

## The Development Strategy of Shenyang Home Inns

LIU Dan<sup>1,\*</sup>; WANG Danyang<sup>2</sup>

<sup>1</sup>Lecturer, M.A., The institute of Tourism and Geography, University of Shenyang.

<sup>2</sup>University of Shenyang.

\*Corresponding Author.

Address: 66 Yan He street, Huan Gu district, Shenyang.

Email: sixii1979@yahoo.com.cn

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### Abstract

Since its first budget hotel was located in Shenyang, Home Inns has opened numerous budget hotels every where. Such a fast development also brings out many problems and risks. As a leader of the budget hotel industry, Home Inns in Shenyang also has many problems to be sorted out urgently. We therefore analyzed the development and existing problems of Home Inns and provide relevant strategies for a consistent and healthily development of Home Inns.

**Key words:** Home Inns; Development; Budget hotel

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## 1. THE DEVELOPMENT STATUS OF HOME INNS IN SHENYANG

In 2005, the first budget hotel of Home Inn was opened in Dalian, which was a hallmark of Home Inn on the market of Northeast China. In 2006, another budget hotel of Home Inns, Forbidden City hotel came into the market in Shenyang. Till early 2011, Home Inns has already opened 25 budget hotels with nearly 5,000 rooms, across all regions of Shenyang. However, undisclosed problems also remain with such rapid development. The collapse of a thousand-mile dike results from ants' nests. After analyzing the market in Shenyang, we find the following

problems remaining in Home Inns budget hotels.

## 2. PROBLEMS IN THE DEVELOPMENT OF HOME INNS IN SHENYANG

### 2.1 Over Development and Uneven Distribution

#### 2.1.1 Uneven Regional Distribution Due to an Excessive Development

Since 2006 when the first Home Inns budget hotel was located in Shenyang, Home Inns has already opened 25 branches with a speed of five hotels per year in average. The expansion is continuing. However, there are many hidden problems with such a rapid development. For example, its Jinqiao Road hotel, the Forbidden City hotel, Zhongjie Hotel, and Taiqing Palace hotel are located so closely that you can approach any of them within one or two bus stops. As shown in Figure 1, the Forbidden City hotel, Zhongjie Hotel, and Taiqing Palace hotel are located around E point.



**Figure 1**  
**The Distribution of Home Inns Budget Hotels in Shenyang**

Although such a distribution can occupy the market predominantly, different budget hotels of same brand can also become competitors. Under the circumstance of imperfect management, hotels may take various competition means to increase their profit, causing a vicious competition with each other in a long term and leading to lose-lose situation finally. But in the South Tower and East Tower areas, there is only one or none Home Inns hotel in a large area, while traditional sense of social lodges predominate the market and their business is running extremely well.

**2.1.2 Vicious competition within brand due to an uneven regional distribution**

According to reports, if the number of hotels in same brand is saturated in a certain area, it is very easy to face the danger of being eliminated even with the saturated sources of tourist market. Based on a cost analysis, if there is only one hotel in a region and the cost per hotel is \$ 1000, the profit is 100% i.e., \$1000 with an occupancy rate of 100%. When second brand hotel is opened in same area, the total number of occupancy may increase but more human and material resources have to be invested. It is difficult to ensure 100% occupancy rate in each hotel, thereby increasing the cost for each room. In order to achieve a high profit and to maximize the occupancy rate, two hotels of same brand may compete to each other viciously. In addition, a blind expansion will lead to the decline in occupancy rate, prolonged cost recovery period and so on.

**2.1.3 Serious Homogenization Due to “One Face for Thousand Hotels”**

The standardization conception of Home Inns is “a comfortable bed, hot water, clean rooms, warm environment, and relatively convenient transportation”. Unified development will indeed help to establish the standardization of business development, but it also results in a problem of “homogenization.” At present, there are 25 Home Inns hotels distributed in different areas of Shenyang, serving different groups of people. However, there is only one atmosphere in same model and 5000 rooms look exactly same. Compared with other brands, the only difference is probably the brand logo and the color of appearance. In the meantime when Home Inns expands rapidly, it does not paid any attention to market segmentation and the development of feature products, just trying to grab a piece of cake in the budget hotel industry with a popularized product.

In fact, the product structure of “one face for thousand hotels” is unable to adapt to a diverse market. The homogenization of budget hotels on the market is very serious at present. The business philosophy of most hotels is “cheap” and “clean” without any characteristics, which results in a serious phenomenon of “homogenization”. Finally, the product homogenization will lead to “zero profit”, thereby decreasing the market size of budget

hotels in China. The price war will become more and more severe, and as a result, some hotels have to eventually exit this market.

**2.2 Various Pricing Due to the Lack of Standard**

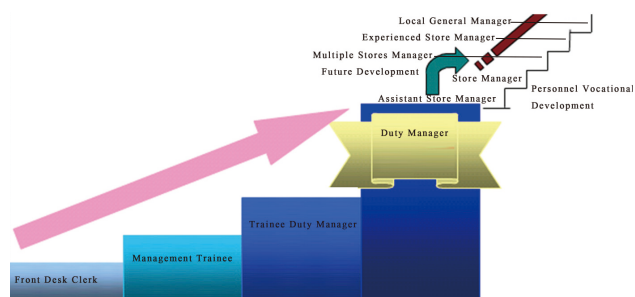
As shown in Table 1, Home Inns had unified price and type of rooms in early stage. However, when time is going on, different Home Inns hotels provide different room prices due to the competition. In April 2011, for example, the room prices of Home Inns in Shenyang published on www.17u.com were 20-yuan different among hotels in same region, about 10-yuan different among the hotels in different regions. The difference between the highest price and lowest price was as much as 30 yuans within 25 branches. One important reason is the lack of standard for budget hotels, including the operating mode and pricing. A reasonable price is usually a powerful factor attracting consumers. However, the long-term vicious competition will not only cause chaos within the industry but also affect the environment of entire industry, preventing the self-development of hotels.

**Table 1  
The Published Room Price of Home Inns Budget Hotels**

Room	Bed	Price
Standard 1F	Double; 15m <sup>2</sup>	¥227
Standard King size 1F	King size; 15m <sup>2</sup>	¥227
Standard (2F-4F)	double; 15m <sup>2</sup>	¥265
Business (2F-4F)	King size; 15m <sup>2</sup>	¥265

**2.3 Short of Skillful Human Resource and Experience**

In China, the hotel industry is still a labor-intensive industry. Current low entry standard of staff recruitment and incomplete human resource management systems have caused a persistent difficulty to restrict the development of the hotel industry. Highly educated people have no experience and the development space of experienced staff is limited. Phenomena of weighing experience more than “education degree” and “quality” remain everywhere in hotel industry. There is no exception in Home Inns.



**Figure 2  
Home Inns Staff Training Program**

As shown in Figure 2, the staff training program of Home Inns only indicates a general description of future development for the hotel staffs. There is no detailed training plan for excellent and well educated staffs. Under such circumstances, the lose of well educated and high level of staffs has become inevitable. Moreover, in order to reduce personnel cost, the middle-level of managers will usually consider experienced veterans and promoted junior staffs who usually have no knowledge about the hotel management. Generally, these people only concern about the performance of the business rather than the personnel maintenance and training. As a long-term result, the future development of hotels will be restricted, thereby leading to a stagnation situation.

### **3. DEVELOPMENT STRATEGIES FOR HOME INNS IN SHENYANG**

#### **3.1 Market Segmentation and Diversified Development**

None of hotels can satisfy all types of customers. When more and more target markets are selected, the competitors will become more and more, following by diverse and complex demands of customers. Consequently, hotels will be overwhelmed by a passive situation and unable to meet the satisfaction of all customers. If each hotel only targets one or few segments of market and offers excellent services as much as possible, it will be able to meet the consumers' needs and become irreplaceable in this group of consumers' minds. Therefore, we should start from the research about consumer motivation and the characteristics of consumer behavior in order to target an appropriate market. With economic development, people's income and consumption levels have been increased. Their consumption concept has also changed dramatically. Consumers' tastes change very quickly. Even in the budget hotel industry, some novel services that meet customers' psychological requirement with some abstractive theme may also become trendy and prevailed. Under such ever-changing circumstances, Home Inns should strengthen the marketing research and positioning. In addition, with more personalized market segmentation, consumers' demand is also developed into an advanced stage and the models of consumer behavior has changed from quantity and quality consumption model to personalized consumption model, which requires budget hotels to consider a "tailored" service when they design products and services. According to the report, Home Inns plc has officially announced in Shanghai that it will open 3-4 moderate to high-end business hotels (Yitel) in 2011. Moreover, it is planning to expand to 50 Yitels within next 5 years. This is a hallmark of Home Inns in the moderate to high-end business hotel market. And such high-end hotels of Home Inns will settle in Shenyang in the near future, which proves that Home Inns is changing their investment

strategy to face a diversified development and to occupy more market, ultimately achieving the maximization of business and profit.

#### **3.2 Establishing a Standard and Reasonably Pricing**

Although budget hotels have been developed in Shenyang for 5-6 years, there is not any defined standard so far. As one of the best budget hotel chain, Home Inns should take the lead in regulating its own markets and become a good business model for other budget hotels. Meanwhile, when budget hotels are standardized, it means same service standards, price standards, facilities and equipment standards in any area and any city. In another word, every consumer will be treated fairly with a guaranteed service in any brand budget hotels, which allows consumers to spend money clearly and willingly. On the other hand, it could regulate the budget hotel market to avoid vicious competition. Under such a fair competitive circumstance, hotels can focus on customer service. Only in this way, consumers are willing to choose Home Inns and spend money in Home Inns.

#### **3.3 Strengthening Rational Planning and Staff Training**

In business management of Home Inns, human resource management is one of important factors affecting profits. With the development of the tourism market, the demand for the hotel industry, the improvement of guests' taste, the requirement for employee's education and quality are increasing. Therefore, the proportion of human resource cost in revenue will continue to grow. How to control the human resource cost, innovate management, implement a people-oriented conception, and constantly improve the management level play very important roles in maximizing economic return and the healthy development of low-profit budget hotels. First, Home Inns should scientifically plan and budget according to its characteristics. Due to the difference in consumer resource structure and spending habits, and seasonal tourism, the busy condition of hotel staffs is different. Therefore, a rational human resource planning and a proper budget become very important. Secondly, Home Inns should explore the existing human resources and train the staffs with multiple skills. To avoid the waste of human resource, it should conduct multi-skill activities and wide cross-trainings within one department and between different departments so that its staffs can learn multiple and various skills. In the meantime, it should require all staffs to keep learning and improve themselves with reading, discussion, summarizing tips, and participating in book clubs, etc. All executive officers and managers must participate in training programs in their spare time. All staffs learn from each other, exchange experience and discuss the culture and management problems of Home Inns. The company should use "developing Home Inns" as a unique belief to encourage all "Home Inns people" to

form a team with high cohesion.

It is worth pondering how to keep the dynamics and competitive strength of Home Inns to achieve a sustainable development and remain in the leading position in the budget hotel industry today when more and more new generation of competitors are emerging. A sustainable development should not only occur in business but also in human resource, financial resource, and environment. Only when the development of hotels is synchronized with the socio-economic and natural environment, Home Inns will remain in an undefeated position in the budget hotel industry.

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