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# The Management of an Indigenous Hotel Chain Company in China: A Case Study of Sichuan Minshan Hotel Corporation

Yinglin Wang

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The Management of an Indigenous Hotel Chain Company in China:  
A Case Study of Sichuan Minshan Hotel Corporation

by

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Summer 2011

A professional paper submitted in partial fulfillment of for the

Master of Science in Hotel Administration

William F. Harrah College of Hotel Administration

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## **Part One**

### **Introduction**

During the last half century, the hotel industry in the United States and Europe has developed by leaps and bounds. A noticeably major change in the hotel industry is the expansion of several hotels from individual accommodation properties to large international organizations famous across the globe. The hotel groups such as Hilton Worldwide, Starwood, Intercontinental, Marriott, Accor etc. are globally renowned for having successfully owned, franchised and managed great numbers of properties targeting diverse markets across the world (Bell, 1993). Hilton Worldwide, for example, owned more than 3,600 properties with 13 different brands in 82 countries by the end of year 2010 (Watkins, 2010). Its diverse branding strategy covers full range of markets from luxury to full-service and from family to resort; and has met the needs of different customers (Watkins, 2010). Intercontinental, another well-known international hotel group has over 4,500 properties that span 100 countries (Market Overview, 2011). In Asian countries, particularly China, the hotel industry has been booming in the recent decade and continues to show a prosperous trend in the next 10 to 20 years (Pine, 2002). The indigenous hotels in China are facing increasing competition from foreign hotel giants' that are aggressively expanding throughout China. These indigenous hotels have undergone unprecedented transitions and successful local brands such as JinJiang International Hotel Group have opened many branches across the country (Yu and Huimin, 2005).

### **The Statement of Problem**

Although many indigenous hotel organizations in China have been successfully expanding their brands by building, franchising and contract managing more properties; they have been facing many problems managing chain properties. These problems are attributed to lack of a strategic business plan, poor management skills, disassociated resources and outdated information technology.

### **Justification**

The hotel industry has a comparatively lower threshold for market entry. This has enabled many international foreign competitors to successfully take up a fairly large share of this market. The competition in this emerging industry in China is becoming increasingly fierce as time progresses. Due to the pressure of growing number of foreign competitors, some indigenous hotels in China have started to follow in their footsteps and expand their sister properties across the country. However managing hotel chain properties is still new to most of these indigenous hotel chain organizations and the hotel chain effects of maximizing profits have not been fully realized. The studies related to these problems are on-going and the solutions proposed are limited.

A vast majority of indigenous hotel organizations hunger for solutions and strategies to manage their chain properties efficiently and effectively. The Sichuan Minshan hotel is certainly no exception and is the focus of the case study in this paper. The case study explores the management strategies employed by the Sichuan Minshan hotel, a typical indigenous hotel chain organization in China.

## **Constraints**

This study will mainly focus on indigenous hotel organizations in China that have originated from mainland China, and will not be applied to hotel companies that originated from Hong Kong and Macau. Since Hong Kong and Macau were colonized by Great Britain and Portugal in the past, the hotel business environment and hotel resources of these two special districts are well connected to the western world and should be distinguished from indigenous hotels from mainland China.

The third part of this paper discusses Sichuan Minshan hotel (a real indigenous hotel chain organization in China) and provides solutions and recommendations to manage their chain properties efficiently and effectively. These strategies can be generalized and applied to other Chinese indigenous hotel companies, after studying the company's business model.

## **Glossary**

**Chinese Indigenous Hotel:** Hotels that originated from Mainland China.

**Chain Hotels:** Hotel organizations that operate at least three hotels or motels (Ingram, 1996).

**Franchising:** “Franchising is a business model that franchisers use as a distribution method to expand its business. In a franchising agreement, franchisee sells franchiser's branded products or services by using franchiser's operating system” (Fulop & Forward, 1997).

**Management Contract:** “Agreement between investors or owners of a project, and a management company hired for coordinating and overseeing a contract. It spells out



the conditions and duration of the agreement, and the method of computing management fees” (Business Dictionary).

## **Part Two**

### **Introduction**

The modern day hotel management has originated from the western world and has been well studied and practiced for nearly a century in major cities in North America and Europe. The western hoteliers are pioneers in the field of strategic hotel management and have been continuously developing and improving their management strategies in order to meet varying customer needs and consequently maximize their profits (Chathoth & Olsen, 2003). One of the most successful hotel distribution strategies used by western hoteliers is the expansion through development of chain hotels (Burgess, Hampton, Price, & Roper, 1995).

The concept of strategic management has been successfully applied in western hotel industry for many years. The literature review presented in the next section will first present the importance of strategic management and its application in the hotel industry. Second, this review will introduce the definition of hotel chain, and then discuss the chain hotel's history and development. While reviewing the western hotel chain development, several hotel chain models will be introduced. Also, successful management strategies used by large hotel chain organizations will be discussed. Finally, this literature review will present past interesting studies on Chinese indigenous hotel structures and their traditional management models. Literature regarding Chinese indigenous hotels' management problems, opportunities as well as challenges to develop and manage their own hotel chains will then be reviewed.

Definition of Strategic Management

## **Literature Review**

In his article “The Strategy Concept I: Five Ps For Strategy”, Mintzberg (1987) explained that the word “strategy”, originated from “*strategos*” which in Greek means the art of the army general” (p.12). As the competition in general business world becomes more severe every day, the concept of strategy is popularly accepted and applied in the field of management. Mintzberg also indicated that the word “strategy” cannot be solely determined, as it can be defined as a “plan”, a “ploy”, a “pattern”, a “position” and a “perspective” (p.12). Mintzberg further defined in his study that as a plan, strategy is a course of action that is formed in advance with a purpose or an intention to handle a situation. As a ploy, strategy implies a threat used to defeat a competitor or an opponent. As a pattern, strategy is more than just a plan or ploy, and it embraces a resulting behavior that emphasizes the importance of the action. Based on this definition, strategy, as a pattern, is “*a consistency in behavior, whether or not it is intended*” (p.13). Mintzberg also defined strategy as a position where an organization can locate itself in a business environment in which concentrated resources can be acquired. Finally, as a perspective, strategy refers to a way of perceiving the world. Although the dimensions of strategy mentioned above seem to be independent, they are interrelated (Mintzberg, 1987).

### **Application of strategic management in hotel industry.**

In the business world, strategic management has always been favored by business professionals. The modern day business’ are becoming more and more dynamic and complex. Also customer’s needs are changing faster than ever. Therefore managing business strategically has become extremely crucial to organizations. Managerial

professionals in hospitality industry, like ones in other industries, have also realized the importance of applying strategic management in their own field. In the academic field, researchers have also done quite a few studies on strategic planning, competition and competitive advantages, internationalization, strategic alliance and strategic implementation in hospitality industry (Chathoth & Olsen, 2003; Olsen & Roper, 1998). Li, Tse and Gu (2006) indicated that companies in western countries are mostly entrepreneurial firms, and these entrepreneurial companies are innovative, proactive and risk-taking. In this study of strategic planning in hospitality industry, Li et al. (2006) also found that strategic planning and entrepreneurial orientation were significantly positively correlated. It was concluded that due to the presence of a unique valued culture system and socialism in China, strategic management has not been applied in Chinese indigenous hotels, particularly in those state-owned hotels (Li, Tse & Gu, 2006).

With the increasingly competitive hotel market, hotel giants in western countries have developed strategic alliances that help boost their properties' productivity and profitability. Chathoth and Olsen's (2003) have found that by using strategic alliances, hotel firms are able to increase their competitive advantage. This is due to the fact that the strategic alliances bring down the opportunity cost and help firms gain values from sharing resources. Researchers on hospitality alliances have also shown that the strategic alliance has developed from a simple management contract or a franchise to a more complicated agreement in partnership (Chathoth & Olsen, 2003). Furthermore, Chathoth and Olsen (2003) noted that technology plays an important role in strategic

management in hospitality industry.

**The history of chain-hotel and major models.**

The chain hotel concept first appeared between 1930 and 1960s, when the United States experienced the great depression and World War II. As a result of the depression and the worldwide war, many individual hotels had bad debt on mortgages. The large hotel companies such as Hilton and Holiday Inn instead of building new properties to expand their business at that time, started to acquire and remodel the old individual hotels (Bell, 1993).

Bell's (1993) study shows that early emerging chain-hotels appeared in several management models. First, the early age of the chain-hotel model occurred in a profit-sharing lease model between Hilton Hotel Corporation and Puerto Rico government. Due to the government's unwillingness to take any loss, Hilton ended the lease model and created a new chain model management contract. This contract required the owner of the hotel to take the full risk of loss and full burden of providing the working capital. The hotel company on the other hand would take up the complete operation responsibility. According to Bell's study, the management contract became very popular in the United States, and major U.S. hotel companies such as Inter-Continental, Sheraton and Hyatt were in that business (Bell, 1993). During the same period, another chain business model franchise agreement was introduced. In this model, the franchisor hotel companies entitled franchisee hotels to operate the hotel properties and only get up-front franchisee fee by using their brand names (Connell, 1997).

### **Successful western chain hotel companies.**

In the literature “Corporate structures and expansion strategies”, Litteljohn and Beattie (1992) discussed the success of major US and European hotel companies’ expansion. They pointed out that US marketing, branding, management contracting and franchising system that separate operational and ownership responsibilities; play important roles in the early successful expansion of chain hotel innovators such as Inter-Continental and Hilton (Litteljohn & Beattie, 1992). Litteljohn and Beattie further explained in detail that the strategies of market provision employed by these hotels have been changed from single brand to a wide portfolio of brands. Also, these western hotel companies extend the market penetration strategies not only on the domestic and international basis, but also entering different types of sites.

Burgess, Hampton, Price and Roper, (1995) found out in their study of international hotel group that most successful companies have common features like simple hierarchical organizational structures, autonomy and entrepreneurships, market orientation, innovation, integrity perception and empowerment of people. Furthermore, Burgess, et al. (1995) pointed out that organizations would succeed if they apply strategic management to formulate and set up a long-term business plan; then implement the plan and supervise against it. In addition, achieving internal harmony and adapting to external environment are also important factors that make organization successful (Burgess, Hampton, Price & Roper, 1995). Finally, Burgess, et al. (1995) emphasized the combined optimum importance of strategic planning, organizational structures, the environment, and various other factors.

### **History and development of Chinese hotel industry.**

Compared to the long history of Western hotel industry, Chinese hotel industry has a relatively short history of development. However, the industry has been growing at a tremendous rate in China. At the early diplomatic age, foreign national officials were hosted in the exclusive government-owned “Guesthouses” that were considered the very early form of hotels in China. In 1978, China launched the open-door policy which consequently increased the volume of international visitors. Under the situation of insufficient hotel capacity, many government-owned “Guesthouses” were forced to become general travelers’ hotels (Mak, 2007). In 2000, China’s entering into the World Trade Organization officially tied China’s economy to the world economy and further boosted both domestic and international tourism.

The China Tourism Statistic year book (2002, 2010) shows that by the year 2009, the total number of hotels in China has grown to 14,237; in which 506 are rated as five-star hotel and 1,984 are rated as four- star hotels. It can be concluded that the number of the nation’s star-rated hotel property has increased from 8,880 in 2000 to 14,237 by the end of 2009, growing by 37.6%. Moreover, the number of China’s state-owned hotel rose from 5,061 in 2002 to 5,318 in 2009, only increased by 4.83% during the 7 years. While the number of private-owned hotel soared by 80.97% from 556 in 2002 to 2,922 by 2009. In addition, the number of luxury hotels (4 and 5 star) has reached 2,490 by 2009, increased by 67.5% from 2002 (China National Tourism Administration [CNTA], 2002; 2010).

Table 1  
 2002 & 2009 Hotel Ownerships and Star-Ranking Breakdown in China

Ownership Type	2002			2009		
	Hotels	Rooms	Beds	Hotels	Rooms	Beds
Total	8,880	897,200	1,729,300	14,237	1,673,475	3,064,684
State owned	5,061	487,100	975,400	5,318	635,729	1,209,420
Collective	893	71,000	139,900	850	80,943	157,167
Shareholding cooperative	172	15,600	28,100	357	39,461	72,717
Alliance	90	9,500	18,100	66	10,571	18,265
Limited liability	734	75,000	141,300	3,135	403,600	695,984
Limited liability shares	327	41,100	76,900	725	98,063	191,284
Private owned	556	36,000	68,900	2,922	245,096	452,703
Others	361	26,400	51,600	290	30,338	59,726
Hongkong, Macau, and Taiwan	279	60,700	103,100	345	78,718	126,840
Foreign funded	407	74,800	126,000	229	50,956	80,578
<i>Star Ranking</i>						
5 Star	175	64,900	102,400	506	181,072	301,205
4 Star	635	143,500	248,400	1,984	397,049	686,743
3 Star	2,846	346,500	680,000	5,917	689,262	1,275,714
2 Star	4,414	306,000	622,100	5,375	384,038	755,144
1 Star	810	36,400	76,500	455	22,054	45,878

*Note.* from *The Year Book of China Tourism Statistics (2002)*. China Travel and Tourism Press, Beijing.  
*The Year Book of China Tourism Statistics (2009)*. China Travel and Tourism Press, Beijing.

With China's rapidly growing massive tourism market and the extraordinary statistics from hotel industry, China is forecasted to become the number one tourist destination by the year of 2020 (Pine, 2002).

#### **Major Chinese indigenous hotel ownership types.**

According to CNTA's "Year Book of China Tourism Statistic" (2010), hotels in China have quite a few ownership types such as state-owned, collective, private-owned, and foreign founded, etc. The two major ownership types existing in Chinese indigenous hotels are state-owned and private-owned. The number of state-owned hotels in China increased less than 5% in a quite number of years.



However, the number of private-owned indigenous hotels had soared more than 80% during the same number of years (CNTA, 2010). Yu and Humin (2005) implied in their studies that this remarkable change is due to China's transition from central planning economy into market economy.

**Problems found in major Chinese indigenous hotel.**

Unlike most business-based western hotel companies, Chinese state-owned hotel organizations' primary interests are more political and self-indulgence related instead of making profits (Tang, Xi, Chen & Wang, 2006). This has resulted in many problems. First, as both an operator and an owner of the state-owned hotel organization, the Chinese government fails to monitor its hotel assets effectively (Mak, 2007). Second, the complicated ownership structure existing in the state-owned hotel organization results in a complex internal management system and also causes unclear obligations and responsibilities. Third, the Chinese state-owned hotel often ignores the general market due to its non-business oriented nature (Tang, et al., 2006).

Mak (2007) pointed out that due to the huge loss caused by the problematic management system, the Chinese government has started to realize the importance of marketization. Therefore, some state-owned hotels are forced to sell their shares to their employees or external investors. Also those pending state-owned hotel projects are requested for private investors. Mak also found that compared to state-owned hotel companies, Chinese private indigenous hotel companies are commercial based. However, most of the indigenous private hotels in China are still independently owned and managed; and their management techniques are still incompetent as a

result of a lack of managerial professionals. Moreover insufficient capital and high management and maintenance expenses, as well as unnecessary cost prevent most of indigenous private hotel companies from maximizing their profits (Mak, 2007).

**Opportunities of developing Chinese indigenous hotel chains.**

After successfully bringing the concept of hotel chains to China, foreign hotel giants have gained their primary market shares in meeting the needs of international visitors in China. They have been trying to take up more market share in the market of Chinese domestic travelers. Facing the internal ineffective management problems and external threats from foreign competitors, many Chinese indigenous private hotels organizations have started to learn from their neighboring foreign counterparts (Pine, Zhang, & Qi, 2000).

As the competition in the hotel industry becomes extremely competitive every day, some Chinese indigenous private hotels companies have begun entering chain hotel business. According to the 2010 China Hotel Group Development Report from China Tourist Hotel Association (CTHA), there are many opportunities and tremendous potential in the industry for Chinese indigenous private hotels to grow their brands. Based upon the association's research on 30 large Chinese indigenous hotel groups, it has shown that these indigenous hotel groups own a total of 1680 hotels with 356074 rooms. This number of properties owned by indigenous hotel group accounted for 8.29% of China's total number of hotels in 2009, and it has dramatically increased from the year of 2008. Jinjiang International Hotel Group, for instance, has grown its hotel rooms from 29,638 in 2008 to 87,287 in 2009 at an

increasing rate of 194.5%, and it has become the largest and most well-known Chinese local chain hotel company (Xiao, O'Neill & Wang, 2007). In addition, other well-known indigenous hotel group such as Zhejiang Jinling Holdings, Hainan Airline Hotel & Resorts, Zhenjiang Kaiyuan Hotel Group and BTG-Jianguo Hotel & Resorts also increased their hotel rooms at rate of 18%, 7.9%, 62.4 and 6.5% respectively during the year between 2008 and 2009. All these statistics have shown that China's indigenous hotel group has been developing by leaps and bounds even during the global economic recession (China Hotel Group Development Report, 2010).

According to the 2009 top hotel group rating from Hotels Magazine, China's Jinjiang International Hotel Group, Rujia Hotel Group, Jinling Holdings Hotel Group and Hainan Airline Hotels and Resorts Group were ranked the 13th, 21st, 28th and 61th respectively among the top 300 hotel groups in the world. Compared to the foreign chain hotel groups in China, Chinese indigenous hotel groups have their own advantages to grow. Firstly they are familiar with the local culture, and connection with the local governments helps local hotel companies quickly enter into a new market in different cities. Secondly, the local hotel management team knows better about the needs of domestic customers. The report from China Tourist Hotel Association has also indicated that the 30 large indigenous hotel groups being researched showed their expansion plans of adding their chain properties at an average rate of 20.15% between 2010 and 2012 (CTHA, 2010 China Hotel Group Development Report).

### **Challenges of developing Chinese indigenous hotel chains.**

However, today's Chinese indigenous chain hotel organizations face major challenges. On one hand, China is in the mixed economic transition stage, where some conservative indigenous chain hotel firms are still trying to adapt to the new market-based economy system (Pine & Qi, 2004). Pine and Qi's (2004) studies showed that as emerging players in the market, many of the Chinese local chain hotels lack the ability of offering their chain properties adequate managerial support. A few common major problems that exist in these indigenous hotel chain companies and their chain properties are service standardization, different branding strategies, disassociated guest loyalty programs and a lack of information technology. In addition, a lack of managerial hotel professionals is another weak point of indigenous chain companies. On the other hand, foreign hotel groups that have been developed for more than half a century show their significant advantages after entering into the China market. One of the most competitive advantages of the foreign hotel groups are large scale distribution channels and central reservation systems which can direct international travelers to chain properties generate more than 60% of their revenues (Pine & Qi, 2004).

There are few strategic solutions to the development of Chinese indigenous chain hotels that are presented in this paper. Cao (2008) in his studies states that in order to compete with foreign hotel groups, Chinese indigenous hotel groups may need to develop diverse brands with Chinese cultural connotation. Also, Ran (2007) suggested that it is necessary for the Chinese indigenous hotel group to learn advanced market-based management knowledge from foreign hotel groups. In particular,

acquiring knowledge on standardization and advanced hotel management technology were proposed.

### **Conclusion**

A great amount of studies have been devoted to the field of chain hotels in the Western world and the problems and opportunities of Chinese indigenous chain hotels have been diagnosed by different researchers. However the solutions and strategies of improving the management efficiency for Chinese indigenous chain hotel companies are insufficient. The following section will present a case study and discuss solutions to improve the management efficiency of a specific emerging Chinese indigenous chain hotel group.

## **Part Three**

### **Introduction**

Based on the literature review, this section presents a real life case study of a Chinese indigenous chain hotel organization i.e. Sichuan Minshan Hotel Company. The case study illustrates the company's transition from a state-owned organization to a private company, the development of its chain properties and its current chain management problems. This section also evaluates Sichuan Minshan's internal and external business environments. On the basis of the environmental analysis, possible strategies and solutions to improve the company's management efficiency will be discussed.

The primary source of information for this case study is a face-to face interview with Mr. Gong Yu. He is a Deputy General Manager of Sichuan Minshan Hotel Company and the General Manager of Sichuan Minshan Lhasa Grand Hotel. Mr. Gong entered in Sichuan Minshan Hotel Company in 2000 as a deputy manager in the sales and marketing department. During the past 11 years of employment with the company, Mr. Gong has seen large transitions and expansions of the company. In fact he has contributed to a lot of the expansion of Minshan Group (Y. Gong, personal communication, March 10, 2011). By conducting several interview meetings with Mr. Gong, both open and close ended questions were asked. During the interviews, Mr. Gong described Minshan Group's background and its successful developments. Also he pointed out the major management problems his company faces today. Finally, in order to help the company to solve the current management problems, possible strategies and solutions were discussed.

## **Case Study**

The purpose of this case study is to discuss possible solutions to solve current major chain management problems existing in this Chinese indigenous private chain hotel company which is previously a state-owned hotel. By studying the case hotel, it is hoped to set an example for other Chinese indigenous transitional hotels with similar management problems.

### **Background of Sichuan Minshan Hotel Company.**

Named after a beautiful Minshan mountain across both Gansu and Sichuan province, Sichuan Minshan hotel property is located in the capital city of Sichuan Province. It was opened in 1988, and it was the first state-owned four-star luxury hotel allowed to host foreigners. Mr. Gong (Y. Gong, personal communication, March 10, 2011) stated that the hotel was previously owned and managed by SASAC, the State-owned Assets Supervision and Administration Commission of the State Council of China. In September, 2003, the hotel experienced the ownership transition from a state-owned hotel to a private-owned sharing holding company. As mentioned in review work of Yu and Gu's (2005) study of Hotel Reform in China, many Chinese state-owned hotels encountered poor performance and were forced to be transformed to nongovernment business companies between 2002 and late 2005. Sichuan Minshan hotel property was then one of the transitional hotels experiencing the reforms in China's hotel industry. Under the previous ownership and management of Sichuan state-owned department SASAC, Sichuan Minshan hotel property experienced a huge loss for a long period of time that caused a bad loan from the state-owned bank. In order to liquidate Sichuan Minshan hotel, its ownership was then sold to the

management team, in which general manager, deputy general manager, some department heads held different proportions of the company stakes. The new Sichuan Minshan Hotel Company was then established, aiming to become a profitable and competitive hotel enterprise.

#### **Development of Sichuan Minshan Hotel Company.**

In 2007, Sichuan Minshan Hotel Company officially established Sichuan Minshan Group which owns 9 different subsidiaries operating business in the areas of hotels, restaurants, travel services, and hotel design and cleaning services. The Minshan Group now has number of employees over 2,800 and net assets of over US \$ 92.3 million. After the establishment of Minshan Group, the Minshan Hotel chain properties have then been managed by its subsidiary, Minshan Hotel Company.

According to Mr. Gong, in order to expand and develop its hotel brands, Minshan Group has been continuously purchasing and upgrading small local hotels, signing lease agreement and management contracts with both luxury and economy hotels in major cities of Sichuan Province and Chongqing Municipality through its two major hotel subsidiaries Minshan Hotel Company and Minshan Hotel Management Company. In these two companies, Minshan Hotel Company is mainly responsible for the expansion and management of the luxury Minshan brand. While Minshan Hotel Management Company manages 36 economy hotels including its own economy brand Anyi 158 and 12 other luxury hotels that have signed management contracts with the management company. In addition, Minshan Hotel Management Company provides other industrial services such as hotel consulting, planning and training (Y. Gong,



personal communication, March 10, 2011).

During the past 20 years or more, Sichuan Minshan Group has successfully established one luxury brand Minshan and one economy brand Anyi 158, and both brands have been well recognized by locals and even visitors from other parts of the country. In 2010, Sichuan Minshan hotel property, was renovated and upgraded from a four-star hotel to a five-star hotel. Mr. Gong (Y. Gong, personal communication, March 10, 2011) proudly indicated that since the beginning of this year, Minshan Group has been planning to expand its major brand Minshan to the northern part of China. The goal is to purchase a local hotel in Tianjin, a neighboring city to Beijing, which may be a good start for the organizations' nationwide expansion.

#### **Minshan Hotel Company's external opportunities and threat analysis.**

In current times the Chinese market is considered a major emerging business market. In hotel industry, many foreign hotel companies have seen the great change and business opportunity in China and strive to be the first to take up the major market share. Many Chinese local hotel companies have not taken the external environment change seriously and started losing their customers base gradually. Therefore, it is imperative for Chinese indigenous hotels to be aware of new external opportunities as well as threats.

#### ***Political environment analysis.***

Pine, Zhang, and Qi (2000) have indicated that China's open-door policy has undoubtedly brought China into the global business market and greatly boosted China's economy. This has brought China a flow of international travelers, and has also stimulated domestic travel activities that create huge demand for hotel rooms.

The service industry therefore became one of the industries that have been benefited the most from China's transition to the market economy. In addition, in order to regulate the hotel quality under the WTO agreement, China's National Tourism Administration established hotel star rating system that facilitated Chinese indigenous hotels to be recognized in the global market. Moreover a new China policy that was developed in 2004 called for the development of China's Western region. This gave the Sichuan Province (located in Western China) a great opportunity to promote its rich natural and cultural resources and develop its tourism industry (Liu,2001). Finally, although Sichuan Province has experienced a great earthquake in 2008, Chinese central government's post-disaster construction has brought the Province many new business opportunities.

***Social environment analysis.***

China's National Bureau of Statistics (2009) has shown that both the scale and the level of urbanization in China have been greatly changed with the urban population reaching a whopping 46.6% of total population. At the same time, the entertainment and travel facilities have been greatly developed. This has stimulated people to participate in various travel activities. In addition, with the increase in living standards and the increase in spending, people in China have shown increasing consumption ability on traveling, catering and various social activities.

With the ancient Shu Kingdom history, the beautiful natural mountain and wildlife resources and the world-class catering options, Sichuan Province has been rated as one of the great tourist destination by China National Tourism Association. By the

year of 2010, the number of inbound tourists had reached 1.05 million with foreign income of \$3.54 billion US dollars. In addition, the number of domestic tourists in Sichuan had also increased to 2.71 billion with domestic tourism income of \$286.5 billion US dollars (Yang, 2011).

***Technology environment analysis.***

After China entered into the global economy, the advanced technologies such as customer relationship management system (CRM), central reservation system (CRS), e-commerce, distant training etc. were introduced by foreign hotel corporations. The Chinese indigenous hotels which were lacking sufficient capital were lagging behind in terms of these advanced technologies. Sichuan Minshan Hotel Company is no exception to this rule. Also due to the out-of-date training system and complicated chain organization structures, distant training has not been realized. However, like many other indigenous hotels, Minshan Hotel Company has taken initiatives to introduce energy-saving hotel equipment aimed to meet the global environmental standards as well as to reduce the energy cost.

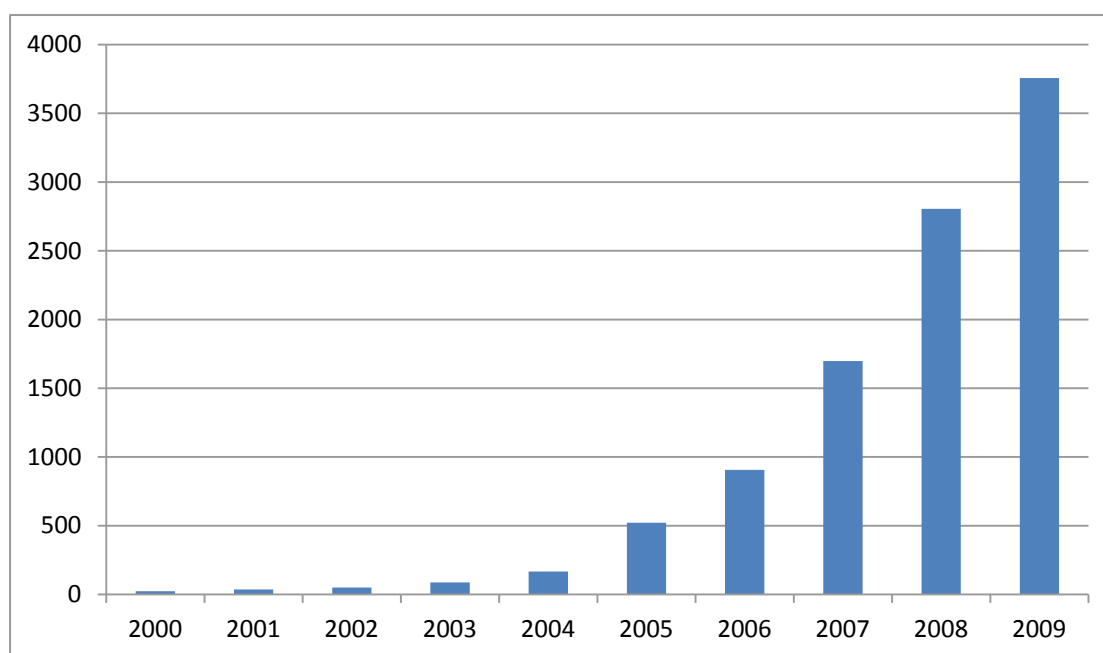
***Threat from both domestic and foreign competitors.***

According to China National Tourism Association (2010), the number of Chinese luxury hotels has increased in recent years from 1821 four star hotels and 432 five star hotels in 2008 to 1984 four star hotels and 506 five star hotels in 2009. The excessive luxury hotel properties built during the Beijing Olympic Games and the global economic downturn at the end of 2008 have brought Minshan Hotel Company into severe competition. Meanwhile, competition from economy hotels has also been increasingly dramatic as both international and Chinese indigenous economy hotel

companies have been expanding all over the country. This has greatly threatened Minshan Hotel Company due to the high demand of economy hotels during the current global economy recession.

Table 2

The increased number of economy hotels in China in recent 10 years



Note. from Wu, P. (2011). The 10-year development analysis on China's economy hotel field [中国经济型酒店十年发展行业状况分析]. Retrieved from <http://news.cyzone.cn/news/2011/01/29/184271.html>

***Threat from potential and substitutive competitors.***

Besides the direct competition from existing domestic and international hotel companies, Minshan Hotel Company also faces threat from potential and substitutive competitors. Due to the relatively low threshold of entry into the hotel industry in China, companies such as China Oil and Food Corporation (COFCO) have invested and developed their chain hotel Gloria in China's major tourist cities such as Beijing, Suzhou and Chongqing. Also COFCO has entered into the resort market such as Hainan resort area. On the other hand, due to the development of social catering with

a variety of food options, flexible business hours and reasonable prices, more and more consumers including hotel guests choose social catering products instead of dining in hotels (Ye, 2009). The Minshan Hotel Company, like many other hotels, is being threatened by social catering businesses.

### **Minshan Hotel Company's competitive advantages analysis.**

Christensen (2010) defined competitive advantages in his study as “values business provides that motivates its customers to purchase its products or services rather than those of its competitors” (p.21). Having operated in hotel business industry for more than 20 years, Minshan has certainly gained the following competitive advantages in the state-wide hotel market.

#### ***Well recognized brand image.***

The Minshan Hotel started operations in the year 1988 as a luxury indigenous state-owned hotel in Sichuan Province. Minshan' target market was national and local government officials and international visitors. Through the many years Minshan Hotel Company has provided high quality and luxury hotel services and exceeded the demanding needs of government officials and the high standards set by international hotels in China. Minshan has successfully established its luxury brand image in the mind of consumers in China. After experiencing the huge company transition to a private hotel company, Minshan has been continuously offering luxury hotel services to its guests with diverse needs. Based upon its long history of providing high quality hotel services, Minshan Hotel Company has not only survived in the competitive market after the transition, but has also managed to expand its chain properties province wide. In 1996, the company was rated as the National High-performance

Hotel. Also the company has been rated by the state government as one of the most trustful enterprises. Today, the Minshan brand owns the images of a long history, high quality of service and safety, premium location, prestigious social reputation and high social status that are well recognized by locals, national visitors and international travelers.

***Profound company culture.***

During the past 20 years, the Minshan group has grown substantially. During the growth process, the entire Minshan group has successfully applied its people-oriented and nature-oriented culture throughout all its subsidiary companies. This culture has helped the company to gain positive recognition from its many employees. By following the company's culture and concepts, the employees of Minshan Hotel Company have shown their incredible positive and collective work attitude. This has played a vital role in the fast expansion of its chain properties (Y. Gong, personal communication, April 6, 2011)

***Benefited industrial chain system.***

A key differentiator of Minshan Hotel Company from other hotel chain companies is the presence of its own industrial chain system. Mr. Gong said that besides its major business which is in the hotel space, Minshan also operates industrial businesses related to travel, food processing, hotel construction and design, hotel fabric cleaning, hotel management and consultancy services. One of Minshan's subsidiaries Zizi bakery chain company is well recognized by the local people as providing healthy and delicious food. The Sichuan Minshan Zizi Company was once given the State Trademark in the year of 2002 and 2005. This highly profitable food

chain subsidiary has provided Minshan with sufficient cash flow that helped the expansion of the company. Also, supported by its own hotel construction and design business, as well as the hotel fabric cleaning business, Minshan Hotel Company has been able to reduce its operational cost (Y. Gong, personal communication, April 6, 2011).

***Developing sales and marketing ability.***

Mr. Gong (Y. Gong, personal communication, April 6, 2011) also emphasized that besides cutting operational cost, Minshan Hotel Company has been focusing on developing its sales and marketing ability through major sales distribution channels including its reservation center, front desk, sales department and online third-party distribution companies which account for more than 20% of the hotel's sales revenues. Meanwhile, the hotel has been actively marketing its products through various media. Furthermore, Minshan Hotel Company translates its views of putting the customer first, caring for its employee and focusing on the market change into all of its sales and marketing activities.

***Developing human resources management ability.***

In recent years, Minshan Hotel Company has realized the importance of recruiting more educated hotel professionals and the significance of management training. Its human resources department has been recruiting top managerial talent from both schools and the marketplace. Moreover, the Minshan Hotel Company human resources department has established many management training courses, aiming to equip the management team members with advanced management knowledge in order to make its chain properties more competitive in the market (Y.

Gong, personal communication, April 6, 2011).

**The current situation of Minshan Hotel Company.**

According to the official Minshan group website, the hotel company has successfully expanded its luxury hotel brand of Minshan from an individual hotel company to a total of 6 hotel properties the Sichuan Minshan Hotel, Guangan Minshan Century Hotel, Minshan Lhasa Grand Hotel, Minshan Anyi Grand Hotel, Chongqing Minshan Hotel and Xichang Minshan Hotel. The major target market segments of Minshan chain properties are business and travel. (Y. Gong, personal communication, April 6, 2011). From the years 2006 to 2009, the Sichuan Minshan Hotel property and Guangan Minshan Century Hotel property made substantial profits, whereas the other four Minshan properties suffered losses since their opening.

**Management problems of Minshan Hotel Company.**

Although Minshan Hotel Company has been quite successful in the hotel industry after experiencing the ownership transition, it recently has been facing management challenges and problems due to the increasing external industrial competition, internal complicated organizational structure and out-of-date management system. With the fast development of its chain business, Minshan Hotel Company's problems of managing its brand chain properties are becoming more and more apparent and may restrain the company's future expansion (Y. Gong, personal communication, April 6, 2011).



Table 3

*Minshan brand chain hotels information and profit comparison*

Hotel Name	Star Rated	Target Market	Number of Rooms	Profit Actual in million RMB 2008	Profit Actual in million RMB 2009
Sichuan MS Hotel	★★★★★	Business, Government, Tour Group, individual traveler and meetings and conferences.	359	5.08	4.87
MS Guangan Century Hotel	★★★★	Business, Government, individual traveler and meetings and conferences.	100	2.06	2.53
MS Lhasa Grand Hotel	★★★★	Business, Government, and meetings and conferences.	161	(2.09)	3.08
MS AnYi Grand Hotel	★★★★	Business, individual traveler, Tour Group and meetings and conferences.	198	(0.57)	(2.80)
Chongqing MS Hotel	★★★★	Business, individual traveler and meetings and conferences.	111	(0.38)	(0.28)
Xichang MS Hotel	★★★★	Business and individual traveler	80		(0.80)

*Note.* From Minshan Hotel company [Company profile]  
 Minshan Hotel Company. (2008). *Minshan Hotel Company Annual Report.*  
 Minshan Hotel Company. (2009). *Minshan Hotel Company Annual Report.*

Mr. Gong (Y. Gong, personal communication, April 6, 2011) further explained in detail that from the hotel group point of view, one of the major problems existing in Minshan Hotel Company has been a lack of a clear strategic consciousness in the market since it transitioned into a private company. Without a clear strategic goal and a group concept, the company is beginning to find it difficult to maintain its competitive advantage in today's market.

Moreover, from a management stand point of view, each Minshan chain

property happens to manage and operate on their own due to the hotel company's inability to manage its chain properties on a group level. As a result, sometimes chain properties focus on their own interests instead of the hotel group interest; this prevents the hotel group from maximizing its group profits.

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properties focus on their own interests instead of the hotel group interest; this prevents the hotel group from maximizing its group profits.

A list of factors contributing to Minshan's inability to manage its chain properties on a group level are as follows.

- Each chain property has its own reservation system and sales network, and their guest resources are hardly shared with each other.
- Each chain property has its own standard for hotel products and services provided to their customers.
- The brand perception is different and different standards of brand marketing exist in each chain property.
- Each property has its own suppliers and varied supplier purchase policies, which has increased the operation cost.
- There are complicated and non-integrated organizational structures throughout the Minshan chain properties.
- In terms of managing human resources, there is inefficient communication among human resource department of each chain property so that labor resources cannot be fully shared.

The problems listed above are now becoming critical issues at Minshan hotel, as the hotel company losses more customers to its foreign competitors. First, as the result of disassociated reservation systems and sales network, the Sichuan Minshan Hotel, Minshan Lhasa Grand Hotel and Minshan Anyi Grand Hotel all located in the same city, found it challenging to cross sales to the sister hotel when one property sold out

its rooms. Also, guest information in each property is managed at the property level that limits other chains from accessing potential customers. Secondly, the problem of non-standardized service quality in different chains has resulted in unsatisfied customers who received high-quality service in one property but less pleasant service at another chain property. Third, as Minshan Hotel Company acquired and transferred small individual hotels to most of its chain properties, each chain has different perceptions about its new brand. Due to the lack of a unified marketing system, it has been noted that customers perceive a different brand image at different Minshan chain properties. Lastly, due to the complicated and non-integrated human resource departments of the chain hotels, hotel employees cannot move freely among chain properties based on their labor needs. Also, employees' career development within the hotel group cannot be fully realized.

**Possible solutions to efficiently manage Minshan Hotel Company.**

During its transition from a state owned poorly performing organization to a profitable private company, Minshan Hotel Company has been developing its distribution channels, enhancing its service quality and cutting operational cost. However, without the concept of strategic management at a group level, this will hinder the company from further expansion. Therefore, it is very necessary and critical for Minshan Hotel Company to improve its group management level to be able to manage its chain properties efficiently. A series of recommendations to improve Minshan Hotel Company's chain management efficiency are as follows.

***Develop a branding strategy.***

Arnold (1992) indicated that a brand, as equity, can be a powerful asset that helps

a company to gain a high recognition from consumers and thus to make profits for subsequent years. Today's large international hotel companies have all successfully applied the branding strategy of establishing a portfolio with diverse brands targeting different market segments to meet the different needs of consumers. Minshan Hotel Company can certainly develop its own portfolio with its core brand Minshan targeting business and individual travelers, and with its other brands targeting high-end, economic, resort and tour group markets. Also, the company can build up a group brand management team responsible for monitoring brand efficiency and the continuously changing market in order to discover potential market segments.

***Provide chain properties with brand knowledge training***

The Minshan Hotel company can use its group brand management team to provide its chain properties with training on particular brand knowledge. This will help resolve the current issue of having different perceptions on the same brand throughout Minshan's hotel properties. Also, instead of spending a lot of efforts and expense on marketing the same hotel brand on its own, it is suggested that each chain property may focus on marketing its own unique hotel products.

***Integrate organizational structure of Minshan Hotel Company.***

In order to manage its Minshan brand properties efficiently, it is necessary for Minshan Hotel Company to establish the same organizational structure and set up the same department responsibility in all chain properties. Furthermore, a central management office may be established for managing all chains as a whole and receive reports from department teams of each property. This will help to regulate all its chain properties and enhance its work efficiency (Y. Gong, personal communication, April 6,

2011).

***Integrate human resource departments.***

If Minshan Hotel company integrates human resource departments and establishes identical human resource regulations in chain properties, it will enable chains to share all labor resources. By setting up a central human resource management office, Minshan Hotel Company will be able to manage all its labor resources on a group level. This will make it possible to easily move employees between different chain properties so as to meet the properties labor needs while considering the career development needs of its employees (Y. Gong, personal communication, April 6, 2011).

***Improve central control and implement group purchasing.***

Establishing a central purchasing center may prevent Minshan chain properties from purchasing material on their own. Implementing group purchasing through limited suppliers may highly reduce the operational cost and maintain a high quality. However individual chain properties should be allowed to purchase non capital items below a certain cost limit e.g. fresh produce. The price and quality of material purchased should be controlled by the central purchasing center (Y. Gong, personal communication, April 6, 2011).

***Enhance Minshan Hotel Company's sales management system.***

The fact has shown that the Central Reservation System and internal sales network has helped international hotel group successfully expand their chain properties all over the world. It is necessary for indigenous Minshan Hotel Company to consider establishing a Central Reservation System, Central Customer Information

Management System, Central Hotel Membership Management System etc. A central sales center may be formed to manage various sales distribution channels. In addition, establishing a central revenue management system throughout all chain properties will help Minshan Hotel Company manage its hotel room occupancy effectively in order to maximize the profits.

***Establish Minshan hotel school and develop its knowledgeable hotel professionals.***

In order to fully implement the strategic management plans, Minshan Hotel Company may establish a hotel school to develop its own managerial professionals. By providing its management team members with trainings on advanced hotel technology and management knowledge, will certainly accelerate Minshan Hotel Company's future expansion.

**Conclusion**

In China's fast-growing and extremely competitive market, as the hotel industry continues to develop, more and more state-owned hotels are coming out of the government's shield and trying to make it on their own. Meanwhile, many small local Chinese individual private hotels have realized that it is becoming increasingly hard to compete solo against foreign chain hotels. As a result, large Chinese indigenous hotel companies are expanding through purchasing, franchising and contracting small indigenous hotels. Also, individual small local hotels have decided to join large hotel companies so as to survive in the current competitive market.

However, while many large indigenous hotel companies like Minshan Hotel Company are following their foreign competitors' footprints and expanding their

chain properties around the country; managing chain hotels efficiently has been a major challenge due to their complicated organizational structures, traditional management procedures, less strategic and skilled management team and outdated technologies. As one of the pioneers of China's indigenous hotel company, Sichuan Minshan Hotel Company has realized its existing problems, the threats from foreign competitors and the importance of optimizing its chain management system. Therefore, it is necessary for other indigenous hotel companies with similar background as Minshan Hotel Company to consider reforming and implementing strategic management plans based on their own situation to increase work efficiency and more importantly to remain competitive in today's extremely competitive Chinese hotel market.



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