

## The Development of Economy Hotels in China

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In the recent decade, with the increasing affluence of Chinese economy, domestic tourism have entered into an accelerated development stage and the demands in lodging market kept rising. China's domestic tourism had a continuous increase of around 10% each year. In 2012, with an immense increase in domestic demand, the total number of domestic tourists is estimated to 3.13 billion person-times (Table 1), the country has already formed the largest domestic tourist market in the world. The newly emerging economy hotels which offer clean and comfortable guest rooms at relatively low price are undergoing dramatic developments and has expanded rapidly since 2003 (Table 2).

The annual growth rate of economy hotels kept above 70% since 2003 and indicated a 214.46% rise in property number in 2005. The increase of domestic tourists' expenditure, especially the increase of their accommodation expenditure created opportunities for the development of economy hotels. On the other hand, the expectation of the appreciation of real estate and Chinese currency fuelled the investment in this sector.

Economy hotels are one of the fastest growing segments of the hotel industry throughout the world in the recent decades. Unlike those luxury hotels, these lodging products offer clean, simple rooms with limited services and facilities, and maintain a lower breakeven point through lower construction and operating costs. This form of lodging product expanded rapidly during the dramatic economic growth in 1970s in the United States with the development of domestic tourism and with the interstate highway continuing as a prime location [1]. Many scholars believe that the demand for this kind of product is huge and economy hotels will expand in a similar vein of the branded fast-food market [2,3].

China is experiencing an expansion of domestic tourism because of the affluence of residents. The increasing number of domestic tourists creates a huge demand toward economy hotels. Shen [4] further pointed out that from the aspect of supply, the ongoing conglomeration tendency in the China hotel industry created a great opportunity for the expansion of economy hotel chains with the injection of capital and inventory upgrading. By now, economy hotels in China have formed a three-tier structure: national-chained brands such as Home Inn, JJ Star, Motel 168, and 7 Days; regional-chained brands such as Orange, Shanshui, and WHWH; international brands such as Ibis and Super 8.

Economy hotels firstly developed in big cities in the east coast of China, which are the most prosperous places in China. With the development of this sector, these lodging products are now entering into big cities in western China and small cities and towns in the east part.

The proliferation of economy hotels in China had increased the importance of this part in the hotel industry and it attracted more interests both from academia and hoteliers. Brotherton [5] summarized that the characteristics of this product are 'extensive geographic coverage of the hotel network; easily accessible; centralized reservation system; strongly branded product; standardized unit construction and guest bedroom layout/facilities; fixed, or only promotionally variable, room rates; relatively limited service; and high value-for-

money offer'. The success of economy hotel operation depends highly on a higher occupancy rate to cover the low breakeven point and to obtain profitability. Therefore, operating controls are very crucial and operators should make good efforts in increasing customer satisfaction and reducing cost [1,6]. A good understanding toward economy hotel customers is always the essential task for the hoteliers in this sector.

According to a survey conducted by Fudan University in 2012, economy hotel customers in China displayed many attributes in common, which brought about some general managerial implications. In terms of hotel products, economy hotel customers like moderate-size rooms (15-25 square meters), they concern much about bed, sanitation and sound insulation of the guestrooms and regard transportation accessibility, quality of breakfast and the amount of hotel branches as the most important aspects influencing their selections. In terms of hotel promotion, around 50% of the customers like to get membership card, coupon and scorecard. More than half of the guests get information about economy hotels through their friends; therefore, word of mouth and service quality are very important in establishing good image. But internet, hotel reservation center and travel agency are also important sources of information. Above 90% of guests make a reservation in advance and telephone and website are the main reservation channels. Therefore, internet and hotel calling center are the main information and distribution channels for economy hotels in China.

But among these economy hotel guests, individuals also differ in demographic characteristics, behaviors, lifestyles and product preferences. Market segmentation provides a good mechanism for us

Year	Travelers (Billion)	Growth Rate	Expenditure (Billion RMB)	Growth Rate
2003	0.87	-0.91%	344.23	-11.24%
2004	1.10	26.67%	471.07	36.85%
2005	1.21	9.98%	528.60	12.21%
2006	1.39	15.00%	622.97	17.85%
2007	1.61	15.83%	777.06	24.73%
2008	1.71	6.21%	874.93	12.59%
2009	1.9	11.11%	1018.37	16.39%
2010	2.1	10.53%	1257.98	23.53%
2011	2.64	25.71%	1930.54	53.46%
2012'	3.13	18.56%	2600.00	34.68%

**Notes:** 2012' is an estimated number issued by China Tourism Research Institute, 2013.

**Source:** China National Tourism Administration, The Yearbook of China Tourism Statistics, 2004-20012

Table 1: Development of Domestic Tourism in China (2003-2012).

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Year	Guestrooms	Growth Rate	Properties	Growth Rate
2003	10,292	70.2%	87	74.00%
2004	19,199	86.5%	166	90.80%
2005	56,854	196.1%	522	214.46%
2006	98,817	73.8%	906	73.56%
2007	188,788	96.14%	1,698	130.63%
2008	312,930	65.76%	2,805	65.19%
2009	412,840	31.93%	3,757	33.94%
2010	544,210	31.82%	5,120	36.28%
2011	747,045	37.27%	7,314	42.85%
2012'	837,220	12.07%	8,313	13.66%

**Notes:** This statistics only covers affiliated economy hotels; 2012' refers to the first half year of 2012.

**Source:** InnTie Research Institute, 2013

**Table 2:** Economy Hotels in China (2003-2012).

to understand better these differences and properly meet the needs and wants of each segment. Targeting on different segments and characteristics of economy hotel customers in China, many brands such as Orange, Motel 268, Yotel QQ designed to satisfy diversified preferences and demands of customers, which established unique competitive advantages in the market.

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