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# The Discussion of first mover advantage in the Chinese hotel industry

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# Part One

## Introduction

China's tourism industry has become an important player in today's tourism market. It has been reported by the WTO (World Tourism Organization) that China will become the world's No.1 tourist destination by 2020 with more than 100 million tourists travelling to China every year (WTO, 1999; Pine and Qi, 2004). For international hotel groups, entering a new market like China is challenging. Cultural differences, government policies, entry modes and entry timing strategies all affect the potential success of the company. This paper will focus on timing strategies for foreign companies that want to enter the Chinese lodging industry and to discuss whether being a pioneer in the market will benefit the company in the long-term. This paper will explore the First Mover Advantage (FMA) and First Mover Disadvantage (FMD) in the existing literature. In addition, several case studies both inside and outside the lodging industry will be used to analyze whether there is FMA in Chinese lodging industry. Finally, professional implications and future research will be discussed.

## Purpose

### Statement of problem

The purpose of this paper is to explore whether there is FMA in the Chinese market for international hotel groups. Despite the fact that international hotel brands are already in almost every corner in major Chinese cities such as Shanghai and Beijing, there are still plenty of opportunities to be a pioneer in underdeveloped cities (most of them being inland cities). By looking back at the history of foreign investments in the hotel industry, lessons can be learned from past mistakes. These lessons can assist in making better future decisions.

**Statement of objective**

In examining past literature, entry timing strategies have been examined in many industries, such as the manufacturing industry, the auto industry, etc. However, few articles mentioned FMA in the hotel industry. This paper serves the objective of filling the gaps in the past and present literature by analyzing the characteristics of the hotel industry and the Chinese market. An appropriate entry-timing-strategy is one of the most important decisions that affect the success of an investment in overseas markets (Cui and Liu, 2005). This paper will also be useful for corporations who want to invest in other emerging markets, such as, Taiwan, India, and South Africa.

## Justification

After the Open Door policy, starting in the late 70s, the Chinese lodging industry has developed rapidly over the past few decades (Kong and Cheung, 2009). Due to the cultural differences, language barriers and different political environments, entering a new market is not always easy. Timing strategy, which is one of the most important factors that an international hotel can study, plays a crucial role in the success of the business. This paper starts by summarizing FMA and FMD literature, created by previous scholars throughout the world. It then focuses on the Chinese market in particular. In addition, the changing economic and political environment in China will be discussed in order to reveal the best timing strategy for international hotel groups.

This paper benefits the Chinese lodging industry market in several ways. First and foremost, international hotel groups can analyze this paper to get a general idea of what has happened in the Chinese lodging industry the past three decades. Secondly, this paper summarizes the FMA and FMD content in existing literature, most of which is found in other industries. This will give managers in the lodging industry a general picture of what will be the appropriate entry timing strategy that plays a role in the success of the business. In other words, by studying what has been examined in other industries - managers in the lodging industry can think outside of the box and be more creative when making critical decisions. Thirdly, this paper will serve as a guideline for international hotel groups, which are interested in the Chinese market, helping them to make the right decisions. Finally, investors and managers can get a clue of the key elements that they might want to consider when interested in investing in other emerging markets.

**Constraints**

Due to time constraints, this paper will analyze only the pure influence of the timing strategy on the performance of international hotel groups, based on past literature. In future research, more accurate data analysis should be added to the study. In addition, this study overlooks other factors which might also contribute to the success of hotel investments in China, such as entry mode or location - for instance, the room rate for the Hyatt Regency in Shanghai might be three times higher than the room rate in less developed cities. Another big constraint on this paper is that it’s based on existing literature and the analysis of unique characteristics of the Chinese market and lodging industry - this results because the data regarding the performance of international hotel groups in the Chinese market, according to the order of market entry, is not available. More detailed data will be needed for future research.

**Glossary**

**First Mover advantage (FMA)**: the advantages that pioneers embrace when they enter the market in the early stage.

**First Mover disadvantage (FMD)**: the disadvantages that late entrants encounter when they choose to enter the market at a later stage.

**A lead time**: is a time gap between pioneers and a late entrant to the market, which provides pioneers a period of monopoly (Li, 2000).

**Loyalty program**: frequent Guest reward programs that hotel group chains currently use to retain guests.

**A niche market**: is a fairly-small, focused and targeted portion of a market, which is often overlooked by big companies.

# Part Two

## Introduction

Timing strategy is one of the most important decisions that international hotel groups make when deciding to invest in the Chinese market. Most of the past literature regarding FMA or FMD focused on business as a whole instead of just on the hotel industry in particular. This part of the paper reviews previous research. In order to address the gap in the existing literature, the unique characteristics of the hotel industry, the brief development history of the Chinese lodging industry, and China's changing economic environment, will be discussed in part three.

## First Mover Advantages

In past literature, many scholars found evidence of FMA in emerging markets. In 2000, Doh suggested that by being a pioneer and providing the first product to the market, one can easily create gains in market share, unless a new product comes along and provides a breakthrough feature. He also stated that pioneers who enter the market at an early stage will capture the "leaning effects" of the market, which leads to guest loyalty, economy of scale, and economy of scope (Doh, 2000). Cui and Lui (2005) used the data from the "Third National Industrial Census in China" in their research, which included more than 52,000 foreign investment enterprises in China in over 40 industries. They found that pioneers enjoyed larger market share and higher profitability when firm factors, such as, size, entry mode, and economic environment are controlled. By studying foreign investments in China as a whole, they examined the influence of the industry competitiveness on the performance of the pioneers. They found that pioneers that were in less competitive industries, have advantages over those in the concentrated industries (Cui and Lui, 2005). Moreover, early entrants in the Chinese market may benefit from government support and obtain better access to talented employees. “The door to foreign investors was opened gradually in China. The Chinese government carefully planned the time when a given product sector would open to foreign investors, the ceiling on the number and amount of FDI in the sector, and the set of state firms designated as potential local partners”(Pan, Li and Tse, 1999, pg.83-84). Li (2000) examine the case of Volkswagen in China. Volkswagen benefited from government policy when it entered the Chinese market in late 1980s. “In July 1987, the city government of Shanghai set up an office to assistant Volkswagen’s joint venture. This office brought more than 100 local parts manufactures together and assisted them in working with Volkswagen to explore localization of parts. In 1988, a core group of local parts producers formed a common network to aid Volkswagen for reaching its target level of localization. In order to solve the lack of financial resources for research and development, the government allowed a fee of RMB 28,000 to be collected for each vehicle sold to form a fund to assist local parts manufacturing.” (Li, 2000, pg.117) Last but not least, Li (2000) mentioned the advantage of competing against weaker local companies during the early 80s in the Chinese market.

**First Mover Disadvantages**

Scholars also argued that pioneers may not always gain more profit than followers. Early in 1975, Williamson stated that pioneers have higher risks when buying assets which might turn out to be worthless in the future (Williamson, 1975). Nelson and Winter (1982) suggested that newcomers should always wait for market uncertainties to play out until pioneers test the market (Nelson and Winter, 1982). Late entrants have the advantage to learn from the mistakes that pioneers made in the early stage (Kerin, Varadara-jan, and Peterson, 1992). These disadvantages, such as economic instability can generate substantial advantages for subsequent firms. Delios and Makino (2003) also conducted a study using a sample of Japanese firm's foreign entries to other countries to analyze the relationship between profitability and entry timing. They found that early Japanese entrants to other countries have lower survival rates than later entrants. They also analyzed the results based on different industries. The results showed that companies that have technological advantages, or other intangible-based asset advantages, tend to have more advantages over other companies (Delios and Makino, 2003). This is because intangible-based asset advantages are easier to be transferred across borders. Several scholars also argued that for a specific industry, when there is an established local competitor, pioneers will find it hard to capture "absolute lead time" to establish the new market (Carpenter and Nakamoto 1989; Robinson, Fornell, and Sullivan 1992; Delios and Makino, 2003). Last but not least, Kalyanaram, Robinson, and Urban (1995) mentioned that the market share advantage that pioneers can capture in the early stages, will decline later. High retaining costs will eventually offset the market share advantage (Kalyanaram, Robinson, and Urban 1995).

**Empirical Studies**

Apart from the theories that exist in past literature, there are also many experimental studies that have been conducted in past decades which attempted to understand the best timing strategy for foreign companies entering the Chinese market. In 1997, Pan and Chi conducted an analysis, which included 962 foreign companies in

China. They found that those companies which entered the Chinese market in early periods, were more profitable than followers. More specifically, 59.62% of foreign enterprises that entered China before 1984, and 58.77% of those that entered during the 1984-89 period were profitable. However, only 44.27% of those that entered after 1989 were profitable (Pan and Chi, 1997)

In a study of foreign firms in Jiangsu province in China, Luo (1998) found that early-movers (97 firms started in 1980-81) had an average sales growth of 26.78% while late-entrants (24 firms started in 1989-90) had only 15.28% sales growth. Apart from being a very small sample, his results are based on one industry (textiles) and one province (Jiangsu), which raises the question of the ability to generalize of his findings. A recent study by Pan and Chi (1999) offers stronger evidence that is based on a larger and more representative sample. Their study was based on an interview with a sample of 1,066 foreign corporations in the manufacturing industries within China. They used the profitability of those sample enterprises as a dependent variable and the entry timing as an independent variable. They categorized the participating enterprises into three groups: Group 1 represented the enterprises entering China before 1988. Group 2 represented the company entering the market during 1988-1990. Group 3 represented the companies entering the market 1990 and later. The results showed that the percentage of enterprises being profitable declined from Group (1) 83.47%, Group (2) 67.09 to Group (3) 32.14 % (Lou, 1998).

Also Pan, Li and Tse(1999) conducted a research study regarding the FMA in the Chinese market using the data from the 1995 Chinese industry census, which included 450,233 enterprises (Both local and foreign-invested enterprises). Together, these enterprises accounted for 91% of the total industrial output in China in 1995. There are 41,958 international companies in the census, these international companies accounted for 17% gross profit in 1995. They found that early entrants had an average of 2.024% of the market share, which is much higher than the average for all foreign enterprises. Early entering foreign enterprises had a ROA of 3.10% as shown in table 1, which implies that the ROA rate is declining over time (Pan, Li and Tse, 1999).

Table 1

Relations Between Entry Order and Performance Using 1995 Chinese Industry Census Data

| Independent variables | Market Share(%) | ROA(%) | N |
|---|---|---|---|
| Overall average | 0.385(0.27) | 0.65 | 23518 |
| Order of entry | | | |
| Early entry | 2.024(7.66) | 3.10(0.120) | 688 |
| Followers: 1st 3yrs | 1.285(4.91) | 3.17(0.130) | 810 |
| 2nd 3ys | 0.781(2.60) | 1.89(0.126) | 2446 |
| 3rd 3yrs | 0.439(0.75) | 0.54(0.135) | 5416 |
| 4th 3yrs | 0.226(0.75) | 0.42(0.131) | 6606 |
| 5th 3yrs | 0.111(0.69) | 0.03(0.135) | 7552 |

Note: The Data is Based on 1995 Chinese Industrial Census, (Pan, Li and Tse, 1999)

Contributing to this line of thought, Gaba, Pan and Ungson(2002) studied the entry timing of Fortune 500 companies in the Chinese market. They also found the positive relationship between early entry and profitability. (Gaba, Pan and Ungson, 2002)

**Summary of Literature Review**

To sum things up regarding the existing research, there remains fierce debate whether being a pioneer in the Chinese market or not will help corporations gain more profit in the long-run.

There are many reasons to explain the results, such as, natural variation among different industries, different analytical methods, or different control variables. In addition, it’s noticeable that all the research regarding the FMA in the Chinese market, done prior to 2005, was completed over five years ago. The changing economic environment should also be considered when trying to address and explain the issues. Moreover, the unique characteristics of the hotel industry must be examined in order to reveal whether or not being a pioneer in the Chinese market will benefit the company in the long-term.

# Part Three

## Introduction

According to the literature reviewed, there are substantial studies that can be found, which explain the first Mover Advantages and First Mover disadvantages in the Chinese market. However, there is only a scarce amount that specifically explores the hotel industry. The size of the market and the potential for growth, make China one of the most important markets for international hotel groups. It has been reported that MGM Mirage, which is a Las Vegas gaming giant, announced plans to open non-gaming hotels in China over the next few years. Hotels in China will be under the name of its Vegas properties, such as MGM Grand, Skyloft and Bellagio (Audi, 2009). By opening non-gaming properties in China, it will inevitably have to face competition from early entrants, including: Global Hyatt, Marriott Hotels, and Hilton Hotels etc. This part of the paper examines the unique characteristics of the hotel industry and potential FMA and FMD in the Chinese market. A guideline of the potential effects of FMA or FMD and the tradeoffs between risk and profit is provided for international hotel groups that not only want to invest in large cities in China, but also want to be pioneers in remote cities in China.

## Results

### Chinese hotel industry

China's hotel history goes back more than thousand years ago. However, it was stated by Pine (2002) that before 1978, there were only a few hotels in China that met international standards. Because of its Open-Door Policy, China has to build a lot more hotels to satisfy the demand from incoming tourists from other counties (Pine, 2002). The first phase of development for the Chinese hotel industry was from 1986 to 1991. The Chinese government invested 1 billion USD during that time period in order to boost the hotel industry (Pine,Zhang and Qi, 2000;Pine,2002). The second phase of the Chinese hotel development was between 1992 to the late 90s. The hotel industry was stimulated by an increasing number of business trips and tourist activities. Most of the international hotel groups entered the Chinese market in this phase. However, due to the Asian economic crisis in the late 90s, the hotel industry experienced its first loss (Pine, 2002). After the year 2000, China's economy embraced tremendous development. More and more people began travelling within the country, which made investments in new hotels, skyrocket this past decade. It has been reported by Edmond Lp (2008) that with the growth of the Chinese economy, China will become the number one tourist destination in the world with almost 200 million overnight stays within the next 10 to 15 years. Meanwhile, outbound travelers will also increase 10 times. These business/ leisure travelers will prefer to stay at brand name properties that they can recognize or had good experiences with previously. Therefore, building a market in China has become a pressing agenda for international groups (Stoessel, 2008).

China's domestic hotel management companies have been flourishing these past few decades. One example is the Shangri-La hotel and resort, which is one of the most successful Asian-based hotel groups. New Century Group, which is based in Zhejiang Province, also enjoyed big success over the past decade. Most of their hotels are high-end, full-service hotels located in eastern coastal cities. With a fast-growing economy, China is becoming an important player on the global stage. It has been reported by McKinsey

Quarterly executive surveys that almost half of the Multinational companies' executives around the world consider China as their biggest potential competitors in the long term, while most executives in China say going global is their biggest inspiration (Lamond, 2008). He also stated that people used to only ask "Who is coming to China?" This has been changed over past couple of years. Nowadays, more and more people are asking "Where is China going" (Lamond, 2008).

Some people might argue that there is no need to examine the issue of whether being a pioneer will benefit foreign investors in the Chinese market since it has been decades since China opened its door to foreign investment. Subsequently, it is seemingly too late to discuss the issue. However, the soaring economy in China widened the disparities between cities (Davis and Lyons, 2007). The growth in hotel infrastructure and facilities has also varied. In some underdeveloped cities, the lodging industry is still in the stage of embryonic growth. There are few hotels, which meet international standards. For international hotel groups, which consider investing in these cities, it is worth it to examine the entry timing strategy. This disparity in growth is beneficial to understand for international hotel groups, which want to enter other various emerging markets.

In analyzing issues of entry into a market, different scholars choose to emphasize different prospects of the problem. Some focus on the research of entry mode, while others emphasize the financial analysis of the company and economic environment. This paper focuses on the entry order by providing a guideline for the elements that the investor should consider, when making the decision for entry timing strategy.

## First Mover Advantages in Hotel Industry

**Market share**

Obtaining a larger portion of market share depends on creating a higher occupancy rate in the hotel industry, and is crucial for the hotel business. Successful marketing and promotions can result in creating a high market share in the short-term. Take hotels in Las Vegas for example, most of the hotels have lower room rates in order to get more customers. Room occupancy will increase when the hotel has a special room rate. However, it is hard to predict whether or not these customers will return to the hotel even if they had really good experience there. Many hotel people argue that attracting customers with promotions and special rates will eventually hurt the profitability of the hotel business. When people get used to the frequent promotions and low room rates, they will not be as willing to pay more to get the same product that they could buy for less in the past. In other words, it is typically always easier to lower the rate than raise it. On the other hand, loyal customers who are willing to return to hotels after they had good experience with them, are more important to the lodging business.

Something that should be examined further is the switching cost in the hotel industry. An example from the computer industry is used to illustrate this point: If one is a Mac computer user, the switching cost of buying a Dell computer will be high. Think about your computer - if you are a Mac computer user, the switching cost of buying a Dell computer will be high. Because one is already comfortable with the operating system in Mac, which is totally different from Windows. Even if Dell is offering a better deal, will customers switch to Dell? Probably not, since the headache of transferring all documents and the effort of learning a complete different system may not be worth it. Therefore, switching costs can be considered to be high.  In order to create higher switching costs for hotel customers, most of the hotels have started using loyalty programs to retain regular customers. A recent research study of 13,335 frequent travelers reported that less than one third of participants were “loyal” to a specific hotel chain (Mattila, 2006; Hu, huang, and Chen, 2009). At the same time, reward programs are extremely costly. The initial investment, upgrade and maintenance of the system, training, employees, and free rewards for customers are expensive (Hu, huang, and Chen, 2009). Mattila (2006) also suggested that hotels spend lots of money on loyalty programs and provide guests with free nights of stay according to the degree of their loyalty status, since guests can and will easily switch hotels. She also stated that nowadays, the typical traveler holds several reward program cards from different hotel chains. They often tend to look for the best deal first instead of brand names. That means, even if a customer really likes the service at a certain hotel, if there is better deal, that customer will probably switch to the hotel that is offering a better deal. However, giving rewards to customers is not the only thing that loyalty programs can provide the manager in the hotel industry. The information and data that has been gathered by the loyalty program are even more important to. Loyalty programs are sometimes referred to as customer relationship management systems in the hotel industry. Take Ritz-Carlton as an example, which is considered as one of most prestigious hotel names in the world. It used a system called CLASS (Customer Loyalty Anticipation and Satisfaction System) to collect guest’s preference data (Klein, Sasser, and Jones 1999; Piccolio, 2008). When a guest books a hotel with Ritz, the system will research the previous stay information and find the right hotel room for the guest. How is the loyalty program related to the entry timing strategy? By entering the market at an early period, the company can gather more information about the local market. This data and information including the customer preference and peak business time can help hotel managers to make the right decisions in strategic planning.

**Location**

For the hotel industry locations make a big difference, therefore being a pioneer is crucial to a firm's success. Early entrants have the opportunity to get the best location in a town. Also, the travelling culture in China is quite different from the United States. For example, in China, it is rare that people will rent a car to travel to a city. Most of the high-end hotels are built in downtown areas. Business and leisure customers are simply relying on public transportation or taxis to travel from one spot to another. At the same time, there are many customers that will choose to travel on package tours during the holidays. Because of these issues, people are very concerned with the location of hotels. The other obvious advantage of being a pioneer in the Chinese hotel industry is the cheaper land price obtained. Over the last ten years, the land price in China has soared in major cities. Consequently, investing in hotels in China in the past ten years has resulted in high investment returns (Chu, 2010). However, the trend for the next couple years is hard to predict.

Is there a real estate bubble in China? According to Chu (2000) the vacancy rates in the new buildings in big cities has reached a point that can't be ignored. Yet, at the same time, he also states that the vacancy rate may not be a good indicator for examining the potential real estate bubble issues.  One factor that must be considered is that, in China, there may not be a bubble since most Chinese paid 40%-60% of the sales prices in the down payment, as compared with the lower down payment requirements in United

States. Therefore, the high vacancy rate in China might not be a good indicator of an economic bubble (Chu, 2010).

**Knowledge of the local market**

Cultural difference is one of the hottest topics when considering entering a new market. Since most of the hotels are implementing loyalty programs nowadays, pioneers have the time advantage in that they can use the data collected during past ten years in the Chinese market to analyze the preference of local customers.

There are many cases that demonstrate the importance of understanding the differences in cultures.  Hangzhou Hooters is one of them. When opening in early 2008, Hooters enjoyed high publicity in local newspapers. Many people thought the restaurant would be successful because of the distinct American culture. However, it closed its doors 1 year later. Hooters said the store closed down because they had to find a better location due to the subway construction nearby. However, it had experienced bad business since it opened its doors. There was also fierce debate among people about whether the American culture that Hooters brought into Hangzhou would be accepted by the local consumers. For instance, chatting with customers and asking their opinions about the food are commonly found in American restaurants. However, this is not the case in Hangzhou. A majority of the customers in Hangzhou will find frequent greetings annoying instead of finding it to be good service.

Another case is Coca-Cola, which integrated local culture on its website. Coca-Cola has been successful in the Chinese market since it entered the market. There is a "Chronicle" section on their website, where Coca-Cola paralleled its company history with Chinese culture and big political events. By doing this, Coco-Cola showed respect and understanding of the local culture (Tian, 2006). In 2005, Kivela and Leung found out that the negotiation process in China has its own characteristics. They used the term of “It is not over until it’s over” to describe the negotiation behavior in China. They found that most of the Chinese executives tend to re-mention the issues that western executives believe have already been solved during the negotiation. In other words, Chinese executives tend to believe everything is still under negotiation as long as the final agreement has not been reached. Therefore, entering the Chinese market at an early period provides international hotel groups, chances to learn about the local market and in building local connections with partners.

**Government support**

Companies that enter the Chinese market will also benefit from local government support. Li (2000) mentioned the case of Volkswagen, which entered the Chinese automobile market in late 80s. The Chinese government supported Volkswagen by setting up a special office in Shanghai to assist a joint-venture. However, Chrysler had an attempt to get government support blocked because they were a later entrant. Chrysler’s request to build a manufacturing plant for minivans in China was declined because the government decided not to accept any new foreign investment at that time (Li, 2000). Beamish and Li both mentioned the government support that foreign enterprise gained in the late 1970s and early 1980s, such as favorable land use, tax, energy and material supply policies (Beamish, 1993; Li, 2000).

There is unbalanced development in the hotel industry between the coastland and inland in China. It’s not hard to forecast that, in the next couple of years, most international hotel groups will expand their business to less developed cities. In order to attract more foreign investment to boost the local economy, it is possible that local governments will be eager to support the development of new hotels. Furthermore, in order to encourage Chinese to travel within the country, the government implemented a 5 day work week, by creating five one-day-holidays around spring and Ten one-day-holidays in summer. Five one-day-holidays and ten one-day-holidays start from May1st and October1st respectively and last for a whole week. Most Chinese choose to plan a trip in during these holidays. Generally, the average number of days off is 114 days per year which is 30 % of the whole year.

**Weaker local competitors**

China enjoyed a huge development in the hotel industry these past few decades. Many domestic hotel groups, such as the Shanghai-based Jinjiang groups, Rujia hotel and New Century hotel groups have embraced rapid growth over the last ten years. However, many of these “big names” were unfamiliar to Chinese consumers just twenty years ago. It has been reported by the China Hospitality News that JinJiang International Hotels announced the acquisition of Interstate Hotel & Resort and Interstate Operation Company, which was the biggest merger in the Chinese lodging industry market (China Hospitality News, 2009). As stated before, there is a big gap between different cities in terms of infrastructure and economic environment. In many underdeveloped cities, hotels remained state-owned, which are inefficient and rarely meet international standards (Tang et al., 2006; Kong, 2009). Therefore, international hotel groups can benefit from the weak local competition when deciding to invest in underdeveloped cities in the early stage.

**First Mover Disadvantages**

Doh(2000) stated that if the late entrant can exploit a definite advantage, it can learn from the mistakes that pioneers made and surpass the pioneer (Doh, 2000). The case of Google demonstrates for us how a late entrant can surpass pioneers and take over the market with advanced new technology. In the early 2000s, many internet users started to gravitate towards a new search engine, called Google. Put in a keyword and in a blink of an eye the search engine would return a list of links. However, Google is not a pioneer in the internet searching business. The first Internet search engine was Archie. Created in 1990, before the World Wide Web had burst onto the scene, Archie connected users through queries to the machines on which documents they wanted were stored. The next search engine, Veronica, improved on Archie insofar as it allowed searchers to connect directly to the document they had queried. In december1995, the next search engine AltaVista, appeared on the scene. However, none of these pioneers succeeded in the market (Hill, 2006).

**Human resources**

Despite all the marketing strategies and technologies that different hotels are implementing, the core competency in the hotel industry is customer service. Human resources are the key determinant of customer service. Compare with the hotel groups that entered the Chinese market in the early period, late entrant can easily get access to educated employees who might have studied overseas or have work experience that will make them understand the company culture better and have international horizon.

**Aging property issue**

Another problem that pioneers will encounter in the lodging business is the aging property problem. Since most of the buildings were built more than ten years ago, the cost of maintaining the buildings is going to increase substantially over the next decade. To make things worse, companies that entered the market later, typically came with very competitive, eye-catching, exterior designs, but have similar room rates - these could all present a big challenge for pioneers as well.

### Economic environment

Due to the fact that the economy in China is in the process of transition, the economic environment is changing rapidly. This means customers can have totally different consuming habits from just five years ago. Companies entering the market at a later stage should have a more stable economic environment. This will allow them to predict trends more accurately.

## Guideline for International Hotel Groups

It's important to study the analysis of how the unique characteristics of the Chinese market and the hotel industry interact with one another. The following table is an important guideline for potential investors to consider when interested in the Chinese market.

Table 2

*FMA and FMD analysis in Chinese lodging industry*

| FMA | FMD |
|---|---|
| Market Share<br><br>(Implementing loyalty program)<br><br>• Ability to gather local customers information | Human resources<br><br>• More access to highly qualified employees |

| | |
|---|---|
| • Higher brand recognition | |
| Location<br><br>• Be able to get better locations with better land prices | Aging property issue<br><br>• Increasing maintenance fees for aging hotels<br>• Pressure from competitors<br>• |
| Knowledge of the local market<br><br>• Better understand the cultural differences<br>• Redesign the product to offer better experience for local customers<br>• Higher reputation by having established respect for the local culture<br>• Understand different ways of doing business and build connections with local partners | Economic environment<br><br>• Process of economic transition<br>• Unstable economic environment<br>Rapid changing policies regarding foreign investment |
| Government support<br><br>• Favorable policies toward pioneers | |

| | |
|---|---|
| (Volkswagen and Chrysler)<br>• More holidays and days off in order to support tourist industry | |
| Weaker local competition<br>• Rapid growth of domestic hotel groups<br>• Uneven development between cities<br>• Opportunities in underdeveloped cities due to weak domestic hotels | |

**Conclusion**

We can conclude with this analysis that for the hotel industry, being a pioneer might not result in developing higher switching costs for customers who want to choose a product from late entrants. However, entering the market in the early stage allows for the following advantages: first, early entrants accumulate more knowledge about the local market. Knowing more about the local market doesn't necessarily mean that the whole product needs to be changed for the different culture, but it may mean that hospitality firms can better provide service that customers are more comfortable with and at the same time, retain the brand consistency within the hotel group chain. In addition, an understanding of location, land price, and brand recognition can all contribute to the advantages international hotel groups gained from investing in China in the early stage. But we must also consider that there are several disadvantages for hotel groups, which want to invest in emerging markets like China. Because the economy in China is under the process of transition, the economic environment is changing rapidly - this suggests that customers can have totally different consumption habits within just a handful of years. The implications as to whether being a pioneer or not is the best choice for a company, may vary from company to company. Company resources, brand name recognition, and the local political and economic environment, should be examined when making a decision.

## Recommendations

### Professional implications

Entry timing strategy has a substantial influence on the profitability of a corporation in the long-run. Although this paper cannot provide definitive answers for managers about when the best time is to invest in the Chinese hotel market, the results of this paper provide some guidelines for foreign investors to consider when debating the right timing strategy decision.

For those international hotel groups that enter the Chinese market in the early period, the advantage of being pioneers should be maintained carefully or even enhanced through different strategies. One way to keep the initial competitive advantage is to take the advantage of having lower costs and enhance this advantage by becoming more cost-effective. Lowering costs can be achieved by lower marketing and advertisement costs. Even though most hotels have launched frequent guest programs, such as the Hyatt Gold passport program - which usually allows frequent guests to enjoy exclusive benefits and free nights at Hyatt worldwide - customers will still switch to another hotel if they encounter bad facilities and bad services. Thus, international hotel groups should not only spend money and energy carefully on the attractiveness of frequent guest programs in their marketing strategy, but also pay attention to their core competencies of their business service.

For managers of international hotel groups that entered the Chinese market at later periods, there are also many implications. Firstly, followers may enjoy lower operation costs by learning from the previous mistakes that pioneers made. However, the high level of customer loyalty to pioneers can be a problem for later entrants. Followers can adopt more aggressive marketing strategies and offer better service to customers to offset the disadvantages. Secondly, followers can adopt niche market strategies. Followers can use this strategy to reach untapped segments in the market. By adopting these strategies, late entrants can avoid the direct competition from pioneers who already have a large market share and also earn better profits. Thirdly, late entrants should analyze the case of success and failure of the many pioneer hotel groups and learn from their experiences and mistakes in order to reduce their costs.

Cui and Liu(2004) stated that China has entered a new era of globalization. There will be a new round of competition in the next couple years for companies that want to invest in the market (Cui and Liu, 2004). International groups that want to enter underdeveloped cities, should examine the local economy, own-strength, and firm's resources to see whether being a pioneer fits their long-term company goal.

**Future research**

This study is based on studies conducted by previous scholars. Most of the research and surveys are based on different industries other than hotel industries. In the future, more analytical research should be conducted in order to provide more data support for the study of timing strategies. At the same time, more factors should be considered to further analyze the influence of entry timing, such as entry mode, company size and brand reorganizations. Finally, survival rates of pioneers should be added to future research.

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