

The changing structure of the Chinese hotel industry: 1980–2012

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ABSTRACT

This paper describes the structure and challenges facing the domestic Chinese hotel industry at the start of the second decade of the twenty-first century. It notes the progress that has been made and the increasing internationalization of the industry and Chinese chains as they commence to raise capital overseas and begin a period of mergers and acquisitions of foreign based chains. An analysis of the balance between demand and supply is provided for different cities throughout China. The challenges facing the Chinese domestic industry and for foreign chains operating in China are classified and a commentary is provided for each of these categorisations.

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1. Introduction

The focus of this paper is the hotel industry in China, its size, structure and unique characteristics—factors that today are shaping the global tourism and hospitality industry and in turn impacting world tourism and hospitality education and research as the industry becomes increasingly international in its scope. The paper comprises four parts: first, an overview of China's Hotel Industry, second, the status of international hotel brands in China, third, domestic Chinese hotel brand development, and finally an identification of research issues related with China's hotel industry.

While this paper relates to the period 1980 to 2012 it is worth noting that the Chinese hotel industry has long antecedents. Xu (2012) notes that the Sui (c 581–618 AD) and Tang (c 618–907 AD) dynasties in ancient China saw a significant development of hotels, (both government-run and private), in number and size, that far surpassed any previous generation. This long history has significance for there exist long established modes of practice, patterns of commercial hospitality and practices of food service that never wholly vanished during the Maoist period (1949–c. 1976) and which are being rediscovered and modified to meet the needs of the 21st century. Many of these ancient practices indicate concerns consistent with current issues. Xu (2012) notes the emergence of branding with the 'presence of hotel signs everywhere' during the Yuan dynasty (c 1271–1368 AD) while during the Ming (1368–1644 AD) and Qing (1644–1911 AD) dynasties the themed area of reception, restaurants and rooms was well established.

2. Overview of China's hotel industry

2.1. Numbers of hotels and hotel rooms

As generally recognized, the Chinese tourism and hospitality industries have experienced phenomenal development since economic reform was initiated in 1978. In the past 35 years from 1978 to 2012, the development of China's lodging sector has mirrored the economic transition and ascent of China in the global economy as China attained the position of the world's second largest economy in terms of total Gross Domestic Product. It has been three decades of almost unprecedented economic growth, which has seen double digit annual growth for much of this period, and which has lifted literally millions of people out of poverty and created a new middle class with aspirations similar to those of developed nations (Zeng & Ryan, 2012).

At the commencement of this period of development, China's hotels were few in number, with travel having been primarily restricted to that associated with political needs (Zhang, Pine, & Lam, 2005). In terms of hotel development, a key moment was the establishment of a star rating system in 1988, which for the first time in China permitted comparison and benchmarking of hotels across the nation. It also permitted a better system of data collection, and statistics indicate over the last 30 years an annual average increase in the number of properties of about 20%, with the highest annual percentage increases being in 1991 (36.34%), 1994 (31.2%) and 2000 (57.99%). In 2010 however, due in large part to the global economic recession, China experienced a reduction of 6.15% in the number of properties, yet still had 13,991 star rated hotels as shown in Table 1. Nonetheless, the number of hotel rooms still continued to increase, as shown in Table 2, and the data are, in part, also partially explained by a process of structural reform that commenced in 2010 and a tightening of regulations associated with The Green Hotel reforms that sought to improve environmental

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Table 1
Number of hotels in China by star classification.

Year	Hotels	Hotels according to star rating				
		5 star	4 star	3 star	2 star	1 star
1991	853	21	21	235	393	156
1992	1028	24	24	280	470	187
1993	1186	32	32	337	541	198
1994	1556	35	35	452	737	236
1995	1913	38	38	591	930	248
1996	2349	46	46	743	1148	284
1997	2724	57	57	895	1339	276
1998	3248	64	64	1085	1610	313
1999	3856	77	77	1292	1898	385
2000	6029	117	352	1899	3061	600
2001	7358	129	441	2287	3748	753
2002	8880	175	635	2846	4414	810
2003	9751	198	727	3166	4864	796
2004	10,888	242	971	3914	5096	665
2005	11,828	281	1146	4291	5497	613
2006	12,751	302	1369	4779	5698	603
2007	13,583	369	1595	5307	5718	594
2008	14,099	432	1821	5712	5616	518
2009	14,639	462	1968	6436	6705	676
2010	13,991	595	2219	6268	4612	297

Source: Annual Tourism Statistics of China National Tourism Administration (1992–2010), Beijing, China Travel & Tourism Press, 2011.

impacts and quality of hotel provision (China National Tourism Administration, 2011a).

Table 2 bears closer examination in terms of the relative share of the supply of rooms that each star grading possesses. In 1991 it can be seen that the category, “One Star” accounted for 9.34% of the total stock of hotel rooms, but by 2010 this figure was less than 1%. In itself this reflects the early nature of the resources available to the Chinese hotel industry in terms of its inheritance of basic facilities and the initial relatively low cost investments of early entrepreneurs responding to an embryonic growth in domestic demand. Equally the share of “Two Star” hotels has fallen in the same period from 33% to just 18%. However, for much of the period “Two Star” hotels accounted for about one-third of the total stock of hotel rooms, and it is only since about 2008 that its share has radically fallen (China National Tourism Administration, 2011b).

Table 2
Numbers of rooms in Chinese hotels.

Year	Rooms	Rooms according to star rating				
		5 star	4 star	3 star	2 star	1 star
1991	167,195	14,993	21,375	58,985	56,229	15,613
1992	196,513	15,531	29,957	67,125	66,771	17,129
1993	232,002	19,529	32,511	81,482	78,293	20,187
1994	269,106	21,027	39,938	94,735	93,923	19,483
1995	308,587	21,924	40,975	116,047	110,227	19,414
1996	364,059	24,701	48,160	138,773	130,450	21,975
1997	403,570	29,131	54,036	157,312	143,656	19,435
1998	450,872	30,966	60,536	176,865	159,865	23,120
1999	524,894	36,160	66,689	206,905	187,899	27,241
2000	594,678	45,208	84,890	231,244	205,110	28,226
2001	816,260	50,342	106,063	327,420	294,694	37,741
2002	897,206	64,899	143,478	346,482	305,984	36,363
2003	992,804	69,576	157,610	377,493	346,903	41,222
2004	1,237,851	87,386	222,161	495,423	390,823	42,058
2005	1,332,100	106,532	240,448	542,207	410,982	31,914
2006	1,459,836	116,164	289,983	598,455	424,143	32,091
2007	1,573,784	137,327	336,910	647,583	420,399	31,565
2008	1,591,379	156,885	369,597	646,974	391,511	26,412
2009	1,673,475	181,072	397,049	689,262	380,438	22,054
2010	1,709,966	218,064	449,207	714,850	313,871	13,974

Source: Annual Tourism Statistics of China National Tourism Administration (1992–2010), Beijing, China Travel & Tourism Press, 2011.

At the other end of the scale “Five Star” hotels have consistently retained about 7 to 10% of rooms throughout the thirty year period, but very recently this share has increased to 12%. Equally “Four Star” hotels have significantly increased their share of the rooms from about 13% in 1991 to 26% in 2010. Taken with the increase in rooms to be found in “Three Star” hotels it is evident that the quality of hotel provision in China has not only increased in numbers of hotels, but also in rooms, with an accelerated growth rate in better quality rooms in recent years. A number of reasons account for this, one of which is the growing importance of international and domestic tourism.

2.2. Growth in demand

Initially in this period national tourism policy was oriented to a need to attract international tourists to earn hard currency for national economic development. Hence resources were committed to build travel services, develop infrastructure and increase hotel capacity to meet overseas tourist demand. Consequently in the early phase of China’s economic reform, the hotel sector was primarily orientated toward serving an overseas demand because hotel facilities of international standards were in short supply during the first decade of economic transition. With the subsequent rise of domestic tourism in China, the demand drivers for the hotel sector have shifted from an overseas-orientation to the one related to a domestic travel market, but overseas demand remains important for reasons other than those simply caught in statistics of numbers of hotels and rooms.

Fig. 1 illustrates international tourism growth measured by overseas arrivals with overnight stays in China from 1978 to 2010. This shows the remarkable international tourism development from 716,000 overseas arrivals in 1978 to 55.7 million international tourists with overnight stays in 2010. As noted, overseas demand was the primary driver for China’s travel and lodging consumption in the first decade of China’s economic transition, and was important for a number of reasons. First it developed within the industry an experience and expertise in dealing with overseas clientele and their demands, thereby initiating a guest oriented culture that arguably was not present in prior Chinese business practices of the Maoist period. Second, it attracted interest and investment from western hotel chains and those based in Hong Kong and Singapore, and those hotel groups and their practices became benchmarks for the domestic industry. Third, it created a demand for trained personnel possessing language as well as technical skills, and thus impelled a growth in university degree courses and helped to establish Schools, Faculties and Departments in tourism and hospitality higher education. Fourth, it became possible to transfer many of the lessons learnt to the next stage of hotel development, which was a growth in hotel chains meeting domestic demand, much of which was being met by new domestic private enterprise initiatives as discussed below.

China’s domestic tourism market has shown a phenomenal growth from 1994 to 2010, with only the SARS epidemic in 2003 causing a slight

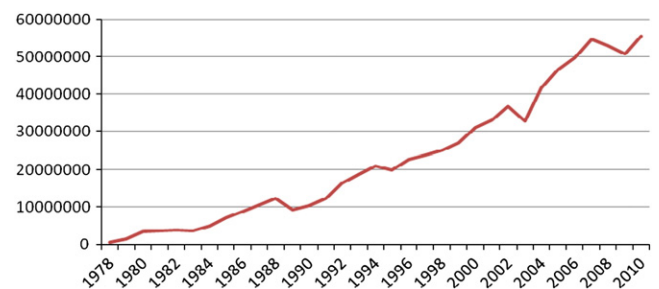


Fig. 1. International tourist arrivals 1978–2010. Source: Annual Tourism Statistics of China National Tourism Administration (1979–2011).

decline. The increase to 2100 million domestic tourists in 2010 from 524 million in 1994 (the first year China National Tourism Administration published official data on domestic travel demand), shows evidence of strong consumer demand for travel in China as is illustrated in Fig. 2. The rapid development of China's domestic tourism can be attributed to structural changes in the national economy that have taken place since the start of the economic reforms. These changes include the rise in living standards, the increase in the number of public holidays, a growing demand for business related travel and a production sector shift to service orientated businesses that include events and conferences. In recent years evidence of increased market segmentation has emerged as the market place and consumerism matures, and travel service providers have increased both in numbers of outlets and services provided (China Tourism Hotel Industry Association, 2011). Increasingly travel agents and tour operators seek to entice potential Chinese domestic tourists to visit different destinations within China as well as visit overseas locations. Specialized travel services, such as adventure travel, farm-stays, etc., have further facilitated the convenience of travel planning and the accessibility of a variety of destinations.

Consequently it can be concluded that demand for hotel accommodation has significantly changed over the past three decades in terms of volume and for better quality services and a greater variety of accommodation. These factors have in turn driven changes in the patterns of hotel investment.

2.3. Overseas hotel investment: From joint ventures to domestic led investment

The initial hotel projects of the late 1970s and early 1980s were developed as joint ventures between Chinese government agencies at national and local level and the Chinese diaspora. Examples included the Beijing Jian Guo Hotel, a joint venture between China International Travel Service Beijing Branch and an American Chinese. In 1983 and 1984, investors from Hong Kong developed the two famed hotels in Guangzhou respectively, the White Swan Hotel and the China Hotel. In the ensuing year, Sir Pao Yue Kong, Chairman of World Shipping Group in Hong Kong, invested US\$10 million in the Zhaolong Hotel Beijing which was considered a symbolic landmark hotel that bore witness to the economic reform in China. This was why the grand opening of the Zhaolong Hotel Beijing attracted participation by the top Chinese leaders, including Deng Xiao Ping, the chief architect of China's economic reform, along with many other politicians from the national and Beijing municipal governments. It was reported that more than 50% of the inward foreign investment in China in the 1980s was invested in hotel development. The fact that the hotel sector in China was the earliest and most open industry to the outside world was attributed to the infusion of investment and transfer of management know how from overseas investors.

In addition to investment from the Chinese diaspora, international hotel firms also entered the Chinese lodging market, being initially attracted by the forecasts of increasing overseas arrivals to China, and then subsequently the rapidly growing domestic market and the ever

growing China outbound tourism that permitted opportunities for the development of guest retention policies based on loyalty schemes across a domestic and international pattern of Chinese hotel patronage.

The initially favored ways by which international companies entered the Chinese market was by management contracts and joint ventures. The first management contract was reached in 1982 between the Hong Kong-based Peninsular Hotel Group and the joint owners of Beijing Jian Guo Hotel. Then, gradually, international hotel firms entered the market by signing management contracts to operate the upscale and luxury hotels catering to overseas business and leisure travelers. By 1991, 202 hotels were counted as joint venture hotel projects with overseas investors, 215 hotels were reported under international management contracts and four hotels were financed completely by overseas investment.

Luxury brands such as Four Seasons, Ritz-Carlton, and Shangri-La are now found in major metropolitan markets, such as Shanghai, Guangzhou and Beijing. Marriott International has been focusing on both upscale and mid-market segments. Familiar brands such as InterContinental, Starwood, Accor, Hyatt, Hilton etc. continue to expand in major and secondary cities and other tourist destinations. Market opportunities for budget and mid-market segments for the growing numbers of Chinese domestic tourists also attracted Wyndham (Days Inn, Super 8, and Howard Johnson brands) to expand operations in China.

As previously noted the entry of major international hotel chains was very significant for the Chinese industry for several reasons. First the domestic industry gained from direct inward foreign investment in both capital asset and management knowhow. Second the domestic operators were able to leverage improvements in their own operations by then subsequently attracting credit and investment from domestic sources to build competing properties, while also securing managerial expertise from the international chains—both directly by recruiting staff from those hotels and indirectly by observation of managerial practices. On the other hand hotels under international management at the upscale and luxury levels (four-star and five-star hotels) leveraged their competitive advantages in knowledge capital, e.g., reservation systems, marketing strategies, property management systems, cost control systems, and human resources development, thereby being more able to perform more efficiently and profitably than both their domestic Chinese counterparts, and those being financed by émigré Chinese operations based in Hong Kong and Singapore (Xu, 2012; Zhang et al., 2005).

Slowly though, through a spillover effect from international firms to host firms owned and managed by these international firms and then, more slowly to domestic companies, the Chinese hotel industry has become more competitive, especially where the local industry was able to secure cheaper credit from the State run banking system. Certainly the scope and market penetration by international hotel firms were far reaching during the 2000s, especially in the first tier Chinese cities of Shanghai, Beijing and Guangzhou. It can also be argued that the presence of international hotel firms in China generated greater competition and more highly diversified hotel products as defined by brands and market segments than would have been the case in their absence. The numbers of international hotel chains present in China are provided in Table 3.

After first establishing properties in the three major population centers in China, the overseas companies, having acquired knowledge of Chinese practices and demand patterns, began, with increasing rapidity, to open hotels in the secondary and third tiers of Chinese cities. This is indicated in Table 4 that shows the rate of expansion of internationally branded hotel groups planned to be present in Chinese cities in the period 2005 to 2012. In many ways it is suggested that the impact of the international chains on the second tier cities has been even greater than in the first tier in terms of their impact on managerial practices and service quality, and as catalysts for the internationalization of these cities. Of course, one should not push the argument too far—those cities such as Ningbo, Wuxi and Chongqing were already growing rapidly through new industrialization and the impacts of private sector initiatives, thereby generating the demand for hotels of an international standard. In other cases such as Qingdao, a history of past international

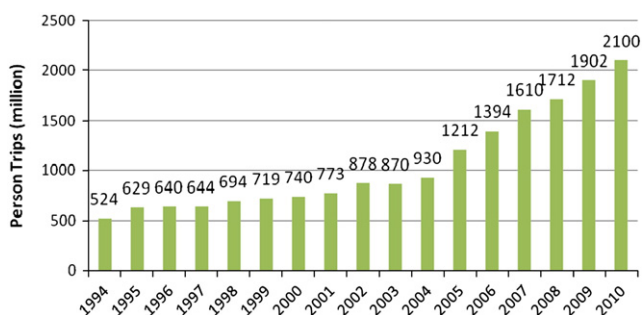


Fig. 2. Domestic tourism in China 1994–2010.
Source: Annual Tourism Statistics of China National Tourism Administration (1979–2011).

Table 3
Major international hotel groups operating in China, 2010.

Rank	Group name	Hotels (worldwide)	Rooms (worldwide)	Hotels (China)	Rooms (China)
1	IHG (InterContinental Hotels Group)	4432	643,787	227	50,440
2	Wyndham Hotel Group	7112	597,674	326	48,821
3	Hilton Hotels Corp.	3526	587,813	24	8695
4	Marriott International	3329	580,876	58	21,970
5	Accor	4111	492,675	107	28,002
6	Choice Hotels International	6021	487,410	3	455
7	Best Western International	4048	308,477	34	6396
8	Starwood Hotels and Resorts Worldwide	979	291,638	72	26,704
9	Carlson Hotels Worldwide/Rezidor	1059	159,756	9	3817
10	Global Hyatt Group	399	120,031	17	NA
11	Shangri-La	72	30,000	36	NA
12	Banyan Tree	30	NA	5	502
13	Ascott	NA	NA	40	7000

Source: Data gathered from company websites accessed on December, 10th, 2011.

connections (in this case with Germany) already existed, but qualitative differences may be said to exist once international businesses begin to compete directly with domestic supply rather than simply being the customers of Chinese concerns.

The strategies adopted by the western chains moving into China were to take advantage of internationally recognized brands and at times to complement these with new brands developed for the Chinese market. One such example was the Pullman brand developed by Accor. Second they sought to effectively integrate local management talent and local culture in service management. Third there was a geographical component to their entry strategies, moving market penetrations from the primary, coastal cities to the secondary cities and now to interior, tertiary cities and destinations building on the increasing Chinese recognition of their brand names.

A complementary fourth strategy has been the introduction or development of hotel brands more specific to the Chinese markets after realizing that the Chinese consumers' behaviors have significantly changed from accepting all international brands religiously to realistically selecting lodging accommodations based on motivations, needs and lifestyles.

2.4. The domestic industry and its response

While the international companies possessed advantages in terms of wider sets of experiences, a knowledge base that included human, physical and information technology resources, and an ability to capitalize on well recognized brands that were familiar to western

Table 4
Number of international branded hotels present in Chinese cities—planned rate of increase in Chinese cities (2005–2012).

City	Percentage increase from 2005 to 2012	City	Percentage increase from 2005 to 2012
Ningbo	36	Shanghai	19
Wuxi	33	Hangzhou	18
Chongqing	32	Shenzhen	17
Suzhou	29	Shenyang	16
Chengdu	29	Nanjing	16
Guangzhou	27	Wuhan	15
Tianjin	26	Xian	15
Qingdao	26	Beijing	15
Jinan	24	Harbin	13
Guilin	21	Kunming	10
Dalian	20	Zhuhai	10
Xiamen	20	Changchun	5

References: Jones Lang LaSalle Hotels (2011); China Hotel Market City Review, 2011.

Table 5
Top thirty Chinese hotel brands (2011).

Rank	Group name	Rooms	Hotels
1	Jinjiang Hotel International	105149	703
2	New Century Hotels & Resorts	24610	83
3	CTS HK Metro Park Hotels	23964	74
4	Jinling Hotels & Resorts	23057	92
5	BTG—Jianguo Hotels & Resorts	20283	67
6	Blue Horizon Hotels Group	16239	51
7	Biguiyuan Phoenix	15707	50
8	Guangzhou Lingnan International	14511	55
9	Ladison	13782	70
10	Hunan Huatian Hotel Group	13266	63
11	SGF International Hotels	12346	37
12	Zhejiang Narada Hospitality Services	12032	42
13	Guangdong (International) Hotels	12024	41
14	Plains Hotel, Henan	11998	62
15	Minshan Hotel	10132	69
16	Soluxe Hotel Group	9698	53
17	Nanyuan Hotel Group	9566	69
18	Shandong Silver	8585	66
19	Shaanxi Provincial Tourism	7810	46
20	Centuries	7400	16
21	Tianlun Hotels International	7105	28
22	Gloria Plaza	6754	27
23	Shanghai Hengshan	6504	26
24	Oriental Jasper Hotels	5606	18
25	CTS Fujian	5580	29
26	Hangzhou Tourism	5121	31
27	Shenzhen Airlines Hotel	4983	24
28	Fuzhou Westlake	4496	24
29	Sichuan Jinjiang	4298	15
30	Zhejiang Tourism	4041	18
	Total	426647	2049

References: China Hotel Industry Association Database, 2011.

visitors to China and that appealed to a brand conscious domestic Chinese market, the domestic operations were not without advantages. Indeed, one weakness of the international chains was that their wider international experiences predisposed them to seek management contracts of properties being built by other concerns, and hence by not being involved in real estate development and ownership they failed to obtain equity ownership in hotel development in China to the degree that they might otherwise have pursued. These policies provided the evolving domestic chains an opportunity to build new properties in locations promising new business.

Second there was occasionally a misunderstanding of Chinese cultural protocols and management practices that lead to, for example, the delisting of five-star rankings of several international branded hotels (e.g. Hilton, Marriott).

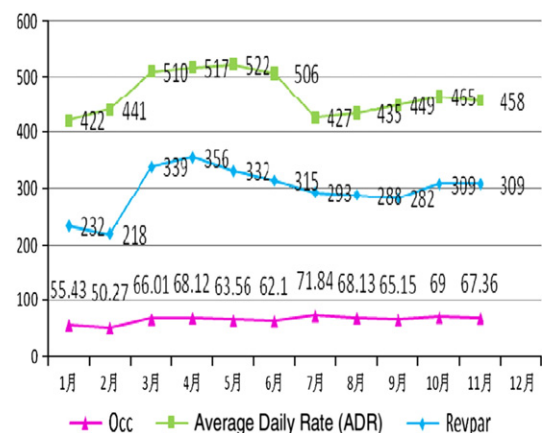


Fig. 3. Domestic managed hotel monthly performance. Source: China Tourist Hotels Association Database, 2011.

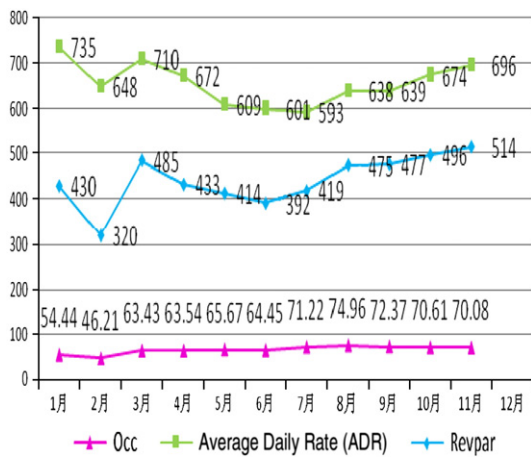


Fig. 4. International managed hotel monthly performance.
Source: China Tourist Hotels Association Database, 2011.

After learning and absorbing international practices, domestic hotel firms developed rapidly after 1990. Table 5 shows the top 30 domestic hotel brands in terms of size as measured by numbers of hotels and rooms. Jin Jiang Hotels is now ranked as the 13th largest hotel firm in the world. Not only are these domestic firms growing in size, but many have strategically positioned themselves in different market

segments through branding. For example, Jin Jiang Hotels has developed five brands to capture different travel motivations and lifestyles: Jin Jiang Hotels, Marvel Hotels, Jin Jiang Inn, Bestay Hotel Express, and Magnotel. Chinese companies have also moved into the budget hotel sector that has been generally avoided by the international hotel chains, and in 2011 the major groups were Home Inn with 931 properties, Green Tree Inn with 611 hotels, Han Ting with 603 hotels and 7 Day Inn with 454 hotels.

Comparing Tables 3 and 5 indicate that the top thirty Chinese hotel groups have more than doubled the number of rooms managed by the main international chains in China, but the presence of the latter has presented tremendous challenges to the domestic hotel operations, both those managed by hotel chains and independent owners. Figs. 3 and 4 illustrate the revenue per available room (RevPar) and profitability of different hotel categories (international affiliations, domestic firms and independent operators) in China for the period 2006 to 2010. The data clearly show that the RevPar performance of international chains has been consistently better than those of similar domestic operations managed by Chinese chains and independent operators in this period and confirms that the situation initially described by Zhang et al. (2005) had continued to 2010 (Table 6).

One response that has been initiated by the domestic chains in addition to the building of new hotels in new locations has been to look beyond national borders for opportunities to gain competitive advantage in the increasingly globalized business environment, particularly by raising capital from overseas equity markets and

Table 6
Market Segmentation by Brand Names by Domestic Chinese Groups.

Group	Brand Name	Group	Brand Name
Jinlin Hotel International	Jinlin Hotel	Zhejiang Narada Hospitality Services	Narada Resort
Jinjiang Hotel International	Jin's Inn		Narada Grand Hotel
	Jin Jiang Hotel		Narada City Hotel
	Marvel Hotel	BTG – Jianguo Hotels & Resorts	Jianguo Hotel
	J Hotel	Tianlun International Hotel	Radegast Hotel
New Century Hotels & Resorts	New Century Grand Hotel		Regar Hotel
	New Century Hotel	Sichuan Jinjiang	Sichuan Jinjiang Hotel
	New Century Resort	Guangdong (International) Hotels	
Minshan Hotel	Minshan Hotel		Guang Dong Hotel
	AnE –158		GDH-Inn
Nanyuan Hotel Group	Nanyuan Inn	Zhejiang Tourism Group	ZTG Ming Ting Hotel
	Nanyuan Hotel		ZTG Grand Hotel
Gloria Hotels & Resorts	Gloria Grand Hotel	Ladison Hotels & Resorts	Ladison Hotel
	Gloria Plaza Hotel		V+
	Gloria Resort		Élan
	GtELI	Soluxe Hotel Group	Soluxe Hotel
	The Merlin		
Biguiyuan Phoenix	Phoenix Hotel	Guangzhou Lingnan International	Lingnan Hospitality
	Phoenix Resort		Lingnan Orient Hotel
	Flower City Hotel		Lingnan City Hotel
	Holiday Islands Hotel		Lingnan Boutique Hotel
Orient Jasper Hotels	Jasper Hotel		Lingnan Residence
Fuzhou Westlake	Fuzhou Lakeside Hotel		Lingnan Garden Inn
CTS Fujian	Huaqiao Hotel		
	Xia Ke Hotel	Shandong Blue Sea	Phoenix International Hotel
CTS HK Metro Park Hotels	Grand Metro Park Hotel	Blue Horizon Group	Yuanda International Hotel
	Metro Park Resort		Yizheng Hotel
	Metro Park Hotel		Blue Horizon International Hotel
	Traveller Inn		Blue Horizon Hotel
	Traveller Inn Express		Zhongdinglou Restaurant
SGF International Hotels	SGF Hotel	Shandong Silver	Garland Hotel
	A collection of independent hotels managed by SGF International		
Hangzhou Tourism Group	Dragon Hotel		
	Wuyang Hotel	Shaanxi Provincial Tourism	Garland Inn
	Wuyang Star Inn		Xinyuan Wanjia International Hotel
	Tian Yuan Hotel	Shanghai Hengshan	Xinyuan Wanjia Hotel
Plains Hotel, Henan	Zhongzhou Grand Hotel		Hengshan Hotel
	Zhongzhou Hotel	Shenzhen Airlines Hotel	The Longham Hotel
	Zhongzhou Business Hotel		Shenzhenair International Hotel
Hunan Huatian Hotel Group	Huatian Hotel		Shenzhenair Boutique Hotel
	Huatian Business Hotel	Empark Hotels & Resorts	Shenzhenair Resort
			Empark Hotel

Source: China Tourist Hotels Association Database, 2011.

outward foreign direct investment. One example was that of Home Inn, a joint-venture of budget hotel chain by Capital Tourism Corporation and CTrip (China's largest online travel agent) in 2002. The US\$109 million the company raised from its initial public offering from NASDAQ in October 2006 was invested in its aggressive expansion of the budget hotels in over 70 cities in China and enabled the company to jockey strategic positions with Jin Jiang Inn, the leading budget hotel chain in China. After gaining significant market share of the budget hotel business, Home Inn has recently diversified its operations in the mid- and upscale market space by developing the Yitel brand serving upscale business travelers.

Another Chinese budget hotel chain, 7 Days Inn, followed Home Inn's development model by offering IPO on the New York Stock Exchange in November 2009. The US\$111 million raised from its IPO was used to finance its strategic expansions and compete with other leading budget hotel chains in China and from abroad. The company is currently ranked as one of the top five budget chain hotels in China. Its quick ascent to the top rank of budget hotel operators since its founding in 2005 was attributed to its ability to raise capital from an overseas equity market.

As some Chinese hotel companies seek capital from overseas equity markets to finance business expansions and retain competitive advantages in marketing and brand management, bigger and better capitalized Chinese domestic hotel firms have pursued a different expansion strategy in outward foreign direct investment by seeking merger and acquisition opportunities in the U.S. and Europe.

The outward foreign direct investment by Chinese hotel firms is still in the initial stages. However, such overseas investment activity is expected to accelerate in this decade. The Shanghai-based Jin Jiang Hotels made a major strategic acquisition of the U.S. based Inter-state Hotels and Resorts in 2009. This outward foreign direct investment was made in a 50/50 partnership with Hotel Acquisition Company in the U.S. and the entire investment was estimated at US\$309 million. This complex M&A now consists of Thayer Lodging Group, a subsidiary of Hotel Acquisition Company, Jin Jiang Hotels and Interstate Hotels and Resorts. This marriage between a Chinese hotel firm and a leading U.S. lodging company gave Jin Jiang two instant strategic advantages: (1) access to the North American market which has become one of the top markets for China outbound tourists, and (2) access to management knowledge in all aspects of hotel and resort operations.

Another example in 2011 of outward investment in overseas hotels was the Chinese government's bid valued at over £1 billion to acquire 37% of Maybourne which owns The Berkeley, Claridge's and The Connaught hotels in London. Prompted by the need of Irish business interests to raise cash to settle other debts, the bid (in conjunction with Qatar Holdings) has been the subject of a long drawn out series of court actions that at the time of writing (December 2011) have still not been settled, but regardless of whether the bid is accepted or rejected, the motivation is clearly to gain access to historic properties in a major European market. Given this, in the event of failure similar bids may arise if other opportunities present themselves.

Another initiative undertaken by the domestic Chinese market includes creating linkages with Chinese airlines that are establishing new routes into overseas destinations. Such examples include Hainan Airlines and Southern China Airlines, and dependent upon the carrying loads achieved and the frequency of flights, one can expect Chinese hotel companies to link with the airlines to establish properties at the destination cities.

2.5. Regional differences within China

As the world's second largest economy when measured by Gross Domestic Product, China has experienced significant growth, but by 2011 concerns began to emerge that even China would be affected by the consequences of the 2008 Global Financial Recession as its export growth began to struggle in the face of weak overseas demand. By 2011 the increasingly competitive domestic market pressures and

global financial turmoil caused many existing and potential hotel owners and investors to be more sensitive to the balance of demand, supply and the resulting financial impact. Hotel operators, trade associations, industry observers and regulators became increasingly concerned about market growth and competition and more closely monitored market performance.

One factor that presented opportunities for the Chinese hotel industry was and currently continues to be its geographic differences, and thus a close look of regional characteristics is crucial. Utilizing information derived from surveys and interviews undertaken through the researchers attached to the China Hospitality Industry Research Centre and Jones Lang LaSalle Hotels (2011), it is possible to design a 'climate map' of China showing expectations about hotel performance and opportunities in the immediate future to about 2015 (see Fig. 5).

From this map, it can be seen that among the main markets, Changchun's near term outlook appears to be most positive driven largely by relatively little new supply entering the market. As the provincial capital of Jilin, Changchun is the largest city in China's north-eastern region. The city's traditional heavy industry, of which the auto sector represents one of the key industries, generates a good amount of hotel demand.

Cities including Dalian, Beijing, Jinan, Nanjing, Hangzhou, Ningbo, Xiamen, Guilin and Zhuhai are likely to experience a reasonable balance between new supply and demand supported by each market's economic strength in the next few years. While each of these markets will see an increase in competition, the impact of new supply on hotel profitability is likely to be mitigated by demand generated by respective local economic sectors in the near term.

The next group of cities, which includes Qingdao, Suzhou, Shanghai, Wuhan, Chongqing, Chengdu, Shenzhen and Kunming, will potentially see supply growth outweighing demand in the short-term, resulting in hotels experiencing pressure to perform. New supply entering these markets in the next three years will likely need some time to be absorbed, creating concerns over near, and potentially mid-term profitability and hotel rates.

New hotel supply in the cities of Wuxi, Tianjin, Shenyang and Guangzhou is also likely to take some time (beyond 2015) to absorb, and competition among existing and new hotels is anticipated to be intense. While these markets are positioned to achieve long-term growth, the extent to which new supply is entering into the market in the short-term is

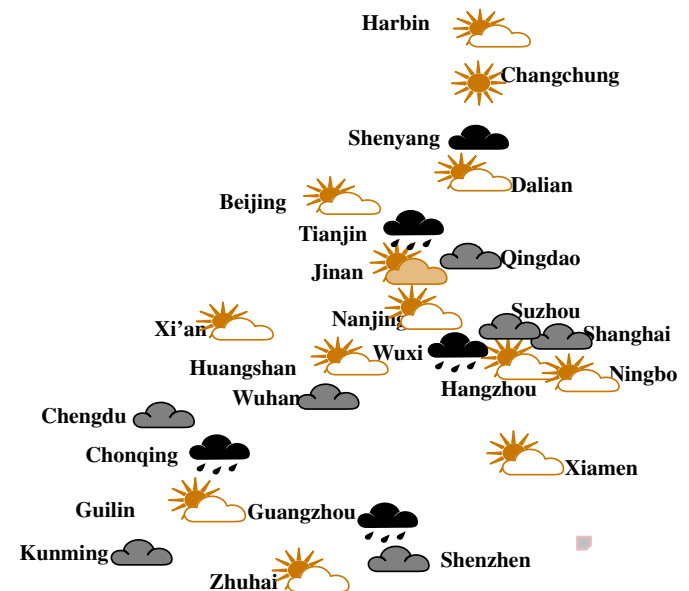


Fig. 5. The regional outlook for future Chinese hotel development to 2015. Source: Jones Lang LaSalle Hotels (2011); China Hotel Market City Review, 2011.

likely to create a clear imbalance of supply and demand causing a very cautious market outlook for some years to come in these cities.

A glimpse at the near future of China's hotel market indicates that there are reasons to remain cautious when considering the amount of new supply and the speed in which new hotels are being added into the market (Liu & Lu, 2011). Nonetheless, overall, under the broad direction of China's economic model, it is thought that China's economy and hotel market will continue to grow but with regional differences as indicated in Fig. 5. While some markets will experience competitive pressure intensifying in the near future, it is believed the long-term prospect of the domestic and inbound travelers will continue to drive growth in the market. Further, more attuned government planning and investment consideration will also provide some balance in supply.

3. Summary of hotel prospects

The growth sizes of each of the three tourism markets in China: overseas inbound tourism, domestic tourism and Chinese outbound tourism will further spur hotel development throughout the country by both international and domestic firms. One factor within this scenario is the growth in business travel, a market segment where it is forecast that China will overtake the United States in the number of such trips being made by 2015 (Gebhart, 2011). Hotel firms will penetrate different market segments by diversifying products in different tiers of markets. While international groups continue to expand in China, domestic hotel groups have begun to internationalize their operations by raising capital in overseas equity markets and by pursuing outward foreign direct investment in developed countries. These policies will increase competitive advantage in terms of market access and knowledge acquisition as both international and domestic hotel firms jockey for positions to acquire new growth.

The internationalization of the Chinese serviced accommodation sector has experienced dramatic development in the last three decades. International hotel firms first entered the China market to serve the international tourists at mid- and upscale levels. As the Chinese economy continued to sustain rapid growth, international hotel firms subsequently increased their presence in China to target both overseas and domestic tourism with more diversified lodging options ranging from luxury services to budget accommodations. At the same time, international hotel firms also promoted brand awareness to Chinese consumers for future outbound business, hoping to attract a Chinese clientele to their properties when travelling overseas through tying them to various loyalty programmes.

As both international and domestic firms attempt to capitalize on the growing demand for lodging, they also face challenges in business operations. International hotel firms have been enjoying competitive advantage in knowledge capital and global network support. However, such advantages could soon be challenged as more domestic firms begin to internationalize their operations to gain access to the global market and merge with international hotel firms with proven management track records. Domestic Chinese hotel firms face great challenges in the internationalization of the hotel sector. One critical area of competition focuses on the development of human assets for hotel operations. After the hotel properties are fully developed, hotels compete for market share by interactive marketing, impeccable guest services, brand management, guest relationship management, yield management and efficient technological applications in reservations and communications. Since the international firms and better managed domestic firms attract the best talents in their operations, most domestic hotels are challenged to grow a generation of hotel managerial professionals to remain competitive in the internationalized lodging market.

4. Research issues related with China's hotel industry

With challenges come opportunities for both managers and those conducting research in the Chinese hotel industry. These opportunities

can be divided into four main categories, namely economic, managerial, marketing, and fourth, issues of sustainability and socially corporate responsible actions. Each can be briefly described in turn.

4.1. Economic perspectives

The Chinese industry thus far has been characterized by three decades of growth as chains have expanded into almost virgin territories to correct a previously poor provision of accommodation services. Now, however, signs of over-supply have emerged as described above, and a process of rationalization and market shake up is likely to occur with mergers and acquisitions within the industry. Property and group financial performance will come under greater scrutiny, especially as groups seek other than State credit to finance future development. The sourcing of finance and the role of foreign direct finance, including access to foreign capital via U.S.A., Hong Kong and Singapore as well as direct investment by overseas companies will feature strongly in company plans. Such plans will also have to consider the various tax reforms being mooted in China, especially with reference to value added bases of taxation. As elsewhere, hotel development is often associated with real estate and property development that increasingly combines leisure, recreation, retailing and tourism into themed zones. In this process local and national government is often closely involved, not simply as a planning agency, but also as a partner in financing and determining contractual partners from the private sector. The Chinese model of property development itself may be a subject of research that impacts on hotel development.

Consequently another consideration requiring research is industry integration from the horizontal to the vertical as well as diversification. The mergers and acquisitions between hotel groups, travel companies, cultural related institutions and other industries create complex organizational, structural issues as well as entities symbolic of new cultural and social understandings. The development of the cultural heritage centre of Xi'an based on a theme of the Tang dynasty as shown in Figs. 6 and 7 are indicative of new developments that combine the cultural and the commercial, the accommodation, retail and museum sectors, and private and state corporatization. As China has increasingly attributed importance to its past and heritage to formulate a "culture industry", the nature of the integration between tourism, hospitality and the culture industry will become critical for an understanding of each of these industries.

It might also be noted that regional and urban differences are important, and forecasts from urban, rural and provincial perspectives will be necessary to best determine sites for future hotels.

4.2. Management perspectives

Chinese hotel groups face many challenges in common with their international counterparts. For example, how best to use the new



Fig. 6. Xi'an Cultural cultural–retail–hotel complex–1.



Fig. 7. Xi'an Cultural cultural-retail-hotel complex-2.

technologies, not only in disseminating data, but in room design. As a business operating across a portfolio of properties in different cities and countries, how does one develop an organizational culture that is sensitive to cross-cultural demands, work pressures, and work-life balance? How does one manage human resources where inter-generational differences are thought to be important, and where the population may be ageing? And how does Chinese philosophy affect management in an international context? In handling these issues knowledge management systems are going to be important, not only for their content, but for their accessibility and ease of use across a range of concerns, from customer profiling to operational issues. Interwoven through these themes will be the thread of what constitutes a Chinese approach as distinct from the operation manuals of international concerns, and what creates a healthy organization.

4.3. Marketing perspectives

Marketing research is continuously interested in consumer behavior, and in China with a growing middle class, differential generational and urban-rural attitudes, and a State policy aimed at encouraging domestic expenditure to sustain economic growth, this is particularly true. In response, as noted above, the Chinese hotel industry is engaged in product differentiation, and thus there is a need for research into the demand for and nature of boutique hotels, themed hotels, resort hotels, spas, time-sharing, rural hotel and other forms of product diversification to meet new demands. New marketing media (e.g. Ctrip, Qunar etc.) exist and need to be used and analyzed for data about customers, their preferences, their patterns of use, their requirements and much else. Such information aids the development of strategies by the hotel companies as they seek new locations, buy and sell properties, develop existing and new brands and generally assess their own strategies and those of their competitors. Hence the need for market research in its widest sense will continue unabated.

4.4. Sustainable development perspective

The Chinese hotel industry has formally adopted 'Green Hotel Practices' as part of governmental policies relating to the issues of pollution and environmentally sensitive. For this to be successful there is a need for research to disseminate best practice within the

industry, and to enable the industry to benchmark itself against international best practice. It has been observed though that such policies need to be considered within wider frameworks of ethics and corporate social responsible policies (Gu & Ryan, 2011), and these two are areas of growing concern and need for research.

5. Conclusions

The Chinese hospitality industry has like the country, seen significant changes within the last three decades, and will continue to do so. A symbol of the future may be said to be the new Shanghai Tower J-Hotel Building, which at 128 stories will be the tallest hotel in the world. Having 258 rooms between the 84th and 110th story and the reception on the 101st floor this is joint project between the US Thayer Lodging Group and Jin Jiang, but symbolically it represents the confidence of the Chinese hotel industry as it moves into the 21st century. Opening in 2014 the hotel will seek to combine modern luxury and Chinese traditional culture, and will be managed by Interstate Hotels and Resorts Company Ltd as the flagship of Jin Jiang's new upmarket luxury brand. The building will be 632 meters in height and is designed by Marshall Strabala, the designer of the Burj Al Arab hotel. The building may be said to signify much about the recent development of the Chinese hotel industry. It involves the best of international design, international (notably American) involvement and finance, and the incorporation of traditional Chinese culture as a statement about China to its guests. It has arguably a linkage that is both international and traditional, a fusion between the traditional and the modern world that is forward looking, confident and daring. These might be the terms used to describe China's hotel industry at the commencement of the second decade of the 21st century.

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