

SWOT Analysis and Competition Approaches of Hotels in Guangzhou

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Abstract: The purpose of this exploratory research was to identify the strengths, weaknesses, opportunities, and threats (SWOT) of hotels in Guangzhou. More importantly, the research explored the competition methods they employed or will employ to enhance opportunities and neutralize the threats in the market. The research methods include literature review in relation to competition approach and environmental analysis and focus group involving hotel managers in Guangzhou. A modified nominal group technique was utilized in this study. 14 focus group participants were solely recruited from 3-star and above accommodations within Guangzhou city. The results show that the commonly used competition methods used or will be used included (a) strategical alliance, (b) creation and innovation, (c) hotel expansion, (d) human resources enhancement, (e) quality improvement, (f) marketing strategy, and (g) social awareness.

Keywords: Hotel, Guangzhou, SWOT, competition approach

I. Introduction

Hotel firms all over the world have encountered fiercer competition than ever. How to survive in such an environment is a big concern they have to face, regardless of their size, star category, history or ownership. As a consequence, competitive methods have been increasingly relied on in order to compete with their rivals. Guangzhou is a city located in the South of China. With its close proximity to Hong Kong, this city has spearheaded China's economy since China adopted the Opening Door Policy. Since 1978, the hotel industry in Guangzhou experienced vigorous expansion and prosperity. The total number of hotels had increased steadily. Table 4 indicates hotel number variation in Guangzhou city. It is shown that the total numbers of all star hotel categories were increasing consecutively. Growth in 5-star hotel was particularly rapid between 2008 and 2010, with an annual double-digit increase in number. However, a rapid expansion would naturally lead to fierce competition from hotel operators, which would reasonably pose tremendous challenges in hotel operations.

Table 4: Star Rated Hotel Number Variation in Guangzhou (2008-2010)

	Total Number of Star rated hotel	5 star	4 star	3star
2008	216	9	32	106
2009	232	13	34	123
2010	255	18	37	141

Source: Guangzhou tourism statistics analysis report.

With more foreign and local hotels sprouting up, the room supply surpassed the demand of the increase of tourists, resulting in a drop in room rate and profit (Pine, Zhang, & Qi, 2000). As can be shown in Table 5, room occupancies over four years between 2012 and 2015 fluctuated at 60%; four star hotels performed slightly better than other two hotel categories. It is also clear that the room rate of all the hotel categories dropped down drastically. For the 5-star hotel, in 2012, the room rate was 854.73 RMB, while 4 years later this number decreased to 748.72 RMB (Tourism Administration of GZ, 2015).

Table 5: Guangzhou Star Rated Hotel Room Occupancy and Room Rate (2012-2015)

	2012		2013		2014		2015	
	Occupancy Rate (%)	Room Rate (RMB)						
5-star	61.91	854.73	63.19	828.7	64.19	784.71	63.84	748.72
4-star	66.64	474.93	64.23	468.03	62.46	66.64	62.12	434.32
3-star	59.57	318.34	58.8	302.63	57.5	59.57	54.74	288.31

Source: Guangzhou tourism statistics analysis report

Under such competitive circumstances, almost all hotels in Guangzhou attempt to raise their room occupancies in order to achieve high performance, and many turn to discounting hotel room rates as a last resort (Chen, 2008). The hidden logic for this response to competition among the hotel management is that lowering room price will contribute to high room occupancy, and lead to high revenue returns. As a result, it is generally considered an effective method to survive in the hotel industry. However, this practice would exacerbate the ever-existing severe competition and may result in relentless and endless price-war in the hotel industry, leading to hotels competing chaotically. Lockyer (2005) argued that room rate was not rated highly by potential guests as a deciding factor in the selection of accommodation. As a consequence, solely using price discount as a competitive method might bring short-term benefits, but this practice will be doomed to fail in the long run.

II. Purpose

If the price cut is not an effective and sustainable method for hotels to compete, then what approaches can they use to survive in this ever-increasing competitive market? This is the purpose of this study. In this study, we will analyze hotel operation environment to identify the strengths, weaknesses, opportunities, and threats (SWOT) of hotels in Guangzhou. More important, we will further explore the competition methods they employed or will employ to enhance opportunities and neutralize the threats in the market. It will identify practical issues in hotel industry practice, and also offer guidelines that can be used for future research.

III. Literature Review

Environmental Scanning

Aguilar (1967) referred to environmental scanning as scanning for information about changes of outside environment, the knowledge of which would help managers in the task of planning the company's future course of action. A similar view was proposed by Brown and Weiner (1985) who regarded this construct as analogous to a radar system which scanned the signal of the new, and unexpected events, seeing it as managerial tasks of detecting important trends and occurrences in the environment. A process-oriented definition of environmental scanning was proposed by Hunger & Wheelen (2007) who conceived it as the process of monitoring, evaluating, and disseminating of information from the outside the organization to top management within the organization. Coates (1985) specifically identified the following objectives of an environmental scanning: (a) detecting political, economic, social, and technological trends and events important to organization; (b) identifying the potential opportunities and threats implied in these trends and events; (c) enhancing a future-oriented thinking among all organization numbers; and (d) sensitizing all numbers in organizations to trends and events occurring in the environment.

In undertaking environmental scanning, organization managers need first to be aware of the variables within societal and task environments (Hunger & Wheelen, 2007). The societal environment, as Hunger and Wheelen (2007) suggested, included general elements that did not directly influence the short-term activities of the organization but could have a great impact on its long-term objectives, while the task environment was those that directly affected the organization. On the other hand, Morrison (1992) proposed to classify environment into three clusters: (a) the task environment for organizational setting of customers; (b) the industry environment for incorporating enterprises associated with organizations in society; and (c) the macro-environment that changes in the social, technological, economic, environmental, and political spheres. However, variables commonly used in environmental scanning are political, economic, social, and technological factors, widely known as "PEST analysis" (Costa, J., 2007).

Competitive Methods in Hotel Industry

Competitive method in hotel industry was first proposed by Murthy (1994) when he tried to measure hotel strategy and examined the relationship between hotel strategy and performance. Competitive method refers to the strategic choice that hotels make when they take advantage of threats and opportunities in the business environment, and allocate their resources for implementation to produce successful performance (Olsen, Tse, & West, 1998). Taylor (2002) suggested that at the early stage of research in the context of the hospitality industry, an emphasis was placed on competitive methods and performance. However, there were a number of researchers who tried to examine individual elements of hotel competencies to identify the competitive methods. Implementation of information technology (IT) was also identified as a vital component of the effort to promote and achieve hotel's goals (Ham, Kim, & Jeong, 2005). Concurrently, comprehensive methods for the hotel industry to utilize to sharpen their competitive edge were explored. The first typology of such competitive methods was established by Murthy (1994), who proposed that seven competitive methods (Service Quality Leadership, Technological Leadership, Push, Cost Control, Pull, Group Channels, and Cross-Training) could be adopted to produce high hotel performance. Other studies conducted by Olsen (1997) and Olsen and Zhao (2000) identified more comprehensive competitive methods used by major international hotel firms during the 1985-1994 and 1995-1999 periods respectively. Competitive methods contributed by Olsen and Zhao (2000)

were categorized into eight groups which included (1) rapid information technological development; (2) international expansion and market cooperation; (3) relationship management; (4) customer-oriented products and services development; (5) structure re-engineering; (6) new marketing initiatives and campaigns; (7) quality control; and (8) social awareness and environmental protection. Another follow-up research by Zhao and He (2008) reported a total of thirty-six competitive methods adopted by multinational hotel firms over seven years from 2000 to 2007. Although this study showed only relatively slight disparity from the previous two research (Olsen, 1997; Olsen & Zhao, 2000), the complexity of the competitive environment was identified as a critical influencing factor in determining competitive methods in the hotel industry.

IV. Methodology

The methodology of this exploratory research includes the above literature review in relation to competition approach and environmental analysis, along with focus group involving hotel managers in Guangzhou. Specifically, modified nominal group technique was utilized in this study. It was originally determined that we use three focus groups, the first one with 5-star hotel managers, the second one with 4-star hotel, while the last one with 3-star hotel operators. However, it turned out to be difficult for us to arrange a time-frame for the same hotel category to meet together. Therefore, it was afterward decided that more demographical diversity in one focus group would be a better approach to be used in order to brain-storm different thoughts and ideas (Kitzinger & Barbour, 1999).

Prior to the focus group assembling, two simple and straightforward questions were designed to guide the group discussion. The questions were (a) what are the strengths, weaknesses, opportunities, and threats (SWOT) of hotels in Guangzhou? and (b) what competition methods do you think Guangzhou's hotels could adopt to effectively compete in such a business environment? Focus group was conducted at the conference room of a polytechnic college in April-May 2012. Focus group participants were solely recruited from 3-star and above accommodations within Guangzhou city. They were initially contacted by the second author. For research findings to be generalizable to a larger population, the sample for the analysis needs to be randomly selected (Neuendorf, 2002). Therefore, special attention had been paid to ensure that different districts and different categories of accommodations were selected across Guangzhou city. Eight-nine emails were sent to hotel managers or operators, of which 18 people had an interest in participation, with the response rate of 20. To encourage participation, attendees were notified that they would have an opportunity to build a partnership with this polytechnic college with special respect to students' internship. At the beginning of the focus group, the participants were asked to complete a form concerning the basic demographic information. There were 14 persons participating in the focus group, of which 9 persons (64.3%) were female and 5 (35.7%) were male. The largest age group of participants (42.9 percent) were aged between 40 and 49; the next largest group (35.7 percent) were aged between 30 and 39. Only 2 persons were over 50 years old. With respect to education, 50% of participants held bachelor's degrees, 21.4% were awarded Master's, while only 2 people had associates or diplomas. As for their positions, all of them were high-level executives (35.7%) and middle-level managers (64.3%). With these demographics, it was considered suitable to generate the desirable results. The group discussion lasted for about two hours and a half with a 15-minute break after SWOT discussion. Based on the SWOT discussion, the focus group proceeded to come up with some competition approaches. The whole discussion was tape-recorded and the second author also took notes. According to the recordings and the notes, transcribed text to be analyzed was subsequently generated by the researchers. Data reduction technique was utilized to extract some important themes and sub-themes arising from the discussion.

V. Results

This portion of the paper provides the results of the focus group discussion in terms of the SWOT of hotels in Guangzhou city and competition approaches managers reported they will use in their hotels. Although the participants' discussions were targeted at their own establishments, they shared a number of common analyses and suggestions. It is clear that the focus group discussion brought more insights to the questions previously asked of these managers.

SWOT of Hotels in Guangzhou

SWOT refers to the process of scanning the internal and external environment in the process of formulation of business strategy (Learned, Christiansen, Andrews, & Guth, 1969). It can provide useful information to align the firm's resources and capabilities with the business environment in which it operates. As such, it is helpful in business strategy formulation and selection.

Strengths

Most of the participants agreed that the strengths of Guangzhou's hotel industry rest in the following areas: (a) dynamic economic growth; (b) convenient location and well-established transport systems; (c) diverse hotel products and services; and (d) international hotel corporations.

One of the 5-star managers observed that “My opinion is that the greatest strength is Guangzhou’s robust economic momentum. It has brought out the tourism development in Guangzhou which, in turn, has fueled the prosperity of hotel industry”. Also, a majority of participants also agreed that convenient location and well-established transport systems represent another strength for Guangzhou’s hotel development. Guangzhou possesses an abundant potential for developing its tourism and hotel industry. Another participant stated his hotel, like most service providers in Guangzhou, offered diverse products and services that are targeted at varied market segments, thus gaining their competitive edge. Lastly, the involvement of international hotel corporations brought new management ideas and practice into Guangzhou hospitality arena.

Weaknesses

Although all participants were cheerful about the bright side, they also lamentedly identified the weaknesses which were crucial to hotel operators: (a) lack of qualified staff, (b) low performance and poor management of many domestic hotels, and (c) weak brand name. As a human resource manager noted, “the most critical issues are high staff turnover, low salary, and lack of hotel professionals.” All the other participants complained about the human resources problems their own hotels encountered in recent years. Other areas of weakness included lack of recognizable hotel brand, management inefficiencies, bureaucratic structure, and indistinct responsibilities and obligations found in some state-run hotel properties.

Opportunities

From the focus group discussions, it was obvious that most of the managers were optimistic about their hotel prospect. Support from Government, the supply of hotel professionals, reform in hotels, the Canton Fair and other exhibitions and events held in Guangzhou all constitute opportunities for hotel operators. As one 3-star state-run hotel manager pointed out, “a number of economic and financial policies help to stimulate our hotel’s development”. “Reforms in Vocational education system also help us to easily recruit students to work.” Another manager added. In addition, the China Import and Export Fair (Canton Fair), 2010 Guangzhou Asian Olympics Games, and other national and international events held in Guangzhou spurred local tourism and hospitality industry.

Threats

Talking about threats, most participants mentioned overbuilding of hotels and hotel competition from outside Guangzhou. It seemed that all players were coming here to attempt to grab a piece of the shrinking pie in Guangzhou hotel market. To make it even worse, “Guangzhou’s neighboring developed regions like Dongguan and Foshan spare no efforts to vie for domestic and international guest from Guangzhou.”

Competition Methods

As previously indicated, the generation of competition methods was based on the SWOT discussion. From the focus group discussion, we can see that most of the hotel managers were confident that they can use their strengths and grab opportunities to minimize or neutralize the threats and weaknesses. The key competition methods they used or would use are reported in the following section. Generally, these methods they identified include (a) strategical alliance, (b) creation and innovation, (c) hotel expansion, (d) human resources enhancement, (e) quality improvement, (f) social awareness, and (g) marketing campaign.

Strategic alignment

As we mentioned before, local hotel companies have long been adopting international ideas about hotel operations, they still need to glean as much information as possible from foreign partners and competitors in the complex environment to further extend their domestic and foreign markets. Participants reported collectively that there were a wide variety of partners they can choose to establish a relationship with, including international hotel groups, travel agencies, business suppliers, hospitality institutes, and even their competitors. One front office manager noted that her hotel group signed a contract with InterContinental Hotels Group (IHG) to co-manage five hotels in 2010. They also partnered with Starwood to run a Westin hotel and an Aloft hotel in 2011. It was believed among the participants that by working closely with foreign partners in functional areas of sales & marketing, customer resource, as well as human resource and training, they would grow revenues and profits, enlarge its brand and reputation, and ultimately enhance its capabilities to compete in Guangzhou hotel market.

Another theme repeatedly mentioned in the focus group was cooperation with hospitality institutes. As previously indicated, almost all hotels in Guangzhou were faced with a difficulty in recruiting and retaining qualified hotel employees. By partnering with hospitality colleges or schools, the hotel can conveniently and timely obtain a large pool of students to satisfy their labor demand during peak season. In turn, this strategic alignment benefitted colleges and schools because their students had more internship opportunities and therefore enhance their employability.

Innovation

As is evident from the discussion, innovation was mentioned as the main determinants of competitiveness. Hotel operators in Guangzhou have been increasingly relied on offering new and innovative

products and services in order to maintain competitive edges, most hotels have modified their existing services to target at their market segments. As 3-star hotel participant put it, a small change can make big difference in the hotel operation. His hotel adopted a 24-hour check-in practice with no additional charge since its opening in 2005. In addition, in his hotel, daily arrival and departure data as well as guest information were analyzed to determine what kinds of guests and what types of rooms are most likely to require the early arrival and other services such as free pickup and room service.

Using new technology, repositioning and renovation, and launching new products and services were all reported during the focus discussion. However, innovations can be risky and expensive. Some managers from some old-fashioned star-hotels complained that they had significant in the past to try to make a change in their respective hotels. As one participant put it, "It is not just about the money. The hardest part is people's mentality." For most of the hotel operators, this raised a question of how much innovative action they should take in order to strike the balance.

Hotel expansion

The research identified that hotel expansion, as the name implies, would expand businesses by extending the physical or geographical boundaries of its operations. In pursuing this business operation, hotel companies would need to seriously assess the commercial viability of launching new hotels in other locations. Many local hotels or groups even went public to gain more money to buttress their expansion plans. Nonetheless, several questions needed investigation before they did so. As a vice general manager from a big hotel group commented, "which types of routes we can enter the hotel market? By mergers and acquisitions? By management contract and franchise or joint ventures? First, we need to answer this strategical question."

Human resources

As discussed earlier, hotel firms faced great managerial challenges in human resources field, issues such as tight labor markets and high turnover posed serious threats to sustaining competitive strategy in the hotel industry. As one participant raised these issues in her hotel, a number of managers echoed her concerns. However, the group did propose some solutions. Hotel owners or operators should put more emphasis on creating a dynamic climate in which all hotel numbers could actualize their own potentials as well as contributing to the success of hotel operations. They needed to take extra efforts make sure that they had the new consistent policies and systems for attracting, developing, and retaining their employees. One Chinese local hotel set a good example in this regard. As its human resource director noted, in her hotel, a "caring family" culture was cultivated in which employees were treated as colleagues who could achieve their personal and career goals and were empowered to make decisions at the guest contact point. By stressing the importance of people and ensuring that hotel policies and processes are guest and colleague friendly, her hotel had gained guest loyalty and achieved financial success.

In addition, communication and motivation systems were mentioned as top one policy to be used to tackle the tricky human resource issues. Half of the participants said that they made some initiatives to ensure that hotels had a variety of communication channels and processes from the frontline staff through middle management up to general managers and vice versa. Special efforts should be made to break the departmental and hierarchical barriers in order to encourage direct communications by means of general manager's Mailbox and Suggestion Box as well as hotel staff email address.

Maintaining high service quality

It is also of significant importance that hotels in Guangzhou should emphasize delivering the best quality services which exceeded guests' expectations. Most participants commented that quality improvement was one of the dominant competitive methods in making up their entire strategies. Different from a tangible product, service is characterized by its intangibility, heterogeneity, and inseparability. Most of the participants were aware that only offering a service is not enough, what counts more is to deliver products promptly, efficiently and amiably. They needed to pursue continuous quality improvement in order to increase customer satisfaction and raise hotel profitability. One housekeeping manager noted that in his hotel, mystery observers were invited to stay in the hotels to surreptitiously record videos of employees' performances in their real working setting, including languages being used and operations performed. These videos were later used as case study materials for management and hotel staff to review employees' performances. In doing so, they could further analyze whether the languages and operations were in conformity with the service standards and how to make improvements. The practice of this kind was supported by other 5 managers who stated they used such a strategy or similar practices for quite a long time and proved to be very productive.

Marketing strategies

The research also identified what marketing strategies hotel operators used to attract guests. An area of particular interest was how the focus group participants responded to a question posed by a marketing director at a 4-star hotel regarding advertising campaign. One 5-star vice general manager responded this way: Like other hotels in Guangzhou, we use traditional advertising campaigns such as public media. But we do it differently and expensively. We use two Hong Kong television stations to broadcast our English commercials to reach both

Hong Kong and oversea markets. We already hosted some international events such as Brazilian Football Team Practice in Guangzhou, International Super-model Contest, and Miss Chinese International Pageant. Most of the participants did not think the practice was useful in their own hotels. They commented lower star hotels may not have abundant resources to do so. However, they admitted that hotels needed to stand high. In this sense, it deserved trying to spend a fortune to do marketing. A number of other marketing strategies were also discussed, such as guest loyalty program, marketing channels, and pricing. Most of the managers emphasized the importance of pricing because the price was an important factor for guests in the selection of hotel accommodation. Although they tended to agree that price war among hotels would have a devastating effect, how to set a viable pricing arrangement was still unsolved. A manager from a hot spring resort shared his hotel's pricing practice. "We offer different rooms with different rates. We have rooms with no hot spring service, rooms with in-house hot spring, and rooms with public hot spring pool. Besides, there are price packages bundling room with tickets to national parks nearby with free bus services."

7. Social responsibility

Admittedly, this strategy was least discussed among the focus group participants. Only at the end of the discussion, one MBA manager initiated this topic. And there were only another two participants echoing. Nevertheless, legislations and social awareness have made social responsibility one of the frequently-spoken subjects among the general public. Hotels cannot only pay lip service and consider the social responsibility to be something unnecessary. The former manager pointed out that hotels needed to respond seriously and realize that taking social responsibility would not only lead to increased hotel images but also result in financial profits, thus gaining both great social and economic benefits. "Our hotel launched a philanthropic program. 10 percent revenue of designated "Giving Room" would be donated to Guangzhou Foundation for Disabled Persons. We are planning to initiate some sustainability projects to conserve energy, design green buildings, and control water consumption. Hopefully, by doing so, we can reduce operating costs and therefore improve the profitability of the business."

VI. Conclusion

Dynamic economic growth in Guangzhou has attracted business and investment interests within China and from abroad, which concomitantly, has boosted its prosperity of travel and hotel industries. However, in the new millennium, the business environment has become increasingly elusive and unpredictable, the hotel industry in Guangzhou has been constantly faced with uncontrolled and uncertain problems. Moreover, intense competition caused by too many hotels in Guangzhou leads to squeezed business margin. Therefore, in order to achieve higher financial performance and to earn a business position in the industry, it is of paramount importance for hotels to create their own competitive advantages and use competitive strategies to compete against their rivals. But without carefully analyzing the internal structures and examining the external conditions, it would not be possible for them to achieve their objectives.

In this research, internal structures and outside environments were investigated for Guangzhou's hotel industry. The results show that the commonly used competition methods used or will be used included (a) strategical alliance, (b) creation and innovation, (c) hotel expansion, (d) human resources enhancement, (e) quality improvement, (f) marketing strategy, and (g) social awareness. It is expected that hotels in Guangzhou will take advantage of their strengths, overcome their weaknesses, make use of the opportunities and avoid the threats, thereby locating and determining the appropriate competitive methods to balance their own resources between diverse strategical choices. This result is consistent with the findings of research by Zhao and He (2008), although the hotels they studied were multinational companies.

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