

Study on Characteristics and Entrance Strategy of Economical Hotel Market in China

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Abstract Attracted by the huge opportunities of the economical hotel market, more and more Chinese hotel companies are turning to keep a sustainable development of their businesses by such a new point of profit growth. By using Porter's Five-Force Model, this research finds that the potential entrants' threats are huge because the investment of economical hotels is fewer and payback period of investment is shorter comparing with the investment of high star hotels. However, with more and more potential companies entering the economical hotel industries, it may cause the development speed and scale of economical hotels to exceed the growth rate of the market, and bring fierce industrial competition. The purpose of this paper is to research the characteristics of economical hotels market and help the companies make proper strategy for entering the promising market.

Key words economical hotel market, market characteristics, second mover, entrance strategy, backwardness advantage

1 Introduction

The fast and stable growth of China's economy has brought huge business opportunities, with the fast development of market economy and increasing fluid of commercial activities, China's economical hotel market has becoming a booming market. The lease rate of China economical hotels is generally above 90% and the return is to 20% even higher^[1]. Chinese tourism industry has already become the new point of economic growth, which has offered various opportunities to the development of hotel industry, and the boom of tourism industry has shown the huge market potential. China economical hotels bring new opportunities and profit growth to the companies entering into the economical hotel market.

However, with more and more companies entering the economical hotel industries, it may cause the development speed and scale of economical hotels to exceed the growth rate of the market, and bring fierce industrial competition. For instance, IBIS hotel (which is the subordination of France Accor Hotel Group) has entered China economical hotel market when the local economical hotels have just started and developed. This will extremely cause the over-investment in the market, and the decline of the industrial profit rate. If the expanding speed of economical hotels is too fast, it may change the degree of supply and demand, thus it may reduce the investment return and bring negative influences. Therefore, it is of great importance to analyze the market characteristics and choose the appropriate target market and entrance strategies.

2 Five Force Model Analysis of Economical Hotel Industry

The assessment of competition degree of the existing hotel market means to appraise the performance of hotel corporations and research the hotel products. And the assessment of the future development of hotel industries means to research the hotel investment. According to Porter's five force model (including potential entrants' threats, suppliers' bargaining power, buyers' bargaining power, surrogate products' threats and industry competitors), these five forces are determining the intensity of industry's competition and industry's profit rate together^[2], as shown in figure 1.

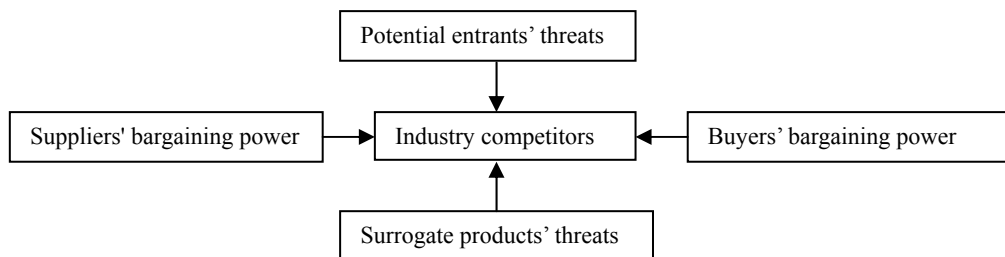


Figure 1 Porter's Five Force Model

2.1 Potential Entrants' Rhreats

With the reforming of China's economic and political system, more governments' hotel will enter the hotel market. There are a large number of potential entrants because the investment of economical hotels is fewer and payback period of investment is shorter comparing with the investment of high star hotels. In current situation that the market of high star hotel has been mature, entering into economical hotel market should be an appropriate choice of hotels industry.

2.2 Buyers' Bargaining Power

The buyer's bargaining power has close relation to the customer's consumption demand, paying ability and the sensitivity to the price of economical hotels^[3]. After the hotel industry entering the mature stage, the customers' consumption experience is more abundant because they can get much more information about the industry (such as the hotel product performance and cost structure). So the customers will beat the price down and require higher service qualities. The price war appears repeatedly in today's China hotel market, and its origin is the pressure of customers, which means it is the promotion of buyer's strength in the mature stage of the industry. With the maturity of customer's market and the improvement of people's cultural life and living standard, buyer's bargaining power will be stronger and stronger, but the trust and reliance degree of economical hotel will be higher and higher.

2.3 Supplier's Bargaining Power

The hotel industry has great industrial correlativeness with other industries. So it is difficult to form the supplier's bargaining power when the industry has not formed scale economies effect^[4]. The current competitions among economical hotels in China are mainly the price competition and this is the main reason why the whole operating of the industry is unsatisfactorily. The bargaining power of economical hotels is not strong in terms of this aspect.

2.4 Surrogate Products' Threats

The present surrogate products' threats of economical hotel are not obvious in China. Viewed form the long-term development, the following several accommodation establishments^[5] (as shown in table 1) may be the surrogate products' threats of economical hotels because these facilities have their own specific market positioning. But economical hotel also can form its differentiation advantages by establishing its specific characteristics in order to reduce the surrogate products' threats.

2.5 Industry Competitors

The main industry competitors of economical hotels are the high star hotels and lower hotels. These industry competitors have not brought huge negative influences to economical hotels because the fixed consuming degree of customers and the increasing of hotel consumptions cluster in China^[6]. But the following two factors should be considered. First, with economic development and improvement of people's living standard, some customers will flow into high star hotels. Another one is that the price competitive strategy of high star hotel will weaken the competence of economical hotels. More and more famous high star hotels have already entered into the new market, for example, HuaTian Hotel Group (a famous hotel group in Hunan province) has already opened the first economical hotel successfully in Hunan province in China, and its future strategy is mainly about the economical hotel market. HuaTian group considers that it will develop 200 economical hotels until the year of 2010^[7]. These activities have shown that HuaTian Hotel Group has the pioneering advantages. At the same time, the entry of the foreign economical hotel company will assault the existing operating patterns.

Table 1 Comparison of economical hotels and other accommodation establishments

Types	Location	Target market	Specificity
Economical hotel	Large and middle cities	Lower customers Middle	High efficient service, complete basic establishments
Motel	Around the roads to reach the tourist attraction	Drivers	Offering large parking lot
Tourist hotel	Tourist attraction	Tourists	Local specialty (for instance the specific diet)
Hostel	Tourist attraction, large culture and education zone, hi-tech zone	Youths, students	Offering the studying establishment
Family hotel	Tourist attraction	Family tourists	Paying attention to the close relation between operators and customers

3 Entrance Strategy Analysis of Economical Hotel Market

3.1 Competition Intensity Analysis

According to the previous analysis, it has not formed the fierce competition in market of economical hotels, but the future competitions will be fiercer (as shown in figure 2). So, if second movers can hold the current opportunity to enter the economical hotel market, it may gain its competitive advantages to implement its future strategy.

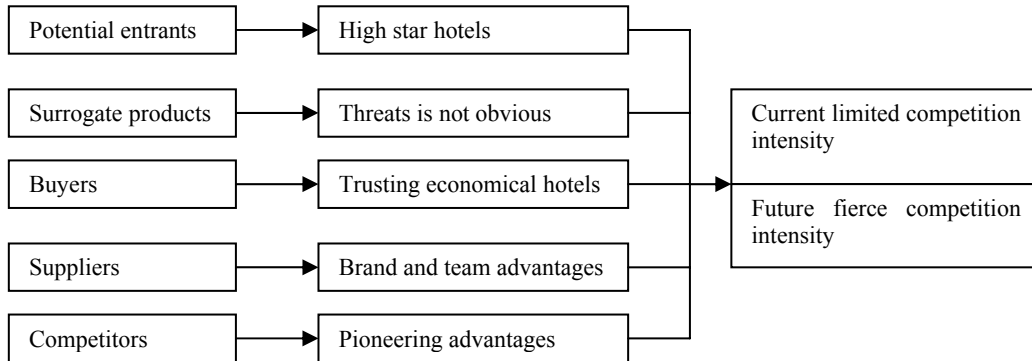


Figure 2 Competition Intensity of Developing Economical hotels

3.2 Market Positioning and Entrance Strategies

The market positioning of hotels means that the hotels make the decisions and marketing promotions in order to help its own products (service) to have the specific position in the chosen market^[8]. The economical hotels should make the differential service strategy and offers the service (according to the customers' different demands) depending on the brand and team advantages. The market segmentation of economical hotels is the social middle level consuming group, which needs the differential service but not the overall service. To exert the backwardness advantage, the second movers should use and combine brand strategy, chain strategy and collectivization strategy.

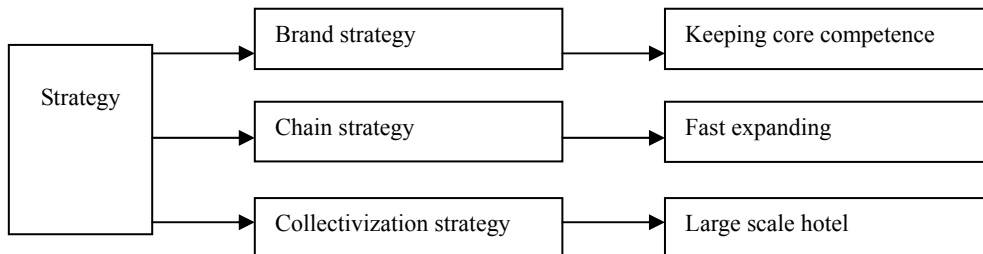


Figure 3 Entrance Strategies of Economical hotels

According to Prahalad & Hamel's core competence theory^[9], corporate core competence is the combination of technology mechanism, governance mechanism and collective learning. The core competence is the combination of a group of technologies, but not an individual technology. High-quality service and unique marketing culture of the group are the main factors of forming its core competence.

Relying on high-quality service and unique marketing culture to form brand is one of the most effective ways to attract customer, Meanwhile, as a part of the corporate culture, team spirit plays important role in suiting the development economical hotels. Chain operating is the developing trend of hotel industry^[10]. The current ways to realize the chain operating of economical hotels in China include: (1) it can merge and acquire other hotels to expand the scale, (2) it can develop the scale through the trust management and brand export. According to the current situations, it may consider using merger and acquisition to realize the chain operation depending on the systematic hotel management experience and its customer cluster of the group. Thus it will help the hotel to realize the collectivization strategy in the future.

4 Conclusions

The boom of economical hotels market has offered the new opportunity, and many companies have already entered into the economical hotels market and held the pioneering advantage. In this situation, the second mover entering into the economical hotels market should use collectivization strategy, chain strategy and brand strategy, and combine them together to exert backwardness advantage.

Hotel has knowledge-intensive and labor-intensive characteristics, which means it has higher requirement for hotel employees, especially the hotel administrative staffs. The professional level, service quality of them will affect the hotel business performance directly. The development bottleneck of economical hotels in China is the scarcity of specialized employees comparing to foreign competitors. So training the managers of economical hotels is important to the development of China economical hotels. If second movers do not have appropriate HR distribution, it will bring negative influences to the operating performance.

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