

Research and Suggestions on Declining Market Shares of Ibis Budget Hotels

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Abstract

With the development of global economy, people have more and more disposal incomes and accelerate the strong growth in tourism. According to a study from Folkestone, international visitor numbers increased 7% in FY15 to a new high of 6.6 million visitors. Therefore, as necessities of traveling, hotel industry booms as well. Especially budget hotels (provides basic-needs services with very low prices) is becoming more and more popular with visitors because it can help visitors reduce budgets. Thus, some famous budget hotels like ibis should seize this opportunity to increase their revenues as well as market shares. This paper mainly conducts research through investigation, literature research and other methods, aiming to provide a right tool for ibis budget hotels to use in their strategy to solve its declining market shares problem based on Australian Market.

Keywords

Declining Market Shares, Budget Hotels, Segmentation

1. Background

Ibis budget hotel is an international chain of basic-service budget hotel owned by the Accor Hotels Group. It is famous for its strong global brand and well-established distribution network. Gaining support from its parent company Accor Hotels Group, 500 ibis budget hotels are built across 18 countries, among which, more than 20 hotels are in Australia. Ibis budget hotels offer high standards of quality accommodation and services at very competitive prices to compete with hotel chains like Holiday Inn Express and Travelodge. In order to understand the industry context of ibis budget hotels in Australia, following we will adopt Michael Porter's five forces model to analyze budget hotel industry (Michael Porters' five forces summary table see Appendix **Table A3**).

1.1. Rivalry among Existing Competitors

Rivalry among existing competitors is very high within the budget hotel industry. Firstly, according to statistics, there are large numbers of competitors (*i.e.* motels and Airbnb) within the budget hotel industry, which means increased competition. Secondly, there are no significant differences among these budget hotels because they all provide basic-needs services to customers; thus, it increases industry competition because customers have lots of similar choices and low switching costs. Thirdly, large budget hotel companies account for high proportion of the whole industry, which increases competition for remaining small hotel operators. For example, Mantra Group and ibis account for 43% of the whole Australian budget hotel market, which leads to small hotels such as Best Western with negative growth: -8.0%.

1.2. The Threats of New Entrants

The threats of new entrants for budget hotel industry lie on the entry and exit barriers. From one perspective, budget hotel industry has low barriers to entry because capital requirement is low. Specifically, low construction costs, furnishings costs and staff costs are needed to operate a budget hotel due to the smaller scale and the limited services provided. However, threat of new entrants is reduced by brand recognition, which can also be seen as a natural barrier for entering. For example, famous budget hotel brands like ibis are the first choice for customers, making the new entrants difficult to capture market shares and earn profits. Combining the above two perspectives, threats of new entrants for budget hotel industry are medium.

1.3. Bargaining Power of Suppliers

Bargaining power of suppliers in budget hotel industry (include real estate companies, furnishing companies, consultants and staffs) is high because of two reasons. To begin with, industry consultants have higher level of professional knowledge and competencies than budget hotels, which increase their bargaining power. Moreover, as a labour-intensive industry, staffs have relative high bargaining power because hotels rely on the quality service provided by staffs to succeed. However, hotels' size effect helps to reduce suppliers bargaining power to some extent. Real estate companies often have smaller size compared with large budget hotels, thus their ability to negotiate favourable contracts are reduced correspondingly. Combine above two perspectives, bargaining power of suppliers for hotel industry is medium.

1.4. Bargaining Power of Customers

Bargaining power of customers for budget hotel industry is medium. On one hand, there are numerous undifferentiated budget hotels which provide similar services for customers. As a result, when price increases, customers are sensitive and then switch to other similar hotels without much cost (Cahill, 1997) [1].

From this perspective, customers bargaining power is high. On the other hand, famous brands like ibis is well-known to people because it provides quality services with reasonable prices. Therefore, they will attract first-time customers and also repeat the business, which reduce customers' bargaining power to some extent. Combine the above two perspectives, bargaining power of customers in budget hotels is medium.

1.5. Threat of Substitutes

Threat of substitutes for budget hotel industry is high. Airbnb, which provides an online platform for individuals (private hosts) to rent occupied living space and other short-term lodging to guests with lower prices than budget hotels, can be seen as substitutes for budget hotels. Airbnb has rapid development in recent years, which not only pose great threats for budget hotels but also for whole hospitality industry. Moreover, motels are also substitutes of budget hotels because they provide similar services as budget hotels but with lower prices. Although motels are gradually disappearing recently, they still keep 60% occupation rate, which bring threats to budget hotels.

2. Reasons for Declining Market Shares

A company's market share is its portion of total sales in relation to the market it operates within, which measures a company's competitiveness. A company that maintains its market shares is growing revenues at the same rate as the total market. Look at figures of ibis budget hotels' annual reports from 2012 FY to 2015 FY. The sales are \$39,086 million, \$41,058 million, \$44,249 million and \$46,585 million respectively, with an average sales growth rate of 5.7% per year. Here we make an assumption that whole hotel industry is developing dramatically with a 10% sales growth rate per year, thus it can be speculated that ibis budget hotels are facing problems and challenges of declining market shares within the hotel industry.

2.1. Cost-Effective Advantage of Economy Hotels Compared with Budget Hotels

The reasons why ibis budget hotels are suffering declining market shares can be explained from three aspects. Firstly, economy hotels grab market shares of ibis budget hotels. Generally, there are three levels of hotels: luxury, economy and budget hotels. Economy hotels are more cost-effective for consumers with limited budgets because they can provide elaborate service, uniformed service, food/beverage room service and in room entertainment service with reasonable prices. According to research, average occupancy rate of economy hotels in Sydney and Melbourne is 74.4% and 84.5% respectively. However, ibis budget hotels' occupation rate is only 60%.

2.2. Rapid Development of Airbnb

Secondly, in addition to economy and other budget hotels, Airbnb grabs market

shares of ibis budget hotels as well. Airbnb is the largest peer-to-peer exchange service for hospitality, focusing on a marketplace platform where hosts and guests exchange housing for money (Guttentag, 2016) [2]. According to HVS (a world's leading consulting services organization focused on the hotel, restaurant, gaming, and leisure industries), hotels lose approximately \$450 million in direct revenues per year to Airbnb. More specifically, 480,000 hotel room nights were reserved while over 2.8 million room nights were booked on Airbnb between September 2014 and August 2015, thus HVS estimates that Airbnb room nights will reach 5 million per year by 2019.

2.3. Cultural Shock

Thirdly, multicultural issues impede ibis budget hotels' revenue yield, which prevents ibis from catching up the industry sales growth and results in ibis's declining market shares. Ibis budget hotel is known as one of the largest international chain hotels, thus undoubtedly it will face cultural challenges. If staffs cannot handle these cultural differences well, it will affect ibis budget hotels' revenues to some degree. According to Jin Zhao (2009), one of the reasons why ibis budget hotels suffered decreasing revenues in Australian market is that Australian people feel uncomfortable with some services and gestures [3].

3. Analysis of Possible Solutions for Declining Market Shares

In order to solve ibis budget hotels' declining market shares problem, two revenue yields tools: revenue management and customer profitability analysis are proposed.

3.1. Revenue Management

Revenue Management is defined as the application of disciplined analytics that predict consumer behaviors at the micro-market level and optimize product availability and price to maximize revenue growth. The purpose of revenue management is selling the right product to the right customer at the right time for the right price and with the right pack. Five steps of this tool include data collection, segmentation, forecasting, optimization and dynamic revaluation. Ibis budget hotels can adopt this tool to yield revenues. Firstly, it needs to collect information from market research to look at what customers need and want when they choose hotels. Secondly group customers into same segment according to previous research. Thirdly, ibis budget hotels need to conduct forecasts including visitors' demand, room availability and market shares analysis to see what customers like. Fourthly, optimization is established for ibis to respond to previous forecasting. Finally, ibis should always make revaluation to its room prices and relevant services to maximize revenues. However, revenue management is not very suitable for ibis budget hotels because it is a long-term strategy (solve problems in long run) and its success depends on good market segmentation first.

3.2. Customer Profitability Analysis

Customer profitability is defined as the profits the firm makes from serving a customer over a specified period of time. A profitable customer is a person, household or a company that overtime yields revenue that exceeds by the company's cost of attracting, selling and servicing the customer (Anugrah, 2012) [4]. There is an underlying principle here: costs of finding and gaining a new customer are greater than the costs of retaining current customers (Kaplan & Narayanan, 2001) [5]. For ibis budget hotels, it should firstly make segmentation for its customers and then adopt customer profitability analysis by calculating revenues and costs to specific segmented customers. After knowing who are the most profitable customers, ibis should focus on them and make them satisfied. However, customer profitability analysis is not very suitable for ibis budget hotels because applying customer profitability analysis also related to appropriate segmentation of customers firstly.

4. Findings with Analysis

Based on the above ibis budget hotels' possible solutions analysis, we find that both solutions are based on segmentation. Thus, segmentation is considered as the most appropriate tool to solve ibis budget hotels' declining market shares problem and increase its revenues (therefore gain more market shares) in an intensive competition industry context. Following we will discuss three important things related to segmentation: what is segmentation; why we think segmentation is the most suitable tool for ibis budget hotels' issue and how segmentation is implemented to help ibis solve its problem.

4.1. Definition of Segmentation

Segmentation is a strategy of dividing the market into homogenous group (groups of consumers or segments with distinct needs and wants). It is generally used to identify and further define the target customers, and provide supporting data for marketing plan elements such as positioning to achieve certain marketing plan objectives (Goyat, 2011) [6]. After making the segmentation, businesses may develop product differentiation strategies, or an undifferentiated approach, involving specific products or product lines depending on the specific demand and attributes of the target segment. The purpose of segmentation is the concentration of marketing energy and force on subdividing to gain a competitive advantage within the segment. According to Jerath (2010), segmentation is a strategic revenue management tool because through segmentation, the whole market is divided into customer-groups with similar needs [7]. The more closely the needs match up, the smaller the segment tends to be, the higher the premium customers are likely to be prepared to pay to have a product that more exactly meets their needs, this way revenue can be yield. There are four commonly used segmentation bases (Kotler, Armstrong, Saunders, & Wong, 1999): geographic segmentation, demographic segmentation, psychographic segmentation and be-

havioural segmentation (examples see Appendix **Table A1**) [8]. As for which base to use, it depends on many factors such as type of products, nature of demands, method of distributions, media available for market communication, and motivation of the buyers.

4.2. Why Segmentation Is the Most Suitable Tool for Ibis Budget Hotels

There are four reasons explaining why segmentation is the most appropriate tool to solve ibis budget hotels' declining market shares problem. Firstly, ibis budget hotels' 2012-2018 annual reports indicate a lower revenue growth rate compared with industry, which results in ibis's declining market shares trend. Thus, if ibis budget hotels want to solve this problem, the most important thing is to increase revenue. Therefore, revenue management tools (*i.e.* Segmentation) which aim at increasing revenues will be more helpful. Secondly, as one of the sub-brands within Accor Hotels Group which operates 3700 hotels from budget to five-star hotels, ibis budget hotel has limited resources and it cannot connect to all customers in a diverse market. Consequently, segmentation is a good tool used to focus on subset of prospects that have the greatest potential of becoming customers and generating revenues. Thirdly, ibis budget hotel is an international chain of basic-service budget hotel, which aims at providing accommodations to low-budget customers. Hence, segmentation will be a good tool allowing ibis budget hotels to adjust its marketing mix to cater to particular needs of these low-budget customers, and then increase revenues. Fourthly, porters' five forces analysis for ibis showing the increasing industry competition, which makes it difficult for a mass marketing strategy to succeed because customers are becoming more diversified. As a result, market segmentation is a good tool which allows ibis budget hotels to divide and conquer different segmented customers' needs, and then attracting more customers and yield revenues.

4.3. How Segmentation Is Implemented to Help Ibis Solve Its Problems

According to Best Roger (1990), there are seven sequential steps implementing market segmentation strategy (seven detailed steps see Appendix **Table A2**) [9]. Here we use this framework as guidance to demonstrate how ibis budget hotels can use segmentation to yield revenues and solve its declining market shares problem. Initially, ibis needs to divide its customers into different segments based on their similar needs. For example, customers who want to reduce travel budgets will be grouped into the same segment. Next, ibis needs to determine which characteristics make the grouped segments distinct. For instance, characteristic of the above segment is low-income. Then, management of ibis should set up some segment attractiveness criteria and use these criteria to assess different segments' attractiveness. Following that, accounting department of ibis should collect hotel market data and calculate the profitability of each segment. After completing these four steps, ibis can then move into the fifth step "segment

positioning” by creating value proposition for each segment based on that segment’s unique customer needs and characteristics. Later, ibis should conduct “Acid Test” to test the attractiveness of each segment’s positioning strategy in order to make sure that these strategies do work and bring benefits. Finally, ibis will establish 5Ps marketing-mix strategy to achieve each segment’s positioning strategy. For example, ibis can provide queen-size-bed rooms to customers who do not like single beds. Through the above steps, ibis can utilize its limited resources effectively through satisfying specific needs of each segment, therefore attract more customers and generate revenues as well as increase market shares.

5. Conclusions

In conclusion, this report derives the following results from the above analysis. As a famous international chain of budget hotel, ibis should have seized the opportunity of booming tourism and visitors’ preference for budget hotels to yield its revenues and market shares. However, the complex environment and fierce competition of the budget hotel industry prevent ibis from achieving its goal. Rapid development of economy hotels and Airbnb grab ibis’s market shares and result in its declining sales growth rate during 2012-2018. In order to solve ibis’s problem, two revenue management tools (revenue management and customer profitability) aimed at increasing revenues are proposed. After analysis of these tools, we find both tools are based on segmentation and thus the most effective and appropriate tool is segmentation. Ibis should follow Roger Best’s seven steps to implement market segmentation strategy, through which ibis can satisfy specific needs of each segment and therefore attract more customers and yield market shares.

There are also some limitations to this report. Firstly, we use some secondary-data and information, whose veracity needs to be investigated. Secondly, this paper is only based on the Australian budget hotel market, thus the analysis may not be useful in other countries. Thirdly, we use assumptions to simplify our analysis, which still needs to be verified by some data. Future studies about ibis budget hotels can focus on how to improve the service quality. For instance, many customers complain about ibis’s poor internet and double charges when checking out. Ibis’s service quality improvement deserves investigation in the future because high quality service together with reasonable prices will form competitive advantage for it.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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Appendix

Table A1. Examples of using different segmentation bases to divide markets.

Segmentation bases	Examples
Geographic segmentation	Markets segmented by geographic region, population density or climate
Demographic segmentation	Markets segmented by age, sex, size and family type
Psychographic segmentation	Markets segmented by life-style variables
Behavioural segmentation	Markets segmented by purchase occasion, benefits sought, and user status

Sources: https://link.springer.com/chapter/10.1007%2F978-1-4615-4651-1_2.

Table A2. Roger Best's market segmentation process.

Steps in Segmentation Process	Description
1 Needs-Based Segmentation	Group customers into segments based on similar needs and benefits sought by customer in solving a particular consumption problem.
2 Segment Identification	For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable.
3 Assess Segment Attractiveness	Using predetermined segment attractiveness criteria, determine the overall attractiveness of each segment.
4 Evaluate Segment Profitability	Determine segment profitability (net marketing contribution).
5 Segment Positioning	For each segment, create a "value proposition" and product-price positioning strategy based on that segment's unique customer needs and characteristics.
6 Segment "Acid Test"	Test the attractiveness of each segment's positioning strategy.
7 Marketing-Mix Strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion, place, and people.

Sources: <https://www.marketing91.com/steps-of-market-segmentation/>.

Table A3. Michael Porter's five forces analysis of budget hotel industry.

	High	Medium	Low
Rivalry among existing competitors	√		
Threat of new entrants		√	
Bargaining power of suppliers		√	
Bargaining power of customers		√	
Threat of substitutes	√		

Sources: <http://xueshu.baidu.com/usercenter/paper/show?paperid=18b58e53c00c510951992fdb8fef9c9>.