The Uber of Hotels?

In 2013, Oravel Stays recast itself as OYO—which apparently stood for “On Your Own,” denoting millennials’ freedom to live independently—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. 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.

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