



Countermeasures Study on Enhancing Competitiveness of Budget Hotels in China

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Abstract

With the development of China's economy, the number of foreign tourists and business visitors will increase significantly, which provides objective opportunities for developing economy hotels. In the background of the rapid development of budget hotels, we analyze the development of budget hotels from five aspects, i.e. existing competitors in the industry, potential or newcomer threat, threat from substitutes or services, buyer's bargaining capability, supplier's bargaining capability, and put forward strategies to promote competitiveness of budget hotels in China, that is, budget hotels should actively innovate, strengthen joint marketing with related industries, embrace consumer psychology of seeking the divergent and chasing the new, form their own unique brand characteristics and adjust the regional structure of hotels in order to master the right to choose suppliers, so as to enhance Chinese budget hotel competitiveness.

Key words: Budget hotels; Competitiveness; Michael Porter's Five Forces Model

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INTRODUCTION

All circles are optimistic for China's tourism industry,

and the annual growth rate of which is estimated to reach 10.4% in 2020. At that time, China will become the number one tourism destination country in the world. The high-speed development of tourism will certainly lead to the rapid emerging of hotel industry, which provides important chances and broad markets for the rapid development of domestic hotel industry especially of the budget hotels. Up to September 2014, the number of domestic budget hotels has increased from 23 in 2000 to 4423, and the number of guest rooms has reached 386,150, which can be called amazing rises (Tang, 2013). However, with the rapid development of budget hotels, many problems show up, too. For example, the structure of regional development is unreasonable, the waste of resources leads to the rising cost of hotels and so on. The competitive pressure on budget hotels continues to increase, creating a severe situation. Therefore, it's necessary to master strategies for promoting competitiveness of budget hotels for its further healthy development, making it standing in the powerful international industry.

1. THE GENERAL DESCRIPTION OF BUDGET HOTELS IN CHINA

1.1 Summary of the Distribution of Chinese Budget Hotels

"2014 China Budget Hotel Survey Report" points out that currently Chinese budget hotels mainly concentrate in East China, accounting for half of Chinese budget hotels with the number of more than 6,096. In regions with equal level of economic development, by which means North China, South China and even in less economic developed regions, such as Central China, Southwest China and Northeast China, budget hotels also enjoy large market space (Chen, 2010).

1.2 Summary of the Development of Budget Hotels in China

1.2.1 A Decade's Rapid Development

After Jingjiang Inns became the first brand of budget hotels in China in 1996, the development of budget hotel industry was slow. There were only 23 hotels in 2000, but the occupancy rate was always higher than that of traditional hotels. After seeing this advantage, Ctrip decided to enter the budget hotel industry when it was majoring in hotel reservation, and then a lot of budget hotel brands appeared, the whole industry entered a fast developing period. Since Ji Qi of Ctrip built up Homeinns, a new brand in 2002, budget hotel industry got into a fast developing track, achieving growth rates of 74% in 2003 and 90% in 2004. After the establishment of two brands, 7daysinn and Htinns, and the accelerating development of other brands, such as Homeinns and Motel, the growth rate was 214% in 2005, which was really surprising, and it still kept the rapid growth of over 65% in the following years from 2006 to 2008. The economic crisis of 2009 made some brands adjust their expansion paces, and the growth slowed down. But others like 7dayinns and Homeinns announced that they would once again get fast development after 2010. By the end of the second quarter of 2010, the number of hotels and rooms of budget hotels in China had reached respectively 4,270 and 461,115. According to the estimate of the hotel opening amount of every brand, the increase rate of 2015 will exceed that of 2014 (Deng, 2012).

1.2.2 The Initial Formation of Oligopoly

After more than ten years' development, a lot of brands such as Jinjiang, Homeinns, Htinns, 7daysinn and Motel have appeared in the budget hotel market in China. The Jinjianginns has always kept developing steadily as China's earliest budget hotel, but its leading position has been replaced by Homeinns which was established 6 years later, and there has already been an apparent gap between the two. Among the top ten brands, Homeinn is far ahead, while Zzkjinns and Cityinns just keep a scale of two or three thousand rooms. By the end of the second quarter of 2014, Home Inn took the first place with 93,000 guest rooms, the old brand Jinjiang Inn ranked the 2nd with 58,000 guest rooms, and the numbers of the guest rooms of 7 Days Inn, Motel and Htinn all exceeded 30,000. The number of rooms of top 5 brands in the industry reaches 726,500, which accounts for 51% of the room numbers of entire budget hotel industry. In top 10 brands, there are 7 with more than 10 thousand rooms. Ibis, subsidiary of French Accor Hotels Groups, ranks the 8th with 7,661 rooms. The total number of guest rooms of top 10 brands is 1.059 million, which accounts for 62.7% of the total. In terms of the number of hotels, Homeinn also ranks the first in the industry among 674 hotels. 7days Inns, exceeding Jinjianginn, ranks the second with 399 hotels, and Htinn, exceeding Motel, ranks the forth. Among the

top ten brands, there are 6 brands with over 200 outlets. American Super 8 ranks the 7th with 167 outlets. Ibis has only 42 outlets currently. The number of the outlets of the top ten brands is up to 2,430, which accounts for 56.9% in the budget hotel industry (Lv & Xie, 2015). Meanwhile, as we can see, whether in the number of stores or guest rooms, local brands such as Home Inn and Jinjiang Inn enjoy the absolute advantage, while some brands such as American Super 8 and French Ibis of Accor fail to take the lead.

1.2.3 The Average Numbers of Rooms Vary Widely from Every Store

The top ten brands whose ranks are based on the numbers of stores and rooms do not change, but their ranks are different mainly because every store of every brand owns different number of rooms. According to the statistics, the largest average quantity of guest rooms is Ibis while the fewest is Super 8, and the former is two times of the latter. Home Inn, Htinn, 7days, which listed in America, have the similar quantities of 100~120, which is the current mainstream (Lv & Xie, 2015).

1.2.4 Lower Price Positioning

Besides average numbers of guest rooms, top ten brands have different prices. According to statistics, the prices of Htinn, Green Tree Inn and Ibis are about 200 yuan, while the prices of Jinjianginn, Home Inn and 7daysinn are between 160 yuan and 180 yuan. It to some extent represents the varied competitive strategies of each brand: the former cater more to the business travellers like owners of SME and business managers, and 7days which belongs to the latter locks mainly on young white-collar workers and student groups (Cheng, 2013).

From the price structure of the entire budget hotel industry, those from 150 to 200 yuan account for 51%, and those from 200 to 300 yuan account for 26%. The hundred-yuan hotels, which are becoming popular these days, occupy a share of 5 percent. Those with prices over 300 yuan are somewhat not suitable to the position of budget hotels, and their market shares are only 3 percent (Yin, 2014).

1.2.5 Occupancy Rate Keeps in a Relatively High Level

Until now, the occupancy rates of Home Inn, 7 Days Inn and Hanting in the budget hotel industry have maintained over 85% for the latest three years, and the occupancy rate of Jinjiang Inn has also maintained over 80%. Since there is still a relatively small quantity of budget hotels, the occupancy rate of entire budget hotel industry is maintained at a relatively high level.

Taken as a whole, budget hotels in China have, so far, already taken shape, with oligopolies starting to form yet the competition among which is still not fierce enough. Until present, the budget hotel brand chains are still at a phase where they are encroaching the market of low-star single hotels with no brand, and the entire budget

hotel industry is also in rapid development, far from saturation. Zheng Nanyan, CEO of 7Days Inn, said that for each one of the largest four or five brands of budget hotels, developing to the scale of 1,500 to 2,000 stores is out of question. And 7Days Inn will integrate its resources to have 1,500 stores as soon as possible. Up to now, there have been 1,000 contracted Home Inn stores, and it is expected that 7Days Inn will also spread 1,000 stores in 2016.

2. CURRENT SITUATION AND PROBLEM ANALYSIS OF COMPETITIVENESS OF BUDGET HOTELS IN CHINA

The paper will analyze the status quo and problems of competitiveness of budget hotels in China according to Michael Porter's Five Forces Model.

2.1 The Aspects of Existing Competitors in the Industry

Competitors in the hotel industry mainly come from two kinds of hotels: One type include high star-level hotels represented by four-star and five-star hotels; the other are social inns and hostels which mainly provide simple accommodation. For aspects such as hotel construction, equipment and facilities, functions and management, as well as service standard, budget hotels are far from high-star hotels, but they are cheaper; Though the prices of social inns and hostels are low, they only provide simple accommodation, and can hardly guarantee the quality of hotels and service, while budget hotels can just make up. According to a survey, the number of China's starred hotel is huge and the competition becomes increasingly fierce. With the development of tourism industry, the number of hotel increases sharply, hotel market will soon enter market regulation and correction stage, the competition of hotel industry becomes increasing fierce, and the reshuffle of market will make the subdivision of customer sources clearer. The fierce competition makes the hotel industry keep perfecting itself and seek for new markets to consolidate and expand the market share to make a living. We can say that it is fierce competition that drives enterprises to concern about budget hotel market and to invest in it. Looking at the most products of the hotel market in our country, except for high-level luxurious hotels with good quality and high prices, there are just "distorted budget hotels" with dissatisfied service and management. Few energetic ones can be seen in the middle. The fault of supply, the fierce competition and the driving of needs will certainly promote the rush of seizing the market of Chinese budget hotels. However, with the market competition intensifying, the budget hotels are also faced with strong competitors.

2.2 Aspect of Potential or New Comer Threat

At present, motels will become the potential or new

comers of the budget hotel industry. With the continuous development of our economy, especially that in the road traffic industry: more and more families have automobiles, and motels will develop at a high speed, which belong to budget hotels. And motel will be a huge potential incomer in the future. However, in the light of current situation, people still first choose some brand chain hotels, for example, Jinjiang Inn and Home Inn. These budget hotels with famous brands still have stable competitive strength, but the threats from potential entrants still can't be belittled. On one hand, budget hotels have low barriers to entry, and they have larger space for development. Our country has an open and relaxing political environment for the hotel industry. As economy grows rapidly, our country, which has unique tourism culture, diversified customer markets and rich tourism resources, attracts other domestic investors and foreign merchants to cast their eyes into the domestic hotel industry, especially into the budget hotel industry, which will be the challenge faced by the domestic budget brand hotels. On the other hand, with the improvement of the traffic conditions and the increase of the family incomes, more and more families are able to own cars. Tourists and those who go out will mainly be car owners. Traveling modes like budget travelling begin to show up. Therefore, the motel will become a potential incomer in the budget hotel industry.

2.3 The Aspect of Threat from Substitutes or Services

The substitutes are products that can partly or totally replace some products in functions. Substitutes such as guesthouses, service apartments, clubs, family inns and other hotels, provide essential demands of accommodation for guests. Such services replace partially services of budget hotels, bring threats to budget hotels. Target-market customers, whether their purpose of outing is for public or private, are all relatively limited in budget. Because of the limited budget, these customers' expectations of hotels are not like those who are checking in at high-star hotels which enjoy the characteristic of luxury. Their demands are summarized by scholars into four words: clean, convenient, comfortable and safe, which are exactly the market demands that the low-end market and high-end market of hotel industry can not meet. Therefore, demand market is bound to continue to promote budget hotels which are similar to mid-range hotels to appear and prosper. However, with the development of science and technology, there will be more and more substitutes. Hotel services industry solves the problem of travelers' accommodation. As the pillar industry of tourism industry, it can solve the accommodation problem, so people can feel free to travel, purchase, entertain and carry out other activities. First of all, more and more families own their private cars now. Motels are taking the place of hotels to solve the problem of tourist accommodation, and distributing the

passenger source. However, due to the limit of economic development condition, motels haven't developed rapidly at present. Secondly, one survey finds that there are more and more smaller hotels targeting contemporary college students and middle school students as the main consumer groups, such as GRIDINNTM in Ningbo. In addition, there are also youth hostels deriving from European and American countries. The youth hostels aim at the consumer groups with lower earnings. They can provide basic accommodation with a much cheaper price. Finally, in order to further excavate the market of passenger source, more investors start to view on the market of urban high-grade apartment hotels, training centres and so on. As for the economical hotel, there is no doubt that this kind of apartment hotels and training centres distribute part of source and threaten the development of hotels to some extent. Although the emergence of alternatives such as hostels, hotel apartments, clubs, family hotels and so on distribute a portion of customers, they can not pose a big threat to the hotel industry due to defective products and weak strength.

2.4 The Bargaining Power of the Buyers

At present, the consumer groups of economical hotels can be classified into three types: young people, people with a higher educational level and people with abundant incomes. Once they built the consumption confidence in economical hotels, and formed satisfaction and loyalty for the brands at the beginning of consumption, they will lay a solid and sustainable foundation for the economical hotels to maintain higher market credit and greater market share. Certainly, young and high-level intellectual consumer groups have also made a higher-quality requirement to economical hotels, which is one of the powers driving economical hotels to move forward. On one hand, the characteristics of the consumer groups of economical hotels not only determine the operation direction, marketing mode and management emphasis of the hotels, but also can reflect the ability of sustainable development to some extent. Shanghai is relatively good for the development of economical hotels in China. According to a report investigating Shanghai, the consumer groups for Shanghai's economical hotel are characterized by: "Firstly, youth. 60.4% of the check-in consumers are between 23 and 30 years old; secondly, high cultural level. Thereinto, college degree accounts for 20.8%, undergraduate degree accounts for 43.8%, and postgraduate degree accounts for 14%; thirdly, fat salary. Monthly income between 2000 and 3000 yuan accounts for 33.3%, and monthly income between 3000 and 4000 yuan accounts for 23.6%." On the other hand, with the social economy developing continuously and people's living standard being improved accordingly, people are getting more and more fastidious about all aspects of the life. They propose higher and higher demands for accommodation, and require to lower the price and provide high-quality products or more

services. Abundant supply of hotel market along with the development of e-commerce information enables buyers to master more hotel information and have multiple choices, which will strengthen the bargaining power the buyers. The fastidiousness of consumers and middlemen make hotels more and more professional, and the price and quality of hotels are no longer the only factor for the purchase of consumers, while hotel brands will play a more and more important role. Therefore, the development of economical hotels should focus on the brand construction, because large brands and enterprises are easier to gain identity from consumers.

2.5 The Bargaining Power of the Suppliers

The hotel suppliers mainly involve in bedding, furniture, water, electric, gas and so on. With the development of hotel industry, the suppliers of hotel supplies also become more and more popular. Therefore, as a merchant, the higher the price of hotel supplies offered, the more profit. As for the hotels, the operating cost will be affected to some extent after a round of bargaining, while as for the suppliers of bedding articles and furniture, there is much space for bargaining, but less space for the suppliers of water, electricity and gas. In terms of the operating cost of the hotel, it is an item that should be paid high attention to. As for hotel consumers, the price of (economical hotels) and bargaining power mainly depend on the overall environment, both internal and external. Hotels with perfect service naturally have a higher price. Additionally, since some economical hotels select addresses concentratedly and regional arrangements are unreasonable, so they are relatively concentrated in developed areas. Therefore, the suppliers become the beneficial party who could raise the price of hotel supplies, which will also increase the costs of hotels.

3. THE COUNTERMEASURE FOR THE COMPETITIVENESS IMPROVEMENT OF ECONOMICAL HOTELS IN CHINA

3.1 Existing Competitors in the Industry

Economical hotels face two major competitors, so they should be active in innovation. First, aiming at high-star hotels, economical hotels should strive to narrow the gap with high-star hotels in service quality. For example, as the proverb goes, "hunger breeds discontentment", taking the food as the breakthrough point, hotels can integrate this concept handed down from one generation to another into hotel management. Therefore, economical hotels should seize the supply of dietary, focus on catering culture to seek a breakthrough, and narrow the gap with high-star hotels. Secondly, aiming at social hotels, guest houses and so on providing a simple accommodation, on one hand, hotels should maintain outstanding service; on

the other hand, improve the cost performance, so as to seize their target customers and prevent the loss.

3.2 The Threat from Potential or New Entrants

Strengthening the co-marketing of hotel brands and tourism-related industries, and enhancing the brand effect aim at the new entrants and potential competitors in the industry. Hotel industry is a special industry in China, under the dual regulation of the government and the market, the hotel industry and other related industries enjoy wide cooperative space, such as finance, insurance, leasing, post and telecommunications, real estate, etc., which is a new trend. Tourism-related industries are comprehensive industries with strong driving force and wide range of social popularization, which leads to huge social brand marketing space. Seizing this opportunity has far-reaching significance for the development of economical hotel industry. Strengthening the co-marketing with relative industries can make them expand market and improve competitiveness through strong marketing space, so as to consolidate their position. Therefore, they can avoid or reduce the impact on enterprises from new incomers and potential competitors in the industry to some extent.

3.3 The Threat from Alternatives or Service

As for the threat from alternatives or service potential, economical hotels should offer excellent quality and reasonable price, and seize consumers' psychology of being on the lookout for what is novel. Economical hotels should promote self competitiveness, ensure excellent quality and reasonable price fundamentally, and perfect hardware and software facilities, meanwhile, improve management and administration, reduce production cost and carry out low-price policy. And they should also seize the consumers' psychology of being on the lookout for what is novel to deal with the alternatives in the market, which will increase the demands for economical hotels, and be another strategy of coping with the threat from alternatives and services.

3.4 The Bargaining Power of the Buyers

Facing young and high-level intellectual customer groups, taking the creation of China green hotel brands, improvement of product quality and advocacy of green consumption as the breakthrough points, to shift the customers' attention, meet their high expectations and strict requirements on hotel services by green hotels, and promote the development of green hotels, which has also set higher requirements on intermediaries and reduce the chance of middlemen bargaining. With the in-depth practice of scientific development domestically, taking the path of green development is the demonstration of Chinese characteristics. In order to gain a dominating position in the negotiation with buyers, they should initiatively improve the quality of products, meet social needs, and take the path of green consumption. Green hotel brand

is first initiated by Chinese, and we should expand its social recognition, and form our own characteristics. With the increasing deterioration of the world's environment, we should embark on saving energy, lowering material consumption, protecting ecological environment, reducing pollution, and enhancing resource utilization rate in terms of the future development of the hotel industry, so as to lead a road of sustainable development. In the aspect of hotel buildings, we should give consideration to both local characteristics and reduction of various pollutions brought by modern construction as much as possible, so as to reduce the unnecessary loss. For example, for the sake of good indoor lighting, geometric modeling should be adopted in order to reduce the unnecessary energy waste; hotels should try to use solar energy, save the consumption of traditional energy, and reduce air pollution; hotels should not use consumables made of inorganic compound such as plastics, and replace them with labile products or woodwork, which is benefit to the balance of ecological environment; bed sheets and towels of the guest rooms had best be pure natural cotton goods or lockram. It's better to select pure vegetable fat soaps, expressing green service as possible as we can; hotels no longer need to exchange disposable goods every day, and the replacements of sheets and towels are decided according to customers' needs, while the dining of the hotels should also "come back to nature, nutrition and health care", which should select and use green and organic food as ingredients for cooking, and refuse extravagance and waste of some customers politely, in order to develop green consciousness and consumption spirit.

3.5 The Bargaining Power of the Suppliers

To adjust the regional structure of the hotels and master the right of choice of the suppliers. With the entry into WTO, Chinese economy has developed with leaps and bounds. The prosperity of economy drives the rapid development of tourism and hotel industry. Nowadays, the majority of economical hotels is concentrated in the central cities and capital cities, which will affect the development of the whole industry. Since most hotels focus on one place with a large number of hotels and a relatively small number of suppliers, the right of choice has been held by suppliers, so it should make a proper change in development strategy, actively adjust the regional structure of economical hotels, set too centralized hotels apart, and achieve the optimal regional structure and reasonable distribution, so as to change from passive to active and grasp the right of choice of suppliers, weaken the strength of original suppliers and generate competition among the suppliers, while such competitions can improve the quality of suppliers.

CONCLUSION

Chinese economical hotels are still in the growing stage,

with immature development. From the perspective of existing competitors within the industry, facing two major competitors, they should be active in innovation, strive to get close to high-star hotels in the aspect of service quality, and improve the cost performance while maintaining outstanding service aiming at social hotels; from the perspective of the threat from potential or new entrants, they can expand market share, enhance competitiveness and consolidate position by powerful marketing space; from the perspective of the threat from alternatives or service, they can lower the production cost, offer excellent quality and reasonable price, and seize the consumers' psychology of being on the lookout for what is novel; from the perspective of the bargaining power of the buyers, facing the young and high-level intellectual group, they can create green hotel brands of China, and improve the quality of products; and from the perspective of the bargaining power of the suppliers, they can reduce internal waste, optimize regional structure, and master the right of choice of suppliers, so as to cut the production cost.

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