

# InterContinental, Pudong, Shanghai : re-positioning to address a new challenge

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**INTERCONTINENTAL, PUDONG, SHANGHAI :  
RE-POSITIONING TO ADDRESS A NEW CHALLENGE**

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*Xia Yang and Chung Sang Pok*

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*January 1999 marked a milestone for InterContinental, Pudong, Shanghai. The hotel was officially awarded five-star status by the National Tourism Administration of China in Beijing, putting the hotel in the same league as the selected few in Shanghai.*

*Since InterContinental Hotels Group took over the management of the hotel, originally called New Asia Tomson Hotel, many exciting changes had taken place in the metropolis and the hotel industry, particularly in the high-end sectors of the business.*

*Shanghai was emerging as a new business and convention hub of Asia. More four- and five-star hotels, most of them belonging to the international chains are entering the scene to cash in on the "Shanghai Fever".*

*With a new image and marketing orientation, the marketing team of the hotel faced the challenge of re-positioning the hotel to take advantage of its new ownership, management contract and the fast changing business environment. As businessmen may agree, since Shanghai was moving at astounding speed to catch up with the rest of the world, all businesses had to be responsive to the new changes and yet stay nimble.*

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*Associate Professor Xia Yang and Research Associate Chung Sang Pok prepared this case. The case is based on public sources and interviews with key personnel from Hotel Inter-Continental, Pudong in Shanghai. The authors would like to acknowledge the contributions of Nanyang MBA students Ms Lim Lay Keng, Ms Le Thi Ngoc Anh, Ms Li Chun Jiang and Ms Tng Ming Li for their valuable contacts and assistance in data collection. As the case is not intended to illustrate either effective or ineffective practices or policies, the information presented reflects the authors' interpretation of events and serves merely to provide opportunities for class discussion.*

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InterContinental, Pudong, Shanghai, is situated in the new financial district of Lujiazui in Pudong. It was officially graded as a luxury five-star hotel by the National Tourism Administration of China on Jan 1999.<sup>1</sup> A five-star plaque unveiling ceremony attended by Shanghai's vice-mayor, Zhou Yupeng, marked a new milestone for the hotel.

Formerly known as New Asia Tomson Hotel, it had been recognized as one of the few five-star hotels on the east bank of the Huangpu River. The hotel had been attracting a good mix of business and leisure travellers. However, under the original management, the hotel neither had a very defined target market nor did it have a distinctive marketing image.

The occupancy rate had been encouraging then but the new management felt that more could be done to tap its potential considering the hotel's premier location and comprehensive facilities.

Since the InterContinental Hotels Group took over the management of the hotel, many exciting changes had taken place in the metropolis and the hotel industry, particularly in the high-end sectors of the business.

Shanghai has emerged as a new business and convention hub of Asia. More four- and five-star hotels, most of them belonging to the international chains, are entering the scene to cash in on the "Shanghai Fever".

With a new image and marketing orientation, the marketing team of the hotel faced the challenge of re-positioning the hotel to take advantage of the new ownership, management contract and the fast-changing business environment. The hotel needed a more focused direction in marketing to build a distinctive image. As businessmen may agree since Shanghai is moving at astounding speed to catch up with the rest of the world, all businesses had to be responsive to the new changes and yet stay nimble.

## HISTORY OF THE HOTEL

The hotel, offering the first five-star accommodation in Pudong, opened its doors in June 1996. Since

then several five-star hotels had opened in the booming district of Pudong. (See **Exhibit 1.**)

Towering at 24 floors, InterContinental Pudong, Shanghai had 422 rooms before the renovation in 2001. When first opened in 1996, it was managed by its owners, the Tomson Group and the Shanghai New Asia Group which had jointly appointed an owner representative and a general manager for hotel operations. In 2000, the hotel, was renamed InterContinental, Pudong, Shanghai after InterContinental Hotels Group, signed a contract to manage the hotel.

To upgrade its facilities and services, the hotel went through comprehensive renovation and retro-fitting in 2001 just prior to the Asia Pacific Economic Cooperation (APEC) meeting. It now boasts 400 guest rooms, including six executive floors, eight non-smoking floors, 78 suites, two duplex suites and one presidential suite. There are seven food and beverage outlets of Asian, American and European styles to cater to the different needs of business travellers.

As of 2001, the hotel had cumulatively served more than 1 million guests from all over the world and hosted more than 1,200 conferences, banquets and commercial activities for both local and foreign clients. The hotel had also served many significant public figures such as President Kim Dae-Jung of South Korea and President Jacques Chirac of France during major international meetings.

## OWNERSHIP AND MANAGEMENT OF THE HOTEL

Ownership has a very important bearing on the management of the hotel in Shanghai. Many star-rated hotels fell behind because the owners were reluctant to invest in periodic refurbishment. Ownership may dictate the market segment positioning of the hotel under certain circumstances. For example, the state-owned Jin Jiang Group had different considerations concerning pricing strategy for clients who are Chinese officials on business or official trips.

In 2002, the service industry had not been fully opened to foreign investors. 100 percent foreign ownership of hotel property was still not allowed.<sup>2</sup>

1 The grading of the hotels in China is done at central government level by the National Tourism Administration of China. The authority rated the hotels according to an established international star-rating standard. As of September 2002, more than 20 hotels have been rated five-star in Shanghai.

2 WTO-prompted reforms are likely to include unrestricted access for the international operator to the China market, including 100% foreign ownership by the end of 2005.

Investors would have to look for a local partner for a joint venture. InterContinental was owned by two groups who are themselves in the hotel, real estate and food and beverage (F&B) businesses.

### TOMSON GROUP (CHINA) LIMITED

The real estate development group was established in Taiwan and listed in Hong Kong. In 1992, it made its first investment in Shanghai by winning the first international tender in the Lujiazui financial district in Pudong. Ever since, the Tomson Group has become one of the most prominent players in the Shanghai real estate scene, particularly in the new financial and business district of Pudong.

By 2002, the Taiwanese-funded Tomson Group had invested a total of 1.5 billion US dollars<sup>3</sup> in the largest city in China. The Group not only moved its headquarters from Taiwan to Pudong but also renamed its listed company in Hong Kong the Pudong Development Co. Ltd.

The company concentrated its China business in Shanghai for its economic growth potential, highly skilled talent pool, degree of internationalization and government efficiency relative to other regions in China. The Group developed the first five-star hotel in Pudong and named the hotel after its company.

### SHANGHAI NEW ASIA (GROUP) COMPANY LIMITED

The Company, established in March 1985 and formerly known as Shanghai New Asia (Group) Associated Company, is the first large group of companies specialising in food and beverage services in Shanghai.

In the 1990s, it expanded into the businesses of hotel investment and management, travel and taxi service, food and trading.

In terms of room numbers, Shanghai New Asia (Group) Company Limited was the largest hotel operator in Shanghai, with a total of 5,400 hotel rooms. Most of the Company's star-graded hotels were located in prime commercial areas of Shanghai and served principally business travellers.

### INTERCONTINENTAL HOTELS GROUP

The British hotel chain owns, manages and franchises more than 3,200 hotels in about 100 countries and territories. The brand names under its wings are InterContinental, Crowne Plaza, Holiday Inn, Holiday Inn Express and Staybridge Suites by Holiday Inn.

InterContinental, being the most exclusive brand under the Group, offers an exceptional service for business and leisure travellers seeking a luxury experience in any of the 140 hotels or resorts in 75 countries.

In 2000, the InterContinental Hotels Group signed a contract to manage the hotel and renamed it InterContinental, Pudong, Shanghai.

### Shanghai - The New Capital for Tourism and International Conventions

As an economic powerhouse and window to the dynamic economy of the Yangtze River Delta region, Shanghai was driving China's exhibition and conference industry. Statistics showed that local exhibitions had been increasing at an annual rate of 20 percent since the 1990s.

In 2001, direct income from exhibitions amounted to 1.8 billion RMB (US\$218 million) accounting for 45 percent of the national total. Some 5 million participants attended exhibitions and meetings in Shanghai, of which 10 percent were from overseas. The tourist arrivals in Shanghai surpassed 2 million, of which 75 percent were from foreign countries and the remaining 25 percent were from Hong Kong and Taiwan. (See **Exhibit 2.**)

Tourists and business travellers from Japan topped the list of foreign tourist arrivals, with 5.38 percent year to year growth in 2001, followed by US, South Korea, Germany, the Philippines, Malaysia and France. (See **Exhibit 3.**)

40 percent of the total foreign arrivals in Shanghai were for business, according to the tourism statistics released by the Shanghai Municipal Tourism Administrative Commission (SMTAC). As for domestic arrivals, 36 percent were for business or conventions (see **Exhibit 4.**)

3 Taiwan Businessmen Weaving Dreams in Shanghai, *People's Daily English Edition* (2002, July 5).

Shanghai was determined to be a conference centre in the Asia Pacific Region. Tang Qingfu, vice-director of the Shanghai Foreign Economic Relations and Trade Commission, predicted a substantial growth in the city's exhibition industry. He said that "Shanghai would build up more exhibition facilities, form exhibition groups, develop world leading brand names for exhibition events as well as speed up the industry's marketing process by 2010."<sup>4</sup>

Pudong had emerged as the new convention hub in Shanghai with its modern facilities and convenient location. In the first half of 2002, a total of 407 conventions were held in Pudong. Some 7.34 million tourists visited Pudong in the same period and tourism income exceeded 1.5 billion RMB (US\$181.4 million), a 30 percent year-on-year increase.<sup>5</sup>

Many prestigious international meetings in Pudong had raised the profile of Shanghai as a destination for major conferences. The Fortune Forum in 1999 and the APEC meeting in 2001 had been a tremendous boost to Shanghai's conference, exhibition and tourism industries.

By 2002, more than 10 leading international exhibition companies, including Germany-based Hanover Fairs, had established branches in Shanghai. The city government plans to expand its exhibition facilities from 890,000 square meters to 1.25 million square meters in 2002.<sup>6</sup>

### STAR-GRADED HOTEL INDUSTRY IN SHANGHAI<sup>7</sup>

As of 2001, there were 399 hotels in Shanghai of which 300 were star-graded. 15 five-star hotels and 27 four-star hotels were on both sides of the Huangpu River. The total number of star-graded hotel rooms were 58,396, of which 87 percent were in the tourist class. The number of hotel rooms increased by 3.66 percent over the previous year. The average hotel occupancy rate was 66.69 percent, a 5 percent increase over the previous year. (See **Exhibit 5**.) The occupancy rate for star-graded hotels was slightly better than the overall rate, 67.47 percent, an increase of 4 percent over 2000.

Average room rates for the tourist class hotels showed an increase of 1.9 percent, at 371.09 RMB per night, a positive sign considering the worldwide slump in the tourism industry after September 11, 2001. The average room rate for star-graded hotels was 389.95 RMB, a slight increase over the previous year.

In terms of revenue, hotel rooms brought in over half (50.9 percent) and the F& B outlets brought in 32.7 percent of the income.

From the statistics provided by the SMTAC, there were three "golden districts" where four- and five-star hotels congregated. These were the Luwan, Jing-An and Pudong districts. The average daily room rates for hotels in these districts were around \$550 RMB. However, their occupancy rates had been encouraging; 66.4 percent for Pudong, 71.39 percent for Jing-An and about 79 percent for Luwan. (See **Exhibit 6**.) Pudong, as the new urban hub of Shanghai, had seen the arrival of several five-star hotels. The Grand Hyatt in the architecturally significant Jing Mao Building in the Lujiazui district was the most sought after luxury hotel in Shanghai.

### OUTLOOK FOR THE HOTEL INDUSTRY IN SHANGHAI

There are few places in Asia with a hospitality scene as dynamic as that of Shanghai. When major cities in Asia Pacific are struggling with a decline in tourist arrivals and a sliding hotel occupancy rate, Shanghai is booming with no sign of a slowdown. A total of 1,000 five-star international hotel rooms were introduced to the market in 2002 alone, and it looks like there will be even more.

The number of high-end hotel rooms was increasing at a phenomenal rate and the industry in Shanghai generally did not expect rates or occupancies to start tumbling in the international five-star category.<sup>8</sup>

Occupancy was expected to hit the high end of the seventy percentile, according to a straw poll of top properties conducted by Grapevine. Rates are set to fluctuate a little more. The Grand Hyatt is expecting an annual average of US\$185 and the

4 *Expo Aids Tourism, Real Estate, Shanghai Daily* (2002, December 5).

5 *Shanghai Municipal Tourism Administrative Commission, Shanghai Tourism Statistics 2001*. (Shanghai).

6 *Shanghai is the exhibition capital of Asia*", *Shanghai Daily* (2002, December 4).

7 *Shanghai Tourism Statistics 2001*, op.cit.

8 *Boomtime for Shanghai's Accommodation Industry & New Venture on the Bund.*, <http://www.4hoteliers.com/news10/05200210023.html>

Pudong Shangri-La US\$150. The Westin will be hoping to maintain its opening rate of US\$165 for the next year.<sup>9</sup> Generally, the high end four- and five-star hotels will increase their room rates by 10 percent between 2001 and 2003 owing to the strong demand. Also, hotels in the luxury category do not engage in price wars but compete on service and facilities.<sup>10</sup>

On the investment front, "Hotel investors, developers and operators alike were scrambling for market presence in China, especially in the key centres of Beijing and Shanghai. They are driven by the desire to benefit from an increasingly affluent domestic population as well as the influx of foreign corporate travellers" said Mr Scott Hetherington, Executive Vice-President, Jones Lang LaSalle Hotels.<sup>11</sup> The industry expected 40 to 50 star-graded hotels, many belonging to the international chains, to establish themselves in Shanghai over the next 3 to 5 years.<sup>12</sup>

The announcement of Shanghai winning the bid for World Expo 2010 sent the city into jubilation on 4 December, 2002. With 70 million visitors expected to visit the Expo, many local industries, including the real estate and tourism sectors, were anticipating a very strong growth from 2002 to 2010, while infrastructure spending prior to the event should generate a lot of spin-off businesses in both Shanghai and the outskirts of the city. Wang Xiangcai, secretary-general of the Shanghai Association for Tourism, said the city had to make many improvements to its tourism facilities in preparation for the event, including doubling the number of star-rated hotels in the city. He estimated that the six-month event should generate at least 140 billion RMB in retail sales for Shanghai and that the government expected attendances of 67 million domestic visitors and 3 million foreign visitors.<sup>13</sup> Investments were expected to pour in at an accelerated rate. This would translate into more business trips to Shanghai both from other parts of China and overseas.

Despite the optimism, investors were aware of the possibility of over-supply of hotel rooms and the impact of this on the capital values in the medium term. However, on a visit to Shanghai and Beijing

in October 2002, Jones Lang LaSalle Hotels noted the general optimism of hotel operators despite significant supply growth. Most believe this would be more than absorbed by the predicted growth in demand.<sup>14</sup>

## RE-POSITIONING FOR BUSINESS CLIENTELE

The marketing department of InterContinental, Pudong, Shanghai, felt the need to analyse its business strategy in terms of its strengths, resources, business environment and prevailing competitive forces within the industry before setting the direction for its new marketing plan.

Given its prime location in the heart of Pudong and its proximity to major convention and conference venues, the hotel had an obvious advantage over other five-star hotels in Puxi in appealing to the business travellers to Shanghai if their meeting places were in Pudong.

Ms Kitty Huang, director of sales and marketing of the hotel, explained the rationale and benefit of targeting at the business travellers:

Business travellers are usually less budget conscious than the leisure travellers. They are more willing to pay for convenient location and good services tailored to their needs. They are more likely to stay with the same hotel if they are satisfied with the service. Defining Hotel InterContinental as a business traveller's choice in Shanghai would also give the hotel a more distinctive image to set it apart from other competitors.<sup>15</sup>

She then added:

*However, business travel tended to be seasonal; if there were major conventions and conferences in Shanghai, the four and five-star hotels in the city would see high occupancy rates or even full house. There were fewer business travellers in certain months of the year; the hotel would then have to rely on the leisure travellers for business. The hotel had to address the*

9 ibid.

10 NTU Business Study Mission Seminar (Shanghai, 2002, December 5).

11 *Spotlight on China*, <http://www.4hoteliars.com/news10/05200210037.html>

12 NTU Business Study Mission Seminar (Shanghai, 2002, December 5).

13 *Expo Aids Tourism, Real Estate*, Shanghai Daily (2002, December 5).

14 *Focus On China*, Jones Lang LaSalle Hotels, Beijing, 2002, October 29, [www.joneslanglasallehotels.com](http://www.joneslanglasallehotels.com).

15 Interview with the case authors on 2002, December 5.



*needs and preferences of the leisure travellers as well because they are equally important.<sup>16</sup>*

The management of the hotel then decided to focus on a few key aspects that will position the hotel as business travellers' preferred hotel in Shanghai.

Past business and convention events held at the hotel already boosted brand name awareness among its international clients and local business community. The sales and marketing team of the hotel recognised that to capitalise on its locale in the prime business and convention district was a strength hard to match by many competitors. The team felt that it could attract more such conventions and meetings to strengthen its position in the business travellers' market segment.

### THE HARDWARE AND THE HEARTWARE

Décor, ambience and facilities are critical in defining the level of service provided by the hotel. Since the InterContinental Hotels Group took over the management, the hotel re-decorated and retrofitted the rooms to make them more attractive to the business travellers.



**Clean-lined furniture, subtle colour schemes, flat panelled TVs were used to accentuate the contemporary image of the hotel**

(Photo provided by InterContinental, Pudong, Shanghai)

Ms Kitty Huang highlighted some of the major changes:

*In terms of interior décor, we used simple, clean and crisp colours and designs to appeal to the new generation business travellers. Clean-lined furniture, subtle colour schemes, flat panelled TVs were used to accentuate the contemporary image the hotel was trying to project. To further strengthen this image, the theme of the room décor is consistent throughout its international chains. Hotel InterContinental had also invested in the hardware in the guest rooms to ensure round-the-clock, high-speed connectivity through the Internet. Our hotel was the first one in Shanghai to install USB (Universal Serial Bus) ports in the guest rooms.<sup>17</sup>*

The hotel also offered services that distinguish itself from others in the same league. Through partnership with NewspaperDirect, InterContinental was leading the way in providing guests with the most up-to-date world news.

Through a special print station, the hotel staff managed newspaper distribution in the hotel. At their times of issue, the newspapers were automatically sent to the hotel guests so that they could receive the most current issue of their home countries' newspapers. The newly implemented guest service was aimed at making the hotel guests feel in constant contact with their business and private lives at home.

Dining facilities, being very important for business travellers, had been revamped to suit the needs and tastes of the discerning business travellers. As Ms Huang explained:

*A businessman may arrive at the hotel at an odd hour and may skip meals because of hectic schedules. Variety and extended hours of service are very important for the business travellers. The 24-hour F & B outlets in the hotel would be an assurance that they can get a decent meal anytime. This round-the-clock, always-on commitment to our guests is not just confined to F & B outlets; many other services provided by the hotel were also operating on a 24-hour basis.<sup>18</sup>*

<sup>16</sup> *ibid.*

<sup>17</sup> Interview with the case authors on 2002, December 5.

<sup>18</sup> *ibid.*

A closely related issue was staff training. The hotel had always been aware of the shortage of and competition for quality service staff in Shanghai. Many newly established international hotels in Shanghai might offer higher salaries to attract experienced staff. As a comparison with other industries, the hotel industry in Shanghai generally experienced a higher staff turnover rate.<sup>19</sup> Therefore, staff motivation and retention are important issues in the hotel business in Shanghai.

Ms Huang explained:

*Business travellers demand fast and efficient services; therefore, our service staff have to be experienced and knowledgeable in handling demanding situations to meet the guests' expectations of a five-star business hotel.<sup>20</sup>*

As of the end of 2002, the hotel had 600 staff of which 10 were expatriates. The proportion of expatriates had declined over the years. Many locals could now look forward to promotion to the management positions. To ensure consistency and quality service, the staff of the hotel received both in-house and outside training which was tailored to their needs and career development.

## MARKETING CHANNEL

Perhaps the most powerful marketing tool and channel for the hotel was the on-line global information and reservation system managed by the InterContinental Hotels Group (See **Exhibit 7**) which included InterContinental Hotels and Resorts, Crowne Plaza Hotels and Resorts, Holiday Inn, Holiday Inn Express and Staybridge Suites by Holiday Inn. The Group also operated or franchised more than 3,200 hotels and over 515,000 guest rooms in close to 100 countries and territories and hosted more than 150 million guests each year. This platform offered many opportunities for cross-selling.

To serve its clients in the Greater China region better, the InterContinental Hotels Group launched a toll-free service hotline in August 2002. The hotline was

set after the InterContinental Hotels Group found out that the travel agents in China were more likely to call a domestic number, talking in Mandarin or Cantonese, when making reservations for their clients. The call centre is based in Guangzhou to take advantage of the good telecommunication infrastructure and the high quality manpower.<sup>21</sup>

The tie-ups in joint marketing and promotion with airlines and travel agents by the InterContinental Hotels Group also introduced many business opportunities to the hotels and resorts under its wings. On the other hand, the Chinese brand five-star hotels were still at a fledgling stage in their online reservation system and international sales network.

In contrast, the Chinese brand five-star hotels such as Jin Jiang fared better in establishing local contacts and networks through their connections with state-owned and private travel agencies. The Chinese usually made reservations through travel agents; on-line reservations were not popular among the local business and leisure travellers. Slowly, the Chinese travellers were beginning to realize the benefits and convenience of on-line reservations but this had yet to form a trend.<sup>22</sup>

The choice of marketing channels had direct influence on the types of travellers the hotels were attracting.

*For Hotel InterContinental, Pudong, 10 percent of the guests reserved their rooms through the InterContinental Hotels Global On-line Reservation System. The percentage is expected to increase with the introduction of a Central Reservation Office in Guangzhou in August 2002. As of December 2002, 20 percent of the guests were from China's domestic market. Guests from Hong Kong, Taiwan and the rest of the world made up the remaining 80 percent with Japanese topping the list in terms of percentage (40 percent). This is in line with the pattern of international tourist arrivals in Shanghai.<sup>23</sup> (See **Exhibit 8**.)*

The types of conventions held at the hotel proved to be effective marketing tools. A meeting hosted

<sup>19</sup> NTU Business Study Mission (Shanghai, 2002, December 5).

<sup>20</sup> Interview with the case authors on 2002, December 5.

<sup>21</sup> *InterContinental Hotels Group Sets Up Toll Free Hotlines to Serve Greater China Market*, www.ctha.com/2003new/main.php

<sup>22</sup> Rodney Bao, Director of General Manager's Office, Jin-Jiang Tower, to Authors, 2002, December 6.

<sup>23</sup> Kitty Huang to the Authors, 2002, December 5.



by French President, Jacques Chirac, created some incidental publicity for the hotel. During the 2001 APEC meeting in Shanghai, President Kim Dae-Jung of the Republic of Korea and his delegation chose the hotel as their temporary residence in Shanghai. After the APEC meeting, the hotel noticed a marked increase in the numbers of Korean guests. The Portman Ritz Carlton Hotel hosted US President George W. Bush and the American delegation during the period. There was considerable incidental publicity for the Ritz Carlton, and the hotel had become more popular with the American travellers.

### COMPETITIVE FORCE ANALYSIS 1 – THE STATE-OWNED JIN JIANG GROUP

The hospitality industry was set for a steady growth, given the various favorable factors. The Chinese brand of a star-graded hotel chain, the Jin Jiang, was fast catching up in competing with the international chain hotels mushrooming in major Chinese cities, particularly in Shanghai, where there were new star-graded hotels adding to the competition every few months.

Representing the finest in China is the Jin Jiang International Hotel Management Corporation which managed 53 hotels in China as of 2002, among which 24 are five- or four-star hotels and 16 three-star hotels.

In Shanghai, the five-star hotels under the Jin Jiang brand were Jin Jiang Hotel, Jin Jiang Tower, Hua Ting Hotel & Towers and the legendary Peace Hotel. In addition, there were 5 four-star hotels in Shanghai.

The hotels under the state-owned chain seemed to weather business downturns better than their joint-venture counterparts. The 632-room Jin Jiang Tower in Shanghai had survived a bad business period during which it had to offer a package that did not even cover the operating cost of the hotel at US\$28 for a twin room with breakfast included.<sup>24</sup> There was a period the hotel actually considered closing down temporarily due to the external economic and social environment. As the revenue then was not even sufficient to cover its operating expenses, it was difficult to justify the continued opening of the hotel. The Jin Jiang management then made a difficult

decision to keep the hotel open in the hope that the adverse situation would improve and it did.

Many new hotels in Shanghai developed at a later stage were under joint venture. These projects tended to borrow heavily from the banks or other sources of funding. The interest expenses on loans were substantial. Should an adverse situation affect the hospitality industry for an extended period of time, these hotels might face problems financially.

In terms of hotel management, the Chinese chains were obviously trailing their international counterparts. A report in China Travel News pointed out that the international hotel chains in China managed only 10 percent of the total hotel rooms but they collectively shared 90 percent of the profit in the hotel industry in China. The competition would be more intense as China entered WTO.<sup>25</sup>

One of the problems the state-owned Jin Jiang Group faced was brand name recognition. Jin Jiang as a brand of the "five-star league" was not known by the well-heeled international travellers. They were more likely to choose the familiar international brands over a Chinese brand. The fact of being a Chinese state-owned enterprise might be another obstacle for its overseas marketing efforts, but this was slowly changing for the better as the service quality improved and satisfied customers introduced Jin Jiang chain hotels to their family members, friends and colleagues.<sup>26</sup> One exception to this was the Peace Hotel at the Bund. The historic hotel under Jin Jiang's management needed little publicity as favorable press reports had been perpetuating its legend.<sup>27</sup> There were plans to capitalize this to further enhance Jin Jiang's brand name appeal and re-define its market position.

On the service front, Jin Jiang Tower provided handphones to its guests so that they were accessible by just a number while in China. The loan service had been a hit with many business travellers to China for the first time. Broadband internet access was also phased in to cater to the needs of the business traveller.

The state-owned hotel chain had always enjoyed good connections with the state-owned and local travel agents in China. The main source of business

<sup>24</sup> Rodney Bao, Director of General Manager's Office, Jin-Jiang Tower, to the Authors, 2002, December 6. During Asian Economic Crisis, number of tour groups to Shanghai reduced substantially. The Jin-Jiang Tower offered the discount package for the off-peak season to its biggest source of tour groups - the Chinese International Travel Service Head Quarter to keep the hotel financially afloat.

<sup>25</sup> *A Discussion on Hotel Group in China*, <http://www.ctnews.com.cn/gb/2001/04/20/zglyb/jdzn/2.htm>

<sup>26</sup> *ibid.*

and leisure travellers came from China. Jin Jiang was also quite popular with Hong Kong and Taiwan travellers, especially those who had to travel extensively to the secondary cities in China. Jin Jiang had hotels of different grades in different cities throughout China; the network was very difficult for its foreign counterparts to match.

To strengthen its foothold in the domestic market, the French hotel chain, Accor, and Jin Jiang International Management Corporation signed an agreement in 2002 to establish a sales and distribution network in China via a joint venture. Three sales and distribution centres will be opened in Shanghai, Guangzhou and Beijing to market Jin Jiang group's 53 hotels and Accor's 15 hotels across the country. The Accor reservation system, TARS On-line, will be used and an Internet reservation site will also be established in Chinese.

The agreement, aimed at strengthening both companies' presence in China, leveraged on Jin Jiang's expertise in the China market and Accor's business tools. If this model of co-operation proves to be successful, Jin Jiang International Hotel Management Corporation might consider similar ties with an international chain having an established global network to market its hotels on-line.

## COMPETITIVE FORCE ANALYSIS 2 – THE OTHER INTERNATIONAL FIVE-STAR HOTELS IN SHANGHAI

As of 2002, there were three underground vehicle tunnels and five bridges across the Huangpu River which divided the city. As economic development outpaced infrastructure development, there was a severe bottleneck at bridges and tunnels that linked across the river. Traffic congestion in the downtown areas and across the river effectively divided the city into several zones based on patterns of traffic flow. As a result of this unplanned "zoning", there was a tendency for hotels to compete within the same cluster rather than across the "zones". The hotel statistics compiled by the SMTAC also classified hotels in terms of grade and location (zones).

There were at least 5 five-star hotels in Pudong by the end of 2002, mostly in the Lujiazui financial district. The architecturally significant Grand Hyatt topped the list of five-star hotels in terms of revenue, followed by Portman Ritz Carlton (in Puxi) and Pudong Shangri-La. (See **Exhibit 9**.)

The congregation of luxury hotels in Puxi were in Luwan and Jing-An districts. According to the statistics by SMTAC, the average daily room rate of the hotels in Pudong, and the two districts were above 500 RMB, leading all other districts in Shanghai.

Hotel investors, developers and operators alike are currently scrambling for market presence in China, especially in the key centres of Beijing and Shanghai. They are driven by the desire to benefit from an increasingly affluent domestic population as well as the influx of foreign corporate travellers.<sup>28</sup>

Many star-graded deluxe hotels in Shanghai had noticed the potential of the domestic market and were slowly shifting a portion of their marketing efforts to the increasing affluent domestic leisure and business travellers. The potential for the domestic market was very promising and all the hotels in Shanghai were eyeing this segment of the business. In terms of brand name prestige, the international luxury hotel chains tend to have an edge over the domestic brands as they were perceived to be more consistent in delivery of service and more creative in product and service innovations.<sup>29</sup> The international five-star hotels were also converting some of their facilities to suit the needs of the growing Chinese market such as furnishing bigger banquet halls and function rooms.

The demand for hotel rooms in the luxury category remained strong since 2000. The room rates in the five-star category saw an increase of 10 percent annually for the past two years and there were only marginal differences in daily rates among the hotels in the same category. There seems to be a tacit agreement among the five-star Hotels in Shanghai to compete on the basis of brand name image, product and service differentiation rather than on the basis of price.<sup>30</sup>

27 The 12-storey Peace Hotel, built in the Gothic style of the Chicago School, first opened as the Cathay Hotel in 1929. Well known in Shanghai for its luxury and magnificence, it used to accommodate mostly distinguished guests from countries all over the world, including politicians, financiers, entrepreneurs, important Chinese officials and social celebrities.

28 *Jones Lang LaSalle Hotels Turns the Spotlight on China*, <http://www.joneslanglasallehotels.com/JLLH/JLH.nsf>

29 Interview with Rodney Bao, Director of General Manager's Office, Jin Jiang Tower on 2002, December 6.

30 NTU Business Study Mission Seminar (Shanghai, 2002, December 5).

In the hospitality industry, the quality of human resources defines the level of service. There was no consensus on the issue of the mix of foreign expatriates and the locals. Some international chain hotels, especially the ones established earlier, tended to favour the use of locals in the management unless they could not find qualified locals to fill the critical posts. Some prefer an all-expatriate management team to deliver the same standard of service throughout their international chains. The philosophy of the human resource management directly impacts on the manpower costs which in turn affects the profitability of the hotel.

### MAINTAINING THE COMPETITIVE EDGE

Five-star hotels were sprouting in Shanghai almost every few months. The new ones are generally better equipped and designed. Whatever technology lead the existing hotels had might not be sustainable for long. Furthermore, all the international chain hotels have their own global on-line reservation systems, and none seem to have a distinct advantage over its competitors in this respect. The international chain five-star hotels all have their loyal customers and established market niches. (See **Exhibit 10.**)

The competition for the business travellers' market was very intense. Every hotel operator in Shanghai

wanted to carve out a big slice of the pie. Although the market was growing, there were "new kids on the block" every few months. Given the attraction of the World Expo, 40 to 50 middle-to high-end star-graded hotels were expected to open in Shanghai over the next few years, making Shanghai one of the most competitive hotel markets in the world.

The marketing team of InterContinental, Pudong, Shanghai was satisfied that it was well positioned for the competition ahead. Since the shift in marketing focus to business travellers, the occupancy rate and the revenue have been encouraging, thanks to the series of major events taking place in Shanghai and the upbeat outlook for the economy in the greater Shanghai region. However, the team was concerned about its long-term marketing strategy and its market niche.

What are the critical success factors in the ever changing business environment of flourishing Shanghai? What assets, tangible or intangible, should the hotel leverage on to its advantage to sustain competitiveness? In re-positioning itself, should the hotel make a drastic or gradual switch to its target market segments? What are the possible side-effects of the two different re-positioning approaches?

With cautious optimism, Ms Kitty Huang and her marketing team pondered these questions while looking forward to the future.

EXHIBIT 1

PUDONG NEW AREA IN SHANGHAI

Shanghai covers a total area of 6,340.05 square kilometres. Pudong, with an area of 522.75 square kilometres is located on the east bank of the Huangpu River that runs through the urban part of Shanghai. Shanghai had a population of 13.05 million by the end of 1997, of which 1.534 million people and 545,200 households were in Pudong.

Since the Chinese government made Pudong a special economic development zone in April 1990, investments from overseas had been pouring in, making it one of the hottest investment spots in the world.

By the end of December 1999, the number of overseas-funded projects in the Pudong New Area had increased to 5,942, bringing in a total investment of US\$29.443 billion, of which US\$11.558 billion was contracted overseas capital.



Source: <http://www.shanghaiinvest.com/en/map/pudong/>

Pudong has come through a series of stages over the past nine years. In the earlier stage, most of the foreign-investment projects were in the secondary labour intensive industries. Since 1993, more and more overseas-funded tertiary industries, including real estate, banking and trade, had developed in the zone. For example, the Tomson Group which developed the property of Inter-Continental, Pudong, Shanghai had been very active in real estate development in Pudong.

Industry	Investment (RMB)
Primary industry	1.1 billion
Secondary industry	68.8 billion
Tertiary industry	161.1 billion

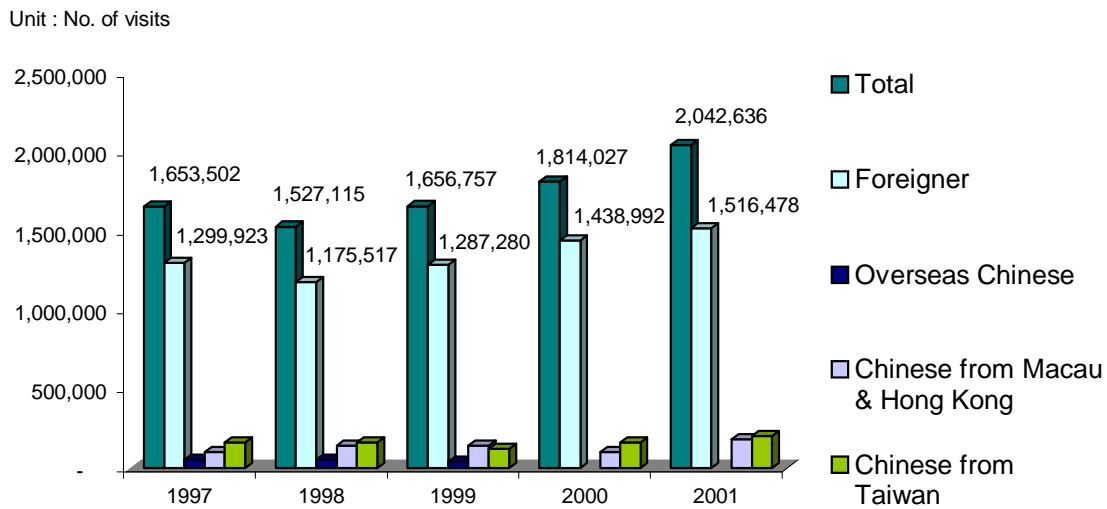
A new international airport in Pudong opened in 2001, giving the area much needed impetus. The Shanghai Metro subway line had also extended to Pudong, providing a more convenient mass transit link across the river. The Waigaoqiao new harbour area in the Pudong New Area, still under construction in 2002, will be the centre of the New Shanghai Port in future. A high-tech park in the district was also established to spearhead Shanghai's high-tech industry.

The most visually impressive development is the symbol and core of the New Area – the Lujiazui Finance & Trade Zone. The area, covering 28 square kilometres, is just opposite the Bund across the Huangpu River. Fully supported by the central government and Shanghai Municipality, the Lujiazui Zone enjoys special finance and trade preferential policies unmatched by other Special Economic Zones.

Adapted from: <http://pudong.shanghaichina.org> (Retrieved 2003, April 14)

**EXHIBIT 2**

**1997-2001 TOURIST ARRIVAL IN SHANGHAI BY REGIONS**



Source : Shanghai Tourism Statistics 2001 by Shanghai Municipal Tourism Administrative Commission

**EXHIBIT 3**

**2001 TOURIST ARRIVALS BY COUNTRIES AND REGIONS**

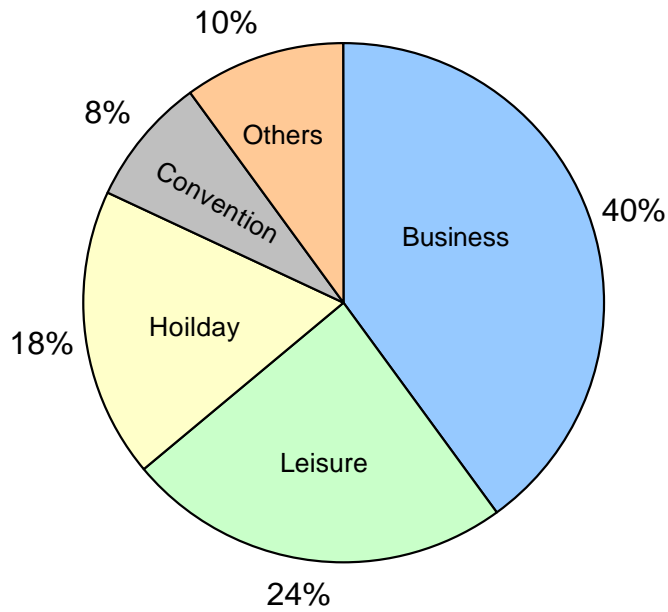
Ranking	Country	Number	Weight	Percentage growth compared to year 2000
1	Japan	561,094	37.00%	4.38
2	US	145,873	9.62%	5.86
3	Korea	131,442	8.67%	5.15
4	Germany	73,376	4.84%	3.18
5	Philippines	58,961	3.89%	28.84
6	Malaysia	58,836	3.88%	2.26
7	France	55,372	3.65%	2.70
8	Singapore	53,723	3.54%	1.49
9	Australia	32,513	2.14%	0.75
10	Canada	24,373	1.61%	8.39

Source : Shanghai Tourism Statistics 2001 by Shanghai Municipal Tourism Administrative Commission

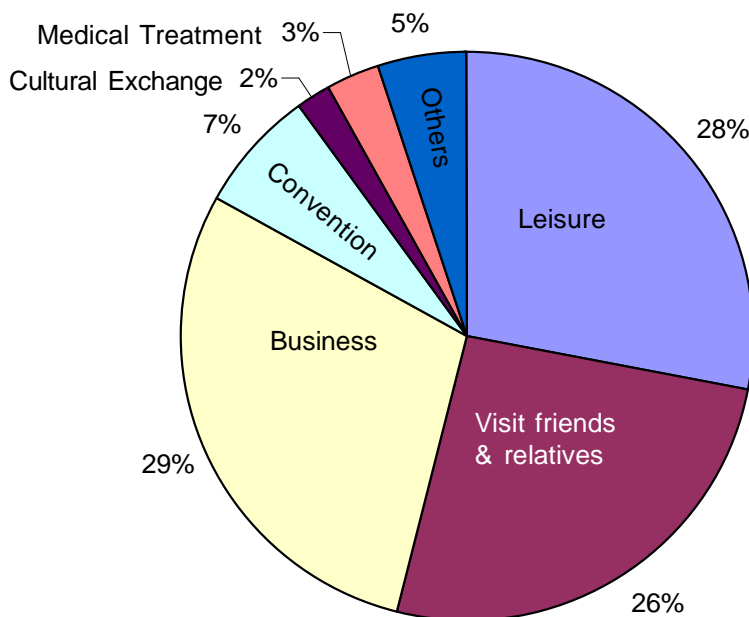


EXHIBIT 4

REASONS FOR VISITING SHANGHAI IN 2001 (FOREIGN ARRIVALS)



REASONS FOR VISITING SHANGHAI IN 2001 (DOMESTIC ARRIVALS)



**EXHIBIT 5**  
**HOTEL STATISTICS IN SHANGHAI (BY GRADES) IN 2001**

	No. of Hotels	No. of rooms	Revenue in RMB '0,000	01/00 growth (%)	Occupancy rate	01/00 growth (%)	Avg room rate per day (RMB)	01/00 growth (%)
<b>5-star</b>	15	7,380	301,831.04	17.10	71.59	0.16	879.73	12.06
<b>4-star</b>	27	10,297	222,657.52	17.40	72.47	5.36	440.47	4.51
<b>3-star</b>	109	19,825	243,206.88	18.71	65.60	4.15	270.09	0.67

Source : Shanghai Tourism Statistics 2001 by Shanghai Municipal Tourism Administrative Commission

**EXHIBIT 6**  
**HOTEL STATISTICS IN SHANGHAI (BY DISTRICTS) IN 2001**

Districts	No. of rooms	Revenue in RMB (ten thousand)	Profit in RMB (ten thousand)	Occupancy rate	Room rate per day (RMB)
Luwan	2,900	79,336.49	8,184.93	76.18	553.91
Jin An	5,114	126,915.14	29,086.32	71.39	558.67
Pudong	6,593	160,292.61	11,061.99	66.40	546.24

Source : Shanghai Tourism Statistics 2001 by Shanghai Municipal Tourism Administrative Commission

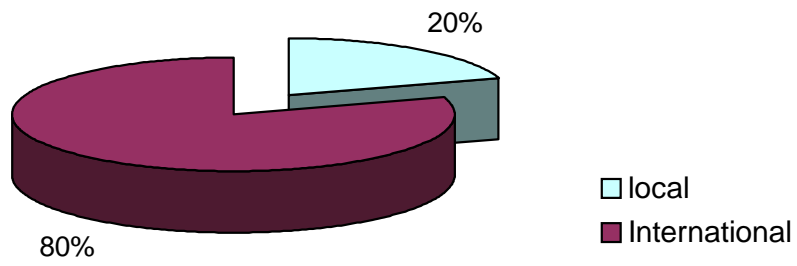
EXHIBIT 7

INTERCONTINENTAL HOTEL GROUPS – THE OFFICIAL WEBSITE

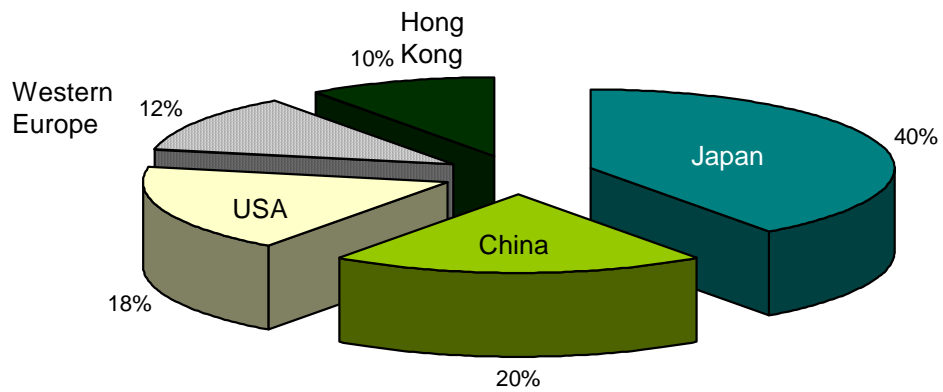
The screenshot shows the homepage of the Intercontinental Hotels Group website. At the top, there is a navigation bar with a 'PRIORITY CLUB' logo, a 'JOIN NOW!' button, and a search bar for 'EMAIL/COMP.' and 'FIND'. There are also links for 'REMEMBER ME', 'FORGOT/NEED HELP?', 'START PAGE', and 'LOG IN'. Below the navigation bar is a large banner image of a tropical beach with the text 'The World's Most Global Hotel Company'. The main content area is divided into several sections: a search bar for 'FIND A HOTEL' with fields for 'CITY', 'STATE/PROV', 'COUNTRY', 'ARRIVAL DATE', 'NIGHTS', 'PERSONS', and 'ROOMS'; a 'CHECK ROOM AVAILABILITY' section; and a 'WIRELESS INFO' section. There are also several promotional banners for 'INTERCONTINENTAL HOTELS GROUP', 'PRIORITY CLUB', and 'Six Continents Club'. The website features a clean, professional design with a color palette of blues, oranges, and whites.

Source: Intercontinental Hotel Groups. Retrieved 2003, January 1, from <http://www.ichotelsgroup.com>

**EXHIBIT 8**  
**MARKET SEGMENTATION BY SOURCES**



**MARKET SEGMENTATION BY COUNTRIES**



Source : InterContinental Pudong Shanghai 2002

**EXHIBIT 9**  
**2001 TOP EARNING 5-STAR HOTELS IN SHANGHAI**

Hotel	Grade	Revenue in RMB (ten thousand)	01/00 growth %	Occupancy Rate	01/99 growth %
Grand Hyatt	5-star deluxe	39088	11.14	75.53	8.96
Portman Ritz Calton	5-star deluxe	32856	20.32	75.33	1.56
Shangri-La Pudong	5-star	32831	3.3	71.44	-5.24
Hilton	5-star	28493	8.72	70.65	1.23
Okura Garden Hotel	5-star	25809	6.35	66.85	-6.36
Sheraton Tai Ping Yang	5-star	18473	-5.98	57.23	-0.15
Jin Jiang Tower	5-star	18294	8.44	76.55	6.11
Hua Ting Hotel	5-star	16970	5.05	78.99	3.00
JC Mandarin	5-star	16813	22.54	76.08	-7.31

**EXHIBIT 10**  
**5-STAR HOTEL DISTRIBUTION IN PUDONG AND PUXI IN 2002**

Hotel	Affiliation	Rooms	Star rating	Area
Shangri-La Pudong	Shangri-La	612	5-star	Pudong
Purple Mountain	-	400	5-star	Pudong
InterContinental Hotel	InterContinental Hotels Group	400	5-star	Pudong
Grand Hyatt	Hyatt	555	5-star deluxe	Pudong
St. Regis	Starwood	318	5-star deluxe	Pudong
Marriott Hongqiao	Marriott	315	5-star	Puxi
Jin Jiang Tower	Jin Jiang/Accor	640	5-star	Puxi
Hilton International	Hilton	772	5-star	Puxi
Sheraton Tai Ping Yang	Starwood	578	5-star	Puxi
Renaissance	Marriott	553	5-star	Puxi
JC Mandarin	Meritus	600	5-star	Puxi
Okura Garden Hotel	Okura	500	5-star	Puxi
Regal International East Asia	Regal	300	5-star	Puxi
Hua Tin Tower	-	770	5-star	Puxi
Four Seasons	Four Seasons	434	5-star deluxe	Puxi
Portman Ritz Calton	Marriott	564	5-star deluxe	Puxi

Source : HVS International Research 2002