Franchising and/or Licensing as Foreign Market Entry Strategies In the Chinese Hotel Industry

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Abstract

Franchising is a commonly used market entry strategy in the hotel industry. Licensing on the other hand, is mostly applied in the technological industry. This study critically evaluated franchising and licensing as market entry modes and their roles in the Chinese hotel industry. Primary data materials were gathered from informants from international hotels and associations in the hotel industry.

After in-depth analysis, the research found a number of unique points are not included in the literature, such as, licensing enabled rapid expansion in the hotel industry in China. The findings have valuable contribution to the related literature and practice. The researcher also made recommendations for further research at the end of this study.
Chapter 1 Introduction

International market entry mode has been a very important issue in the area of international marketing. A number of market entry modes have been developed in the international hotel industry as these entry strategies have great implications to hotel groups. It is also a popular topic in the academic literature. The Chinese hotel market is a key segment of the global hotel industry. Many large multinational hotel enterprises have already been expanding in China. This study reviewed and examined the implications of franchising and licensing as market entry strategies for theory and practice. The detail process is presented below.

1.1 Background of the research

As because of the strong economic growth, China’s hotel industry has grown rapidly in the last 20 years. The population of mid-class is too growing fast. Franchising World, 2004, states that by 2005 the population of mid-income consumers in China will be more than 230 million. Their retail spending will exceed $900 billion in the next few coming decades (Franchising World, Jan/Feb2004, p57-57, 2/3p, 2c). This is an extremely attractive consumer group to any hotel group worldwide. The Chinese market represents a big target market for foreign hotel groups. As China became a member of WTO, foreign companies were allowed to enter the Chinese market with fewer restrictions. It also gave opportunities and challenges to the Chinese travel industry. First, as the foreign corporations with advance skills and large resources come into the market, the competition is getting aggravated. It forces the domestic companies to develop themselves through the competition. Second, foreign companies bring in the advanced skills, techniques, managerial experience; it helps their Chinese partners to develop themselves. Many foreign consortiums tend to invest in the Chinese hotel industry. Recent years, they start to pay attention on the Chinese budget hotel market. Morgan Stanley invested in Shanghai Motel 168 in 2005. Super 8 which are held by Wyndham Hotel Group selected Tian Rui Hotel
Corporation as its master licensor in 2004. Day-Inn which is also held by Wyndham
Hotel Group invested in 7-Days Hotel Corporation in 2006. Home Inn Budget Hotel
Chain is a Chinese domestic develop hotel chain. It was founded in 2002 and
developed rapidly since. It listed in NASDAQ in 2006 as the first pure service
industry company that not in the internet or IT industry. Home Inn set an example in
the budget hotel industry. Home Inn listed NASDAQ also shows the potential
opportunities of the budget hotel business in China.

China although is the third largest country in the world has the world’s largest
population. This limits China’s resources in terms of land. In simple words, whoever
controls the key locations controls the market share over the Asia-pacific area. With
the Olympics and Expo coming closer everyday, China will obviously become the
battlefield of major international hotel chains (Fei, 2006).

In recent years, the budget hotel industry has been rapidly developed in Southeast
Asia particularly in China. Well-known budget hotel brands such as Ibis, Formula 1,
Super 8 and Holiday Inn Express (under Inter Continental) have expanding the Asian
market.

<2006 China Economy Hotel Survey> shows that 92% of budget hotel customers are
domestic, 8% of them are from other countries. This gives budget hotels a huge
development potential within China. The report also shows that 70% of the budget
hotels were expanding through franchising. Comparing with western countries,
franchising is still new in China. Many well-known international franchisers only
started operating in China in late 1990s.

Before budget hotel appeared in China, there were only two choices for tourists: First,
high class hotels which included full services but very expensive. Second, ‘Zhao Dai
Suo’ which was stated owned typical Chinese style low class hotels. The facilities,
services and the status of cleanliness were generally not satisfactory to tourists. Budget hotels could provide basic service; clean rooms and a reasonable price give a good choice to tourists in China. Budget hotels to a large extent fulfilled a gap in the Chinese hotel industry. Therefore, budget hotels were very attractive to Chinese tourists.

One of the top 10 hotel management groups, Intercontinental hotel group has fastened its steps of expansion in China. In 2006 alone, Inter Continental signed management contract with 9 domestic hotels in China including two budget hotel brands. The American hotel group, Days Inn already owned a significant number of high-class hotels, but this did not satisfy its desire of expansion. They are not developing 5-star hotels in second-location cities (Fei, 2006).

In conclusion, the Chinese hotel market is complicated and highly competitive. One single market entry mode may not meet the requirements of expansion and field in the need of market. Chinese hotel market is growing rapidly although it is a new market waiting to be explored comparing with other western countries. It included different types of hotels particularly ‘Zhao Dai Suo’ the traditional Chinese style low class hotel. After 10 years of development, Chinese budget hotel industry is going into an expansion period. Therefore, hotel chain is the main form of budget hotels in the marketplace. This leads to a problem of brand image. In order to build and protect a good brand image, hotel groups need to find out a market entry mode which can not only meet the requirement of expansion but also benefit their brand image. International hotel companies introduced franchising and licensing as market entry modes which they have successful experience in the other countries.

1.2 Research problem and questions
As China has a very different culture and tradition from western countries, it is doubtful that franchising and licensing, as pure western business forms can work very
well and take root in the Chinese hotel industry. Taking into account of the booming Chinese domestic tourism market and the relatively low standard of domestic lodging industry, it is possible to start by creating franchising/licensing operations.

As argued in Chapter 2, franchising is one of the most successful market entry mode in the global hotel industry; licensing can be also found to be used in the hotel industry. However, China has a very different business culture and operation system in the hotel industry. It is a question that whether franchising and licensing as pure western business strategies can be used in the Chinese market or not. Moreover, whether such franchising/licensing will work in Chinese market based on foreign brands or newly domestic Chinese brands is the key question that cannot be answered by existing academic research. Therefore, the main research question from above is:

“Are franchising and/or licensing suitable market entry modes in the Chinese hotel industry?”

1.3 Justification for the research

This literature of this research is base on franchising and licensing. The advantages and disadvantages of franchising and licensing are widely adopted from Hollensen (2004), Jeannet and Hennessey (2004), McAuley (2001) and Onkvist and Shaw (2004). The theory of development of global hotel industry and the market entry strategies of global hotel industry is mainly according to Cunill (2006) and Cruz (1999).

In general aspect, franchising was developed in U.S and widely used in western countries. Licensing is less likely to be used in service industry compare with franchising. However, China as a new emergence market for hotel industry, it presented an attractive market for international hotel companies particularly for international budget hotel companies. The used of franchising and licensing can be testified in Chinese hotel industry. This research is base on the triangle showed as
1.4 Methodology

Qualitative research was chosen as methodological paradigm for this study. This decision was made based on Creswell’s (1994) philosophy in qualitative paradigm and the methodological review of previous studies.

The primary data for this study was collected through telephone interview for the purpose of data analysis in chapter 4 and examination of the theoretical findings developed from chapter 2. A number of senior managers and field experts were interviewed during the data collection process.

The methodology chapter also included a section of research focus, pilot test and ethical issues.

1.5 Delimitation of scope

This study focused on gathering primary data from senior managers mainly from US hotels. Hotels from Europe and Hong Kong were also included, but to a much smaller extent. The reason was because in China, American hotels groups in general have a longer investment history, a much stronger fame and popularity.
Hong Kong hotels in China are counted as foreign investments in this study as Hong Kong is considered a separate economic region from China. Its finance, economy, etc are always presented independently from mainland China.

In addition, although this study selected managers from US hotels mainly, but the managers are from different backgrounds, in which they could provide a broader view than just American concept.

1.6 Outline of the thesis

This study is carried out in a structure according to Perry’s (1998) five chapter thesis. The tense also followed Perry’s guidance in his five chapter thesis.

The structure of this study was designed according to Perry’s (1998) give chapter thesis. This chapter is generally written in present tense. Chapter 2, chapter 3, and chapter 4 are in past tense as it concerns research after it’s has been done. Chapter 5 is presented in present tense.

Chapter 1 gave a general introduction to this research including the background of this research. Chapter 2 focused on the literature review of the research. It explained the franchising and licensing as market entry mode in general and in hotel industry. It stated the market entry strategies of global hotel industry followed Cruz (1999)’s ‘Management Contract first, franchising latter’ strategy. It described the development of Chinese hotel industry at the end. Chapter 3 described the approach and methods used in collecting primary data materials. This research is a qualitative research. The method of data collection of this research was ‘systematic’ with clear purpose. It meets the requirements of business and marketing research which ‘engage with both the world of theory and the world of practice’ (Saunders, Lewis and Thornhill, 2007, p6), also refers to gathering, analyzing and presenting information related to a
determined problem (Hollensen, 2005). The research candidates covered different types of hotels, and different levels of people from three aspects and wide locations. **Chapter 4** described the process on how researcher analysis the data. It covered the nature of data analysis from a qualitative point of view. **Chapter 5** discussed the findings which were developed form Chapter 4.

### 1.7 Conclusion

This chapter is a foundation of the entire thesis as it introduces an overview of the dissertation. It provides an outline of the thesis. The next chapters present the dissertation in great detail.
Chapter 2 Literature Review

This chapter provides a detailed critical review of franchising and licensing in the Chinese hotel market. This chapter begins with a general introduction of franchising and licensing and how they have been used in the global hotel industry. Advantages and disadvantages of each market entry mode are also included. The development of the Chinese hotel industry is stated.

2.1 Introduction of franchising

According to Rosenberg (1969), franchising was first appeared in 1863 and changed the way of the world’s business particularly in retailer chains. ‘It is the characteristics of the hospitality industry – large volume of mobility, wide geographic distribution, searching for familiar product, unique travel expectations – which make franchising an appropriate method for expansion.’ (Pine et al, 2000, p30).

Definition of Franchising

According to Hollensen (2004) and Paliwoda & Thomas (1998), franchising is a marketing-oriented method of selling a business service, which is often to small independent investors with working capital but have limited or no business experience. Moreover, according to McAuley (2001), franchising has enabled many businessmen and firms to develop large brands around the world. “It is almost like an umbrella term which is used to mean anything from the right to use a name to the total business concept.” (Hollensen, 2004, p314, Paliwoda & Thomas, 1998, p138). Umbrella is one type of brand ownerships by hotel companies which are identified by Price Waterhouse Coopers (PWC). Hotel companies who carried umbrella ownership have some generic attributes but covered a range of different segments and operational types.
The franchise contract includes 3 basic elements stated by Jeannet & Hennessey (2004) and McAuley (2001) as follow: 1) Franchisees should have a shared name, common premises similarities on presentation, layout, design, etc. 2) Shared knowledge of know-how; 3) Franchiser gives constant support in technology and commerce to the franchisee.

Types of Franchising

According to Hollensen (2004), there are two types of franchising: Product and trade named franchising, which are simply contracts with franchisees to buy or sell franchisor’s product or production line. It is a distribution system very similar to licensing. Coca-cola’s franchising can be seen as a classic example of Franchising. It has independent bottlers around the world, and supplies franchisees with concentrate and specifications to prepare soft drinks. At the same time, it retains control over its trademark, recipe, and advertising, etc (Paliwoda & Thomas, 1998, p141).

Another type of franchising is business format ‘package’ franchising which involves the relationship between the franchisors and franchisees/sub-franchisors not only the products and services. Clive Grant (1985, p4) defined business format franchising as “the granting of license for a predetermined financial return by a franchising company (franchisor) to its franchisees, entitling them to make sure of complete business package, including training, support and the corporate name, thus enabling them to operate their own businesses to exactly the same standards and format as the other units in the franchised chain.” It also applies a global commercial strategy, which includes operations like, marketing programs, staff training, quality controls, standards, ongoing fluid communication and so on. (IFA, 1991; Naisbitt Group 1989). The package should involve trade name/trade marks, business know-how, copyright and patents (Jeannet & Hennessey, 2004). It should involve the method of operation such as managerial assistance or training program for new franchisees (Hollensen, 2004, McAuley 2001). Moreover, Hollensen (2004) stated that within appointed territory, sub-franchisors may establish and serve sub-franchisees by
themselves. Under the managerial assistance, all locally owned franchisees, sub-franchisees and sub-franchisors have benefits, such as, supply from franchisor and centrally coordinated advertising. As a business package, in return, the franchisor receives a mark-up according to the franchisee’s annual turnover.

Cunill (2006) also stated third type of franchising operation that is particularly used in the hotel industry, which is an alternative to existing businesses. In this method, the existing business can transform itself into a sales point or a subsidiary of a parent company instead of being an independent business entity.

Advantages and disadvantages of Franchising

Many authors such as Hollensen (2004), Paliwoda & Thomas (1998) stated the advantages and disadvantages of franchising. The analysis of the advantages and disadvantages will be based on their theory in this thesis.

Advantages

Franchising has particular benefits which are allowing small independents with investment capital but no industry of management experience to belong to a large organization. Franchising provide a way for business to expand in new market with a level of control, low-risk and low cost. Hollensen (2004) stated that the franchisees are the ones who are investing in the necessary equipment and know-how. Therefore, franchising is a way with high motivation to the franchisees and adapting local market knowledge and experiences. Franchisors can also franchise to a particular area as a pilot test before they entry into the new market.

According to Hollensen (2004, p314): “Franchising is especially well suited to service and people-intensive economic activities, particularly where these require a large number of geographically dispersed outlets serving local markets”. Companies by using franchising as the market entry strategy will able to develop new and distant international markets quickly. Therefore, “the original business idea is maximized with the minimum of investment” (McAuley, 2001, p95).
In hotel industry, the franchisor can measure its revenue from franchisees by charging a fixed royalty. The Franchisor can expand and internationalize its hotel brand familiarity and avoid large financial commitments to the market. It also provides the opportunity to reduce costs while increase sales and marketing activities on a national and international level in the target markets. The franchiser can still retain motivation in the business because it is actively involved as well as the franchisees. The cost of a computerized booking system can be reduced by having a large number of hotels sharing it (Cunill, 2006).

From franchisees’ aspect, Paliwoda & Thomas (1998) stated that franchising provide a flexible business structure, a level of independence. Franchisees will enjoy the benefit of having tried and tested of their business ideas. They will have motivation to run the business because they need to pay an annual fee to franchisors and gain more profit. In addition, franchisees will gain their management knowledge and technology from the franchisors because franchisors will provide the managerial assistance, training program and share the business know-how. Franchisees will also gain their experiences during the franchise period and the process to meet franchisors’ requirements.

Franchising reduces the risk of starting a new business for the franchisee as it receives a business operational procedure that has been testified already. It also provides the franchisee with an internationally recognized brand and sometimes a world famous reputation of an established hotel chain. Franchisees are also connected to a booking system that is linked to the Global Distribution System (GDS) with airlines, which helps them attract customers. The franchiser will automatically inform and upgrade support for sales and marketing for all franchisees even if only one franchisee made a fault. Professional staff training is also provided by the franchisor. Introduction and application of new technology is provided by experts. Franchisees are benefited with economies of scale by the centralized purchasing system. Franchisees can enlarge its market base through participation of large-sales client loyalty schemes. Information
compiled by other franchisees of the hotel group will enhance customer care. Quality standards and procedures are guaranteed. Free reservations phone line in different countries is available. Financial management advice is provided. Properties locations are also advised (Cunill, 2006).

From consumer’s aspect, consumer will benefit from the same level of standard of product with fixed price. From a host country aspect, franchisors will provide more careers in the host countries. This is an important benefit in some developing countries with large population particularly in countries that people who have high education but has problems to find a job. Franchisors will also transfer the knowledge and technology to host countries.

Therefore, franchisor and franchisee play roles of two side of leverage. Franchising bring benefit to both franchisor and franchisee. Franchisor offers a package of operational know-how which including a successful operation system so that franchisee can enjoy the benefit of easier market access, lower scale and share massive advertising campaigns, research and development and problem solving mechanism in the network (Hall and Dixon, 1988). On the other hand, franchisor can expand in new market with limited resources; enjoy early entry into a market and a larger market share and higher revenue from the franchisee; reducing the risk of exploitation on shared base of the franchisees (Pine et al, 2000). Authors such as Pine believed that franchising may be a more rational and fair mechanism for franchisee and franchisor and an effect and favourable method of expansion.

Disadvantages

One of the main problems of franchising is the regulation in host countries which including transfers of money, payments of franchise fees and the restrictions on franchise agreement. The early entrants who use franchising in China faced too many problems that cause by the undeveloped franchising legislation. They had to do joint venture with Chinese partners in order to reduce the risk and follow the restrictions of
foreign investment. Also, the differentiations of monetary and banking system brought a lot of problems before the reform in financial system and opening market to foreign banks. The bureaucracy of the governments in host countries will be threats for franchising as well (Paliwoda & Thomas, 1998).

Franchisors may face to the operation, communication and quality problems because of the less control of franchisees. According to McAuley (2004), Individual franchisee’s variable quality of service provided to customers may negatively reflect a bad image of poor quality of service to the franchisor’s brand as a whole. Franchisees take the advantages of the brand reputation from franchisors but not share the profit with franchisors. Franchisees will care the profit more than brand reputation which is very important for franchisors. The way franchisees seeking for profit may damage the brand reputation. Therefore, the cost of protecting goodwill and brand name will be increased.

Paliwoda & Thomas (1998) stated that the franchisees may become the future competitor to franchisors because they learn knowledge and technology from franchisors. They may be able to set up a new business which maintains the quality as well as franchisors. Franchisors need to use different packages flexibly. Therefore, the cost of creating an internationally recognized package of products and services will increase. However, in some industries which require high level of grouping will not has much impact on this point. China’s hotel development tends to be more and more grouping. The hotels must rely on the survival of the strong brand (He, 2004).

In hotel industry, franchising can put the Franchisor’s reputation in danger by allowing franchisee to operate respectively. A failure in the franchisee’s compliance with sufficient quality controls will result in damage in the franchisor’s brand image. Therefore, the franchisor must carry out inspections to ensure the quality of product and service the franchisees are providing. It also allows the existence of rivalry between the franchisor and the franchisee. The high cost involved at the early stages of the introduction of a franchise system sometimes can shy away potential
franchisees. The selection of franchisees requires a complicated process and an optimum choice. There will always be a difficulty in measuring the results submitted by the franchisees, which they sometimes are questionable (Cunill, 2006).

Paliwoda & Thomas (1998) stated that franchisee may get burned by paying high franchise fee to franchisor. Some franchisors with weak study on target market might operate new business in new market without planning. Also, when the franchisors lack of local knowledge, franchisees might force to meet the franchise requirements which is not suitable to the local culture. In a franchise contract, franchisees need to pay a sum of money annually and the franchise contract usually last for a few years. Therefore, franchisees will not be able to keep or reap profit even they work on it. In addition, franchisees will lack of independence in decision making because franchisors still control the R&D and marketing functions.

In hotel industry, the franchisee must increase the revenue per available room to be able to cover the high cost of franchising fees. The franchisee may have to covert the hotel or build a new one to meet the standards and requirements of the franchisor before staff trainings provided. Investment on converting the hotel to meet the standards of a franchise contract after the previous one could be an issue for the franchisee. If the franchiser goes bankrupt, the franchisee may probably fall into serious trouble as the franchiser. The original identity of the franchisee will be lost (Cunill, 2006).

2.2 Introduction of licensing

Definition of Licensing

“Licensing is an agreement that permits a foreign company to use industrial property, technical know-how and skills, architectural and engineering designs, or any combination of these in a foreign market.” (Onkvisit and Shaw, 2004, p249) The industry property will include the trademarks, copyright and patents. The licensing
agreement will also include the feasibility studies manuals, technical advice from licensors (Onkvisit and Shaw, 2004; McAuley, 2001; Paliwoda & Thomas, 1998). The licensors will use these elements in return for a lump sum payment and royalty which will be based on a percentage of sum payment and an annual royalty (McAuley, 2001).

Different from franchising, licensing concerns with just one part of the business while franchising is an all-encompassing strategy compared to licensing (Perkins 1987; Yong et al. 1989). Price Waterhouse Coopers (PWC) has identified endorsement which is one type of brand ownership by hotel companies as the brand has limited generic attributes and it will provide little marketing and reservation services not only a name. In other words, the mother hotel will give a little help to the hotels who carried the brand name. But the mother hotel will not involve too much business in the cooperation.

**Advantages and disadvantages of Licensing**

Authors such as Onkvisit and Shaw (2004), Jeannet and Hennessey (2004) stated the advantages and disadvantages of licensing. The analysis follow will be based on their theory.

**Advantages**

“When a company finds exporting ineffective but is hesitant to have investment abroad, licensing can be a reasonable compromise.” (Onkvisit and Shaw, 2004, p248). When the government in the host country has strict regulation on foreign direct investment or high political and commercial risk, company can use licensing to avoid the risk. Licensing is a way of protecting companies’ patent or trademark whatever the companies want to leave the target market for a short term or for ever. Companies will use licensing also when there are tariff or non-tariff barriers in the host country. Licensing is a strategy which involve international production and gain market share but with no direct investment and major investment. This is benefit for the SMEs who
are desire to entry foreign market but with limit financial, managerial or marketing expertise for international investment. Weak hotel groups such as Arabella Sharaton in Germany and Radisson SAS adapted co-branding ownership to achieve leverage from more widely recognized international brands. When companies haven’t enough knowledge in target market and time to engage more actively in international marketing, they may use licensing in foreign markets. Also, when the market potential is small to support a manufacturing operation, companies may use licensing (Hollensen, 2004; Onkvisit and Shaw, 2004; Jeannet and Hennessey, 2004).

Hollensen (2004) stated that companies may use licensing if the product is at the end of the product life cycle in the advanced countries. Because the technology of the product still advance in some developing countries even it is expired in developed countries. Therefore, licensing can extend the product life cycle. The technology that licensors provide to the licensees may not has high margins from licensors’ accepts but still valuable for the licensees. Therefore, licensors still gain profit from the royalty income even it is not high. Economies of scale are beneficial to hotel chains as they are beneficial to areas in technology. However, small hotel chains may not easy to enjoy this benefit (Cunill, 2006).

From licensees’ aspect, licensing can improve the net cash flow in short term but lower profit in the long term. According to Hollensen (2004, p311): “over-licensing can increase income in the short run, but in the long run it may mean killing the goose that laid the golden egg”. Because licensees may gain the advance technology from licensors and produce the products with higher technology. Also, this will reduce the technology development time and cost for the licensees. Hollensen (2004) stated that lower development costs, quicker access to new technology and relatively early cash flow are the attractive benefit of licensing. Famous hotel chains can finance their activities at a lower cost than the weaker brand hotel chains (Cunill, 2006).

Disadvantages
Licensees may become competitors of the original licensors as they gain the technologies from licensors (Hollensen, 2004; Jeannet and Hennessey, 2004; McAuley, 2001). However, licensors may also gain access to the licensees’ technology and product. “What licensors seek to do, therefore, is to protect the most secret part of their technology by continuing to export that particular component which embodies stat-of-the-art technology.” (Paliwoda & Thomas, 1998, p144)

A major disadvantage of licensing is the licensors mainly dependence on the royalties from licensees. However, if the performances of sales are not good enough, licensors may face to a financial problem because the royalties are usually paid according to the percentage on sales only (Jeannet and Hennessey, 2004; Paliwoda & Thomas, 1998).

Another problem is the less control on the licensees may lead to the poor performance of licensees. Problems may rise if the licensees market a product with lower standard quality, which may by suffer to the licensor’s brand image. It is difficulty to ensure all the brand hotels offered at a standard service. Slattery (1988) stated that it is difficult to achieve a particular brand image for international hotel chains, because different countries will have different understanding on the same image. For example, a luxury image will be different between France and other countries. It is not easy to stop the licensing contract in practice because licensing can prevent the licensors to enter the market directly (Jeannet and Hennessey, 2004).

In addition, Brooke, M.Z. (1986); Hollensen (2004) stated that the negotiation cost with licensees and local governments are costly and protracted often. Other limitations include the feedback and loyalty from licensees is limited. These will not be beneficial for licensor’s R&D and studies on the target market. It may not be good for licensors to set up the future strategies. Franchisees prefer to have the best-possible territory protections when signing a licensing agreement. Franchisors on the other hand, would argue that rapid changes in the market such as new supplies and depreciating assets often render territory protection moot. (Frabotta, David, 2000)
Comparing with franchising, licensing only involves in one part of the business, franchising involve in the whole business. From this point of view, franchising has higher control level than licensing. According to Sallis, Blomstermo and Sharma (2006), “the choice of foreign market entry mode is critical and related to control.” Control as one of the most important factors can determine risks and returns, the amount of relational friction between buyer and sellers, and the performance of the overseas investment (Barkema et al, 1996; Barkema and Vermeulen, 1998; Khoury, 1979). Sallis, Blomstermo and Sharma (2006) stated that the soft service industry such hotel industry would more likely to choose a high control market entry mode.

However, Sallis, Blomstermo and Sharma (2006) found that the service industry is more likely to use lower control market entry mode in order to reduce the relational friction. Also they found that the service firms with greater foreign market experience will be less likely to use higher control market entry mode. Therefore, from this point of view, if the international hotel groups with rich foreign market experience may be more likely to use licensing in a complex relational country such as China.

2.3 Franchising as a market entry mode in the hotel industry

As generally accepted, Franchising is currently a fast growing market entry strategy, which has been involved in different type of industries particular in the service industries. Traditional internationalization theory in service industry agreed that fast food industry is well-known by using franchising. Hotel and tourism industries are the two industries which has important impacts on franchising.

Use of franchising in the hotel industry.

According to Brown and Dev (1997), franchising took shape with Holiday Inn’s expansion in the hotel sector from 1960 in the USA. From that on, USA became the world’s largest franchising market in hotel industry. As Brown and Dev (1997) stated
that more than 65% of the existing US hotel-rooms are franchised. Cruz (1998) stated that the widely use of franchising in US market mainly due to the large travel market, vast territory, developed infrastructure and a prolonged business tradition. However, Cruz (1998) also stated the development of hotel franchising is much smaller scale outside US because lack of infrastructure, multi-centered business hubs, massive transportation and government restriction on hotel properties which will prevent the growth of hotel franchising systems.

In 1950s, Holiday Inn which was the U.S hotel chain introduced franchise contracts as one of the first hotel chains. It gradually expanded by opening motels in key locations and commercial centers. In concepts, franchising is a market entry strategies with faster growth speed and lower cost compared with acquisitions (Cunill, 2006). With the growth of the international traveling, American hotel groups started to expand overseas. Then franchising was introduced worldwide. In 1999, Howard Johnson International which is one of the eight brands franchising signed master agreement with Premier Hotels PLC in London. From that on, nearly 40 hotels were developed in the next five years in west and south EU (Worcester and Barbara, 1999). According to the hotel trade’s top 10 franchisors in 2002, almost all the top 10 franchisors’ hotels are running by franchising. Hotel industry is one of the first used franchising in service industries

American hotel groups have realized that in order to expand and grow beyond their home borders, franchising will have to be used as a necessary strategy (Higgins, 2006). According to Hanson, American hotel companies see the opportunity for growth overseas, but also see the risk of operating with in different cultures and different business and legal environments. According to Altinay (2004), Middle Ease and Africa have enormous potential opportunities for franchising with 24% of the industry operating branded hotels, Asia-Pacific appeared only 15%, but 60% in the U.S. However, Asia-pacific showed the 85% for unbranded hotels. Therefore, major hotel investments in European are through franchising and management contracting.
However, international hotel groups franchising in Europe were lack of “franchising culture”.

As long as franchising became a popular market strategy used by hotel companies, certain hotel corporations switch the traditional market entry strategy from a management contract strategy to franchising strategy. For example, Franchising enable Marriott Corporation to extend its brand name, increasing its profit. Marriott Corporation’s profit grew at 20% rate annually after it changed its market strategy to franchising in 1980s. In 1993 Marriott franchised 27% of its hotels worldwide. However, Marriott faced to risk of loss of quality. Other international hotel groups such Choice and Cendant also made great efforts on their global expansion by franchising. Choice stopped signing direct contact with overseas licensees and started developing its master franchisor in foreign markets. Cendant rapidly signed its master franchise agreement in several markets, which were more suitable for its long term expansion (Cruz, 1999).

Generally, other hotels were then transferred to the hotel chain’s own brand name, which the franchisee operates under the same brand name and applies the same production methods as the parent hotel chain. The parent hotel chain on the other hand, must have a good reputation for the quality of service provided. A hotel franchise contract is usually signed for twenty to thirty years with a fixed amount annually. Therefore, the hotel chain must be selected carefully. Franchise hotel must have a successful history, rich experience and good financial reputation. Contract can be continued when it is expired if both sides of the franchising agree. If the franchisees do not meet the requirements, franchisors have right to terminate the contract. Hotel franchisers are aiming to maintain high quality controls and strict global control of the hotel product. Some of the franchisers will insist to build a new hotel which the design meets its requirements. Some of franchisors will give an existing hotel which the properties meet the requirements to franchisees (Cunill, 2006).
It is not easy to select a suitable franchising system. Altinay (2004) stated that international hotel groups faced to strong national challenges in Europe. They found that difficult to implement the franchising activity due to different cultures. Product is one of the main points need to be considered. Also, franchisors need to study the target market in order to analyze the type of product which has potential to meet the customer’s need (Cunill, 2006). This seems important particularly in hotel industry because today’s global hotel chains facing to different type of customer with different culture, education, social est. background, which will have different requirements. Eroglu (1992) suggested that culture distance and its influence are important to organization’s franchising system. Therefore, hotel industry needs to offers a wide range of products. From franchisees’ aspect, franchisees need to select the hotel chains which they want to franchise carefully. They need to have a look at the impact of the brand name to the market, the areas that the brand name cover in particular segment. Arthur Andersen stated that strong brand name will help the investors get higher return. Cunill (2006, p156): “A brand’s prestige is a key factor in hotel chain expansion, particularly when franchising and management contracts are involved.” Franchisees also need to search the requested information from different hotel chains which they are interested. Analyze and compare the information from different hotel chain then select the best possible one. In fact, franchisees and franchisors will evaluate each other. Franchisees need to study the sample contracts, sales documents and asking a lot of questions about the franchisors (Kinch and Hayes, 1986; Arnold, 1987; James, 1987; Mandigo, 1987; Kaplan, 1987; Lowell and Kirsch, 1991)

In summary, international hotel chains have already used franchising as their main market entry mode for their global expansion. Generally academy research agreed that franchising has now become one of the most or even the most popular market entry mode in the global hotel industry.
2.4 Licensing as market entry mode in the hotel industry

Use of licensing in hotel industry

In practice, there are few examples on licensing being used for international hotel group expand. Until 1990s, majority hotel brands in Europe were in the upscale and upper-upscale market and located in major business centers. This leads to the mid-class hotel brands that are in scarce of the market. Before Howard Johnson signed the master-franchise agreement with Premier, Premier had already a master licensee to develop Howard Johnson and Days Inn hotels in UK Opposite to U.S. Howard Johnson hotels in Europe were more independence. Also, Cendant’s Project Power-up multimillion dollar technology initiative was great helpful for its hotels outside U.S (Worcester and Barbara, 1999). Hanley who is senior v. p. of worldwide sales and international development said: “Project power-up is a major asset to Howard Johnson in putting master licensees in place throughout the world.” The following table shows Howard Johnson’s projects outside U.S.

Table 2.1

Howard Johnson Presence Outside the United States

Legend for Chart:

A - Hotels Open
B - Hotels Proj. 2005[*]
C - Rooms Open
D - Rooms Proj. 2005[*]

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East</td>
<td>13</td>
<td>33</td>
<td>1,399</td>
<td>4,650</td>
</tr>
<tr>
<td>Europe</td>
<td>2</td>
<td>70</td>
<td>175</td>
<td>6,210</td>
</tr>
<tr>
<td>Asia</td>
<td>2</td>
<td>25</td>
<td>210</td>
<td>2,800</td>
</tr>
<tr>
<td>Region</td>
<td>Licenses</td>
<td>Franchisees</td>
<td>Development</td>
<td>Investment</td>
</tr>
<tr>
<td>--------------</td>
<td>----------</td>
<td>-------------</td>
<td>-------------</td>
<td>------------</td>
</tr>
<tr>
<td>Latin America</td>
<td>19</td>
<td>30</td>
<td>1,917</td>
<td>3,750</td>
</tr>
<tr>
<td>Canada</td>
<td>37</td>
<td>65</td>
<td>3,903</td>
<td>8,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>73</strong></td>
<td><strong>223</strong></td>
<td><strong>7,604</strong></td>
<td><strong>25,910</strong></td>
</tr>
</tbody>
</table>

*minimum projection based on master licensees' contractual development schedule

Source: Howard Johnson International (Worcester and Barbara, 1999).

In 1996, Days Inn signed master license agreement with Days for the development of three-star hotels in China. Days Inn was the first three-star foreign hotel in China. Under the master license agreement, Days Inn China as a master licensee of Days Inn will sell franchises and system support to franchisees including marketing, advertising, training and so on (Hotel & Motel Management, 1996, Jan, Vol. 221). In 2004, super 8 which is American famous franchising budget hotel brand signed master-license agreement with Tian Rui Cop. as the first step of enter Chinese hotel market.

In summary, use of licensing in hotel industry usually combined with franchising. When international hotel groups expand into a new market which is different from home country, they will form a license agreement with local partners than develop their franchisees under the master license agreement. International hotel groups will transfer their advantage technologies through license agreements and provide deep support through franchising agreements.

### 2.5 Introduction of the Chinese hotel industry

The development of hotel industry goes alone with the tourism development. In the early 1980s, Chinese tourism industry began to growth because of the opening of more attraction for sightseeing and the increasing of inbound business travellers. In order to fulfil the need of accommodation facilities in China, Chinese government launched more favourable policies for foreign investment and attractive market potential. Therefore, more and more foreign hotel investors and management
companies entered China for future development.

According to Pine et al (2000), most of hotels was traditionally state-owned or community-owned properties in China which is different from western countries. The purpose of running the hotels was not for profit. After decentralization and diversification of the hotel investment, other form of ownership which was private-owned, affiliate-company, stock company, foreign invested and Hong Kong-, Macao-, Taiwan-invested hotel began to represent in the Chinese market.

The Chinese government encouraged foreign investment in the hotel industry in the 1980s and 1990s. During this period, more capital investment in the hotel and tourism industry was attracted because more encouraging and favorable policies were adopted. State, collectives, private, local and foreign capital were all encouraged to invest in the travel industry (He, 1992). According to the research by Pine et al (2000), hotels increased by a rate of 18.61% annually from 1978 to 1997. By the end of 1990s, China had 2,724 star-rated hotels, which includes 57 five-star hotels, 157 four star hotels. By 2002, China had more then 7,358 hotels for overseas customers including 129 five star hotels and 411 four star hotels (Yu and Gu, 2005).

As travel trend to global, hotel industry became a global service industry. Hotel companies are facing to international customer. They are required to adapt different culture. Also the geography of hotel companies expand seems larger and larger. The development of hotel industry in developed countries is different from developing countries. International hotel brands need to consider their strategies combine not only with the culture distance, different level of economic development but also the political and system differentiation particular in developing countries.

Almost half of the population in the world is located in emerging markets. The fast growth rates and the increasing demand for traveling land hotels are catching investors’ eyes. As the 21st century’s growth engines, investors are paying special attention and pursuing aggressive expansion strategies in order to gain customers and
create global brands (Hospitality directions, 2006).

**Recent development of Chinese hotel industry**

According to Yu and Huimin (2005), China’s hotel product and service demand is increasing by two reasons. China has attracted enormous business and investments in the past decade. As foreign operations establish in China, the tourism industry will grow fast. This will face high class hotels to maintain international service standards and the history of China’s tourism resources will attract more and more foreign and domestic tourists. It is believed that the 2008 Beijing Olympics and the 2010 World Exposition in Shanghai will be another boom for Chinese tourism and hotel development.

The economic reform has also led to the hotel reform, which is designed to weed out nonperforming hotels by transferring ownership from state owned enterprises to private enterprises. Joint venture with the foreign hotel investment also including investment from Hong Kong and Macau is the traditional way for old brand state-own hotel to deal with the financial problem during the early decade of the reform. For example, Hong Kong Peninsula Group joint venture with Beijing Jian Guo Hotel in 1982; Holiday Inn opened first hotel in China which was a sign of major international hotel chains began making their presence in China. From that on, foreign hotel management style began to introduce to Chinese hotel market with the inflow of foreign investment (Pine et al, 2000).

As the Chinese hotel industry development, the higher level of internationalize, joint venture is not the only market entry strategy for the hotel investors from outside mainland China. Other market entry mode such as franchising, management contract became popular in Chinese hotel industry. Chinese legalization reform also gives a great support for the foreign franchisors. The first franchise rule was launched in 1997; franchise law was launched in the following years. Chinese government has been developing its laws to enhance the cooperation between Chinese and foreign
enterprises. In the last two decades, China focused on developing high class hotels, which the budget hotel sector was slow. As China gets more and more opened up, budget hotels are becoming a new focus in the hotel industry in China. Domestic hotel groups are paying attention to the emerging of budget hotels and conversion of the existing economic hotel sector.

**SWOT analysis**

**Strength**

Pine et al (2000) stated that China has a better environment for franchising as it has a big market for economic development. China has a vast territory, various types of industries & trade centers. It is also reforming towards a freer economy with a large number of mobile people.

Yu and Huimin (2005) stated the strengths of Chinese hotel industry from four dimensions: 1) The growing popularity of China as a major international business market and tourism destination; The growth of hotels appealing to international tourists. China has been one of the leading tourist destinations in the world. It was the fourth most visited destination in 2002 and estimated to be the leading tourist destination in the world by 2020 by The World Tourism Organization 2002 and WTO 1999. The diversity and quality of China’s hotel products; Chinese hotel industry is characterized as having a comprehensive supply for customers, such as, having diverse products to various market segments. Tourist-oriented hotels in China have already grown nearly 7 times from 1990 to 2002. Also, Chinese hotel operations are under several ownership structure including not only state-own hotels, but also private-owned and strategic alliances. 3) The efforts to standardize operations and improve service quality; Majority of the hotel rank is two-star hotel and three-star hotel. 4) Increased development by global hotel corporations. International hotel companies entered Chinese market with not only valuable brand but also management know-how from developed countries such as U.S. and France. Pine (2002b) stated that foreign-invested hotels generally have better performance than the domestic
hotels appeared in higher occupancy rates and higher annual average revenue per room.

Weakness

Penrose (1995) stated that the limitations that stop firms’ expanding may include managerial ability, product or factor markets and uncertainty and risk. One of the main weaknesses for international hotel companies entered Chinese hotel market is the financial performance. The Bank of China was the only bank in China managing foreign exchange and handling international business transactions in 1970s when China first opened to international tourism. Therefore Bank of China made loans of foreign exchange to many hotel investors who wanted to purchase building materials and equipment from overseas. However, many hotels defaulted on the loans because of the devaluation of Chinese Yuan (Yu and Gu, 2005). After China enter WTO in 2001, China begin to open the banking to foreign banks, Bank of China is not the only one that foreign hotel companies can be used. They can get the loans from the foreign banks which they used to operated and entered in China. This will be easier for the foreign hotel companies to deal with their financial problems. Another weakness is the uncertainties which caused by the international political accident and the illness, such as 9/11 terrorist attacks in 2001 and the SARS epidemic in 2003.

The education and the experiences of hotel managers lead to the poor performance of hotel particularly for budget hotels. “The current shortage of competent managerial professionals, particularly in the fields of strategic management, asset management, and project management, contribute to the inefficiencies in the hotel industry development and management.” (Yu and Smith, 2007, p158) Many franchisees are lacks of hotel management knowledge and experience. Some franchisees/ managers has experience on luxury hotels, however, the management on budget hotel is different from luxury hotels. The product and service of budget hotels lack of differentiation. Many of them provide simple and common service. This may lead to hostile competition (Zhao and Guo, 2006).
Opportunities

According to Pine et al (2000), it is difficult for Chinese hotels to establish a new brand that would be attractive by visitors as Chinese hotels are dominated mainly by foreign tourists. Foreign tourists are more likely to accept the same or similar foreign hotel brands.

The international events such as the Olympic Game in 2008, International Expo in 2010 and the Asian Game in 2010 will lead to booming in Chinese hotel industry. The rise of domestic and international tourism and the increasing of middle-income population give great opportunities to international hotels (Pine and Qi, 2004). Lots of the state-owned hotel are restructuring and opening to all markets, not only domestic ones. Also lots of non-performance of low star state-owned hotels gives foreign budget hotels lots of sources. Foreign hotel companies used to have advantages technologies on booking system, this provide foreign hotel companies an effective and efficiency way to develop their own chains (Zhao and Guo, 2006).

Many hotels in Guangzhou are not clarified. Many of them are state-owned enterprises, which they do not operate under market economic order. Sometimes, they may engage in hostile competition that regardless of costs (Lee and Wu, 2004).

The ownership relations of some of Shanghai’s middle and low star hotels are still simple as they are still individual hotels. Ownership, management, and operations are combined, performance of the managers are linked with the performance of the hotel. Therefore, these hotels would be more focused on return on investment. However, theses individual hotels are constrained with financial resources, managing standard, and sales network, which makes them desire assistance form large hotel groups. These hotels are flexible on converting to large hotel groups. Franchising is one of the relevant methods. In this way, these hotels can receive advanced management
knowledge and skills; avoid loss of time and profits because of technology and experience. Also they can gain market share through customer access and avoid over investment in the customer network development process. Reputation and brand image are other two key benefits to these hotels. Shanghai’s meddle and low class hotels can integrate with relevant large hotel groups. Famous hotel groups may enter China using its resources of large firm size, mature management ability, strong brand name, and comprehensive reservation system (Lee, 2005). In addition, western China shows a big business potential for the international hotel companies such as Shangri-La, Super 8 and Accor.

Threats
The rapid development of domestic hotel chains such as Jing Jiang and Home Inn will be competitors to the foreign budget hotel companies. Jing Jiang is the first Chinese domestic budget hotel group and it is the first of top 10 Chinese budget hotel brand in recent years. Home Inn listed in NASDAQ in 2006 as the first pure service company. The examination of hotel chains started in 1997 by Jin Jiang. The hotel prices in shanghai are relatively high. Hotels in rural areas caught this opportunity by providing prices that are almost 50% lower than hotels in Shanghai. Their concept was travel in shanghai and live in Jiang Zhe. Jin Jiang group created its brand name of Jin Jiang star through integrated management, pricing, and restructuring, acquisition, franchising etc. Now, Jin Jiang has reached 3 branches with 8,445 rooms including 20 in shanghai. Home Inn by 2005 established almost 40 branches in 10 major cities in China, which it has achieved significant growth within a short period of 3 years. (Lee, 2005)

Yu and Gu (2005) believed that if the Chinese government cannot engineer a soft landing for the fast-growing economy, The hotel industry would certainly be harmed by the sudden economic slowed down.

In addition, different policies in the region is one of the reasons that the unbalance...
development of hotel industry among different religion. Compare with Shanghai, Beijing, hotel industry in Guang Zhou seems less developed. Famous international hotel companies such Accor are interested in Guang Zhou market but still not took the action yet. Because Guangzhou is a crucial area, which is very hard for hotels in enter. The local government establishes strict regulations, and Guangzhou itself has very high real estate prices. Therefore, the return on investment period will be longer than similar cities. (Lee and Wu, 2004)

However, Guang Zhou used to served as a popular location for new hotels as it is the first open market to foreign investment and closed to Hong Kong, it also maintain similar business environment and concept with Hong Kong (Lee, 2002).

In summary, the Chinese hotel industry is growing through fundamental reform, mostly in ownership structuring and development. Two of the main strengths are the growing market and the government’s effort in upgrading hotel standards. Weaknesses include the inefficient management of state owned enterprises. The most concerned threat to this industry would be an economic slowdown or an interference with tourist growth. The 2008 Beijing Olympics and 2010 Shanghai Expo would be evidence showing that the Chinese hotel industry has great prospects overall.

**Characteristics of the Chinese hotel industry**

In order to summary the characteristics of Chinese hotel industry, the characteristics of Chinese commercial culture need to be introduced first. Saunders and Renaghan (1992) describe the characteristics of Chinese commercial culture as follows:

- Entrepreneurial style. Chinese entrepreneurs would generally look for short payback periods as they are very conscious of risk and control. (looking for short payback periods and being acutely conscious of risk and control);
- Closely held control;
- Nepotism. In China, family members are usually involved in the management and running of hotels. (family members actively involved in running hotels);
- Pragmatism. (business perspective);
- Confidentiality. Chinese entrepreneurs tend not to trust anyone outside the business. It makes it very difficult to exchange information with outsiders. (secrecy and distrust of outsiders, sparse information exchange).

Guanxi is one of the most crucial factors that would affect a business in China. It includes personal connections, networks, and favouritism. Harmonization is key in maintaining Guanxi from person to person. It is widely linked with the business world including choosing a business partner to even closing a transaction.

Zou (1998) specified that there are four problems in Chinese hotel industry: lack of marketing network and reservation system; consortium-owned hotels’ lack of hotel managerial expertise; and protectionism of local authorities. However, Pine (1992) argued that Chinese hotel managers have become more competent than ever to run a hotel.

Hu (1998) emphasized the following necessary aspects of asset restructuring:
ownership restructuring;
brand restructuring;
technology restructuring
and functional restructuring of hotels.

In China, most hotels are state-owned. The ownership belongs to different government bodies, in which profit was not their core objective. Therefore, the central problem is the ownership and control over assets and operations. Franchising can only become feasible market entry mode in China when the owners pay more attention to the improvement of the performance of the hotels (Saunders and Renaghan, 1992).

Generally, in China, foreign invested hotels prefer foreign management by the brand names in order to guarantee the quality. Management contract is the most popular market strategy but not franchising. Franchising was considered may be risky in
China by some companies (Pine et al, 2000).

Therefore, a special market entry strategy – The ‘management first, franchise later’ strategy (Cruz, 1999) is present in the Chinese hotel industry. At the early stage of investment, international hotel chains usually established their brand and manage hotels by themselves, after operating the hotel for few years and receive a high profit of business presence and a mechanism of service supporting system, quality control and trademark protection, international hotel chain began to consider franchising or licensing as market entry strategies. With the ‘management first, franchise later’ strategy, international hotel companies enjoy benefit of operation at low risk in China (Cruz, 1999).

Moreover, Li and Feng (1997) stated that hotel management contracts and franchising only exist in 3-star and above hotels in China. Most budget hotels are independent, with no large scale, well-know brand economy hotel group and management company.

**Development of foreign hotel chain in China**

After 20 years development, Chinese hotel market becomes more mature. Foreign hospitality management style and foreign hospitality business concept are more acceptable now. The commercial environment in China has already changed significantly, the development of international hotel chains should move on to a new stage. As authors mentioned above, international hotel chains should consider a new market entry strategies not only management contract.

The development of Chinese hotel industry trend to be more grouping. Single hotels are more likely to belong to a strong chain. Some domestic hotel brands with strong financial abilities are more likely to develop their chain. International hotel companies have already developed their chain by franchising or licensing in home market. After they entered Chinese market, they have advantage knowledge and experience to
develop their chain if they want to use franchising and licensing. According to Cruz (1999)’s ‘management contract first, franchise later’ strategy, now should be a new stage for franchising in Chinese hotel industry. However, international hotel chains need to consider the culture distance when choosing the market entry mode. They need to adapt the Chinese culture and follow the local legislations which are very different from their home countries such as America.
Chapter 3 Methodology

This chapter firstly introduces the nature of research and marketing research. It then states a methodological review of past studies in the similar field. This research was based on qualitative research according to the research needs (shown in section 3.3.2). The research process (shown in section 3.7) was selected due to the requirement of research. This chapter only explains the method of data collection. The process of data analysis is explained in the next chapter.

3.1 The nature of research

Saunders, Lewis and Thornhill (2007, p5) defines research as ‘Something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge’. Saunders, Lewis and Thornhill (2007, p5) stated that there are three characteristics of research: Data are collected systematically; data are interpreted systematically and a clear purpose. Ghauri and Gronhaug (2005) suggested that the ‘systematic research’ is based on logical relationships not only beliefs.

Therefore, research needs to explain the data collection method and why the results are meaningful. Also, the purposes of the research have to been involved (Saunders, Lewis and Thornhill, 2007).

3.2 The nature of marketing/business research

The one side of the ongoing debate on the nature of business research argued that the research is the way in which researcher draw on knowledge developed by other disciplines; the research has to have some value such as personal or commercial advantages; research required to have some practical consequence (Easterby-Smith et
On the other side of the debate do support the first point of Easterby-Smith et al.’s opinion which is ‘the knowledge developed by other disciplines’. Moreover, Tranfield and Starkey (1998, p352) emphasised that the research ‘cannot be reduced to any sum of parts framed in terms of contributions to associated disciplines’. Tranfield and Starkey (1998) also highlighted that research needs to complete a virtuous circle of theory and practice. In other words, researcher needs to develop ideas and relate them to practice. Therefore, ‘business research needs to engage with both the world of theory and the world of practice’ (Saunders, Lewis and Thornhill, 2007, p6).

Gibbons et al. (1994) emphasised the research questions are set and solved by academic interests. Starkey and Madan (2001) emphasised the context for research governed by the world practice. Therefore, ‘business research is not only needed to provide finding that advance knowledge and understanding but also need to address business issue and practical managerial problems’ (Saunders, Lewis and Thornhill, 2007, p6).

Hollensen (2005, p136) stated that ‘the role of international marketing research is primary to act as an aid to the decision maker’. Hollensen (2005) also stated that marketing research refers to fathering, analyzing and presenting information related to a determined problem. Consequently, marketing research focuses on a specific problem or project.

According to the above statement, this study focuses on the relevance of specific market entry modes, which are franchising and licensing in the Chinese hotel industry. The research questions come from the academic interest of market entry modes on international marketing and international hospitality. This research also found answers through a systematic way which is explained in the following sections.
3.3 Methodology review process

3.3.1 Research focus

The literature focuses on the franchising and licensing as market entry mode in the global hotel industry particularly in the Chinese market. It is showed in *Figure 3.1*.

**Figure 3.1**

![Diagram showing market entry strategies]

The research obvious focuses on the examination on whether franchising and licensing are suitable market entry strategies in the Chinese hotel industry.

3.3.2 The methodologies of previous studies

Yiwei Li, 2005 in his study of hotel market strategies in Shanghai used quantitative approach. Questionnaires were used as the main data collection method. The data were analyzed through SPSS software.

The study in conclusion suggested marketing strategies such as standardised quality service system, etc.
Advantages:
Large sample population provided relatively accurate data;
The study included a sample population from various backgrounds, so that the information collected was relatively comprehensive.

Disadvantages:
Questionnaires are not suitable methods for in-depth information collection;
The research only covered the area of Shanghai, so that its presentation ability is limited.

Pine et al (2000) in their study of the challenges and opportunities of franchising in China’s hotel industry investigated opportunities and challenges of franchising when sued in the Chinese hotel industry. This study concluded a number of opportunities and challenges in relation to the research question.

Advantages:
The study carried out comprehensive comparisons between different theories and researches.
It covered a larger area, which is the entire country of China.

Disadvantages:
It only used secondary data for investigation; therefore, it limits the reliability of this research.

3.3.3 Identification of research needs
U.S hotel industry is very successful. Franchising and licensing are developed strategies in U.S. Most of the literature on hotel market entry modes is conducted in the U.S. There are some studies on the franchising environment conducted about China, but not in the hotel industry particularly. There are also some studies on the
Chinese budget hotel industry but focused on the management. The closest study to this research is Pine et al.’s study in 2000, which discussed the challenges and opportunities of franchising in Chinese hotel industry. It provides a base for this research. However, licensing was not involved in this study.

As mentioned in Chapter 2, franchising are one of the most successful market entry mode in the global hotel industry; licensing can be also found to be used in the hotel industry not only in technology industry. China has a very different business culture and a business operation system in the hotel industry. It is a question about whether franchising and licensing can work in the Chinese market or not.

The main research question from above is:

“Are franchising and/or licensing suitable market entry modes in Chinese hotel industry?”

There were also some sub questions developed as follows:

1) Are there any other market entry strategies can be used by the foreign hotel groups in China;
2) What are the advantages and disadvantages of franchising/licensing?
3) Are Franchising and/or licensing feasible market entry modes in China.

3.4 Choosing a methodological paradigm

There is no one best way to a certain research topic or one type of research is better than the other. It is only the question of which type of research is more suitable for the choice of topic.

Justification of qualitative research

In order to select weather use qualitative research or quantitative research, it is important to understand what kind of data is best suited to collect data to answer the
Saunders, Lewis and Thornhill (2007) stated that quantitative research focuses on measurement, which they look for general patterns to turn information into theories, laws, or rules. It usually begins with a general principle and work towards application in a situation, which is the opposite of qualitative research. It is not suitable to gather in-depth information. Generally speaking, quantitative research needs a large number of sample and effective replies. In-depth information is hard to be collected through quantitative research as shown in Table 3.1.

On the other hand, qualitative research usually starts with a specific situation or case study and work towards principles. Qualitative research has the uniqueness of richness and fullness as it can explore a subject as much as possible (Robson, 2002). Dey (1993, p28) stated that: ‘the more ambiguous and elastic our concepts, the less possible it is to quantify our data in a meaningful way’. Generally speaking, qualitative research is used to uncover differences in how people see certain things, to see what shapes the perceptions, choose to figure out which theory is the best to explain one’s findings (Maylor and Blackmon, 2005).
Using franchising as a market entry mode is a very subjective topic, the decision making process is highly complex and difficult. It involves large amount of investment and huge responsibility. According to these characteristics, in-depth information is needed. Also, in practice, the decision of a firm’s entry strategies to a market is often made by a small number of managers. Regardless of the size of the firm, from small and medium sized companies to large enterprises, the decision of foreign market entry mode is always decided by a small number of managers in the top management.

Due to the need of this research, quantitative research obviously does not suitable for this research. Therefore, the methodology in this research will be based on qualitative research.

**3.5 Research purpose and objectives**

**Purpose Statement**

The primary purpose of this research is to have a better understanding the use of franchising and licensing as market entry strategies. Secondly, examining the use of licensing and franchising and compare their performances in China.

Therefore, the purpose of this research is to contribute to the global market strategies particularly franchising and licensing in the hospitality industry in relation to the Chinese hotel market.

**3.6 The research instrument**

This research was carried out through a qualitative approach; therefore, qualitative methods were selected. Figure 3.2 Indicates that the design of qualitative research is determined by how the researcher is involved with the subject of the investigation.
In order to collect reliable data and fulfil the need of this research, primary data collection process is necessary and extremely important. The researcher then has to be involved in the data collection. As stated figure 3.2, the researcher as an external party needs to explore the issues through discussion with the informants. Therefore, interview is a suitable data collection instrument for this research.

3.6.1 In-depth interview:

“An interview is a purposeful discussion between two or more people.” (Kahn and Cannell, 1957). Researchers can gather valid and reliable data which are relevant to the research question and objectives by using interviews. Interviews can also help researchers to formulate the research question and objectives (Saunder, Lewis and Thornhill, 2007). According to Saunder, Lewis and Thornhill (2003), “In-depth
Interviews are used in qualitative research in order to conduct discussion not only to reveal and understand the ‘what’ and the ‘how’ but also to place more emphasis on exploring the ‘why’.

Qualitative researchers often use in-depth interviews to carry out their research for primary data. In-depth interviews have the advantage of collecting subjective opinions, etc. the question that is asked the most in interviews is “why”. This means that in-depth interview is about subjective opinions.

Therefore, interviewers can gather subjective information through interviews. One good thing about interview is that if the researcher doesn’t understand the answer of the interviewee. She can directly ask questions to the interviewee for further explanation and greater detail. So that researcher can understand better.

Basically, there are two forms of interviews which are standardised and non-standardised interview shown in Figure 3.3. Each type of interview has different categories shows in Table 3.2

Saunders, Lewis and Thornhill (2007) stated the advantages of using non-standardized interviews as follow:
The purpose of the research;
The significance of establishing personal contact;
The nature of the data collection questions;
Length of time required and completeness of the process.

Figure 3.3
3.6.2 The pilot studies

A pilot interview was conducted before the initiation of formal primary data collection. The pilot interview consisted of few managers of a small domestic hotel in cooperation with an international hotel from Hong Kong. The purpose of doing a pilot interview was to give a chance to the researcher to practice the interview skills and test the interview questions designed. A number of problems of the interview were identified. For example, some of the questions were designed in a very academic way, in which they were very hard for the interviewees to understand. Therefore, the quality of formal interviews can be guaranteed.
3.6.3 The final research instrument

Most of the non-standardised interviews occur on a face-to-face basis. However, such qualitative interviews may also be conducted by telephone or other means of electronic instruments via the internet or intranet (Saunders, Lewis and Thornhill, 2007, p431).

Semi-structured interview

Semi-structure interviews are non-standardised (King, 2004).

“In semi-structure interviews the researcher will have a list of themes and questions to be covered, although these may vary from interview to interview. This means that you may omit some questions in particular interviews, given a specific organisational context that is encountered in relation to the research topic. The order of questions may also be varied depending on the flow of the conversation. On the other hand, additional questions may be required to explore you research question and objectives given the nature of events within particular organizations. The nature of the questions and the ensuing discussion mean that data will be recorded by audio-recording the conversation or perhaps note taking”

- Saunders et al, 2007, p312

According to Maylor and Blackmon’s (2005) 7-I structure, the outline of the interview will be as follows:

Introduction – this is where the state who the researcher/interviewer is, who interviewer presents, the purposes of this interview, length of time that the interview will take, etc.

Icebreaking – starting to talk to the interviewee and ask a few easy questions.

Increasing the intensity of the questioning – at this point the interviewer will start
asking prepared questions.

Intervening – if the interviewee goes off track, the interviewer will intervene and make sure that the interview can be continued as preplanned. Time management is also a crucial point considering its constraints.

In Conclusion – this is where the interviewer needs to conclude the interview and collected data and information.

The interviewee to explain in further detail to clarify his/her answers.

Interpret data after the interview – interviewer will interpret and note the data and answers right after the interview to prevent the loss of memory or/and meanings of data and information collected.

Online/telephone in-depth interviews

“Attempting conduct qualitative research interviews by telephone may offer potential advantages associated with access, speed and lower cost. This method may allow researcher make contract with whom it would be impractical to conduct an interview on a face-to-face basis because of the distance and prohibitive costs involved and time required. Even ‘long-distance’ access is not an issue, conducting interviews by telephone may still offer advantages associated with speed of data collection and lower cost. In other words, this approach may be seen as more convenient” (Saunders, Lewis and Thornhill, 2007, p431-342).

Morgan and Symon (2004) use the term electronic interviews (shown in Figure 3.2) to refer to interviews held in real time using the internet and organization’s intranets as well as other effective means. By far the most common form of chat room is instant messaging such as MSN Messenger. (P343)

Figure 3.2
(Saunders, Lewis and Thornhill, 2007, p343)

Sweet (2001) argues that it is possible to build up considerable rapport between the interviewer and interviewees during an online interview. Sweet (2001) also suggests that the relative anonymity of online interviews facilitates more open and honest responses, in particular with regard to sensitive issue where participants have adopted pseudonyms.

An email interview consists of series of emails each containing a small number of questions rather than one email containing a series of questions (Morgan and Symon, 2004). After making contract and obtaining agreement to participate, researcher initially email a small number of questions or introduce a topic to which the participant will reply. The researcher then needs to respond to these ideas, specifically asking further questions, raising points of clarification and pursuing ideas that are of further interest. It is one of the advantages that it allows both the interviewer and the interviewee to reflect on the questions and responses.

‘There is probably not a day that goes by without you reading about, listening to and watching interviews. We read interviews such as those given by business leaders in quality newspapers, listen to interviews such as those with celebrities on radio programmes and watch interviews such as those with politicians on television programmes’ (Saunders et al, 2007, p311). Because of the time difference and geographic distance constraints, it’s too hard and too expensive to have a face to face interview. Interviews can be done through a telephone call or the internet. Online interview is much cheaper than flying to the interviewee and do the interview. It is
more relevant and suitable for the researcher.

Also, the interviewer needs to get permission to record interview. E.G. take a note or tape record it. Sometimes, if the interviewee does not want the interviewer to record the interview process, then the interviewer has to take mental notes to the interview. Mental notes are very easy to forget. The interviewer needs to take down notes after the interview in case that the interviewer will forget the content of the interview.

3.6.4 Interview design

The research involved several international hotel companies including U.S., French and Hong Kong hotels invested in mainland China. The research focused on the top ten budget hotel brands (Table 3.3) launched by <2006 China Economic Hotel Survey> and some five/four stars hotels which are all foreign invested. The locations of the hotels are based in Beijing, Shanghai and Guang Dong Province which are the most developed in economy and most interested locations by foreign investors.

Researcher did the research from three aspects: from franchisors/licensors’ aspect; from franchisees/licensees’ aspect and experts’ aspect. The interview detail is explained in chapter 4 and the interview questions shown in the appendix.

The interviewees were conducted with senior managers in the hotels. For example, It is an honour to get support from Mr. Christopher L. Bachran who is former president of Jing Jiang International Hotel Management Company Ltd, and the Managing Director of Bachran & Associates recently, which is providing property development advisory services for land use projects specializing in hospitality, resort, retail and integrated developments. Roger Gerber who is senior manager in TZG Partner Ltd which works and represents all types of international brands of hotels from 3-6 star has great contribution to this research. Also, Mr Hao from China Chain Association gave great support to this research. This research is also supported by several hotel
groups particularly Zhong Zhou Express.

**Franchisors/Licensors**

It is necessary to interview people at different levels in the foreign hotel chains:

- Managers of Marketing Department.
Managers of marketing department are usually involved in decision making about foreign market entry and foreign market entry strategy. They may be asked to testify the feasibility of the decision, gather information about the foreign market, analyze the profitability, design measurability to evaluate the market entry decision, etc.

- Manager assistance
The assistance of a manager organizes the manager’s files, note taking in meetings, appointments, contacts, etc. the assistance will have a rich knowledge about the process of decision making in foreign market entry mode. E.g. taking notes for managers in meetings give them the opportunity to get to know the necessary information of the decision making. Also they get to know the process that it’s carried out.

**The franchisees & licensees**

Not only the franchisors, franchisees and licensees in different locations (first location and second location) should also be interviewed. First location includes Beijing, Shanghai, and Guang Zhou. Second location includes Gui Lin, Hang Zhou Foshan and He Nan Province

The researcher concluded sixteen questions for every interviewee. Those sixteen questions are related to hotels’ name; type of hotel; interviewees’ name; title; hotel ownership and start-up; also questions on the experiences of use of franchising and licensing; two questions on the future aspect on hotel development due to the 2008 Olympic Game and 201World Expo. Researcher asked 2-4 questions based on the
interviewees’ answer and different situations of each hotel. Some simple following up questions were to interviewees by e-mail or having second interview if necessary.

Basically, the researcher took note during the interviews. Every interview lasted 30-50 minus depends on the interviewee’s timetable. Some interviewees also wanted to chat with the researcher on MSN. After the interviews, the researcher arranged the notes immediately therefore all the information was kept well. Also the information can be compared during the following research. This is an on going process, the data collection and data analysis happened nearly at the same time. The data analysis process is explained in detail in Chapter 4.

3.7 Research Administration Problems

3.7.1 Interview problems

Interview style
The researcher had to be careful of the academy words which interviewees may not understand. As the interviewees have barriers such as work experience and language, it may be very difficult to ask questions and gather information that is very academic. The interviewer needs to open the interviewee’s mind in terms of how in practice, the international hotel groups cooperated with Chinese hotels.

Interviewees’ reliability
Franchisees were selected. Not all candidates were suitable for the interview because they might not have the information that the interviewer was looking for or the information might be irrelevant even wrong.

3.7.2 Project management problems

Language
Language was a major problem for this research project. The researcher had to interview some Chinese interviewees. After the data was collected, the researcher
needed to analyze it and translate the results into English. The researcher had to be careful with the wordings while translating practical languages into academic words.

As this research was based on telephone interview, the researcher could only hear interviewees’ voice, therefore the interviews lack of body language.

**Time difference**

The time difference is 8 hours (7 hours during summer time) between China and Ireland (China is 8 hours ahead of Ireland). This means that it is very difficult for the interviewer to set suitable times to conduct an interview with a candidate. The interviewer had also to contact the HQ (Head Quarter) of some hotel groups to gather contact information on the candidates in China through phone calls. This made the data collection more troublesome.

The research needed to find out the true market entry strategy used by each hotel chain to be able to compare it with the literature. On the other hand, in Chinese culture, some interviewees did not want answer the question directly. Particularly when they do not really understand the Chinese hotel market, they might say something else instead.

**3.8 Sampling**

Probability sampling is most commonly associated with survey-based research strategies where researcher needs to make inference from the sample about a population to answer the research question or objective. Within business research, such as market surveys and case study research, it may not have a sampling frame or appropriate to answering the research question. Therefore, sample must be selected in other way not probability sampling. ‘Non-probability sampling provides a range of alternative techniques to select samples based on the subject judgement. In the exploratory stages of some research projects, a non-probability sample may be the
most practical. For other business and management research projects research questions, objectives and choice of research strategy may dictate non-probability sampling (Saunders, Lewis and Thornhill, 2007, p208, 226).

Sample of interview hotels were based on <2006 China Economic Hotel Survey>

**Table 3.3 China Economy Supply (Ranking of top ten brands by room-by the end of 2005)**
Except these ten budget hotels, researcher also interviewed a number of five-star hotels which are Hong Kong based and a number of 3-star to 5-star hotels which are invested by international hotel groups such as Hilton and Inter Continental.

Therefore, the research covers different types of hotel from five-star to economic hotels.
3.9 Ethical Issues

According to Maylor and Blackmon, (2005, p280): ‘Ethic ensured that nobody is actually or potentially harmed as a result of your work.’ When collecting data through interviews, researcher should always think through and discuss with the supervisor about the ethical implications of the research advance. Researcher should consult with supervisor and managers as appropriate. Research should also need to be careful when interpreting the data and make sure there is no mis-interpreting (Maylor and Blackmon, 2005, p283).

“Researcher needs to consider issues that arise when doing field research, where we are collecting data from organization and/ or individuals in the nature setting. These issues included how to gain access to organizations, conduct your research ethically, balance organizational and academic expectations and requirements and balance research and consulting.”

In conclusion, the method of data collection of this research was ‘systematic’ with clear purpose and objective. It meets the requirements of business and marketing research which ‘engage with both the world of theory and the world of practice’ (Saunders, Lewis and Thornhill, 2007, p6), also refers to fathering, analyzing and presenting information related to a determined problem (Hollensen, 2005). The research candidates covered different types of hotels, and different levels of people from three aspects and wide locations. The following chapter explains the process of analysis data.

Chapter 4 Data Analysis

This chapter provides an in-depth analysis of the data collected. This chapter begins
with a discussion of the advantages and disadvantages of data analysis methods such as analysing data using computer software. This chapter then states the data analysis method used for this study and reasons why it was selected followed by examples of how data were analyzed. The results were illustrated at the end of this chapter. This chapter makes no attempt to discuss the results. The discussion is carried out in the next chapter.

4.1 Advantages and disadvantages of using data analysis software.

This chapter analyzes qualitative data by hand, using a word-processing program instead of a specialized computer program such as CAQDAS (computer-assisted qualitative data analysis software). According to Maylor and Blackmon (2005,p347): ‘We recommend that you collect and analyse your qualitative data using a simple word-processing program such as Microsoft Word, unless you are collecting a lot of data, working in a team or doing a complex analysis’. Professional and experience qualitative researchers have different opinions on CAQDAS. Bryman and Bell (2003, p446) stated that ‘…you may find it useful if you have the time to spend learning to use it’. Due to limit of time and the need of this research, word-processing program is suitable for data analysis for this research.

Table 4.1 The advantages and disadvantages of using qualitative analysis software
4.2 Why use structured analysis.

According to Maylor and Blackmon (2005, p351): ‘An unstructured approach takes no account of deadlines – it is done when it is done and not any sooner. This means that it is open-ended, and that you may take weeks, or even months, to do a thorough job of your data analysis and interpretation…. If you are collecting qualitative data, but you have to meet a project deadline, you might want to consider taking a more structured approach to analyzing your qualitative data.’ Therefore, structured analysis approach is suitable for this research because of time constraints.

(Maylor and Blackmon, 2005, p347)

4.3 Data Analysis

The nature of qualitative data collection is that it is a foundation for data analysis.
Data itself may have a complex nature. This requires the researcher to first of all put them into categories before they can be analysed. Failure to do so may result in incorrect data analysis which may lead to misleading implications. For example, the frequency of occurrence of certain data can be presented clearly when using categorization (Maylor and Blackmon, 2005).

**Figure 4.2 Methods for collecting and analysis qualitative data**

There is no ‘right way’ of analyzing data. The data analysis process itself is combined with several components (Tesch, 1990). These components together enable the researcher to analyse the data collected systematically.

“Data analysis requires that the researcher be comfortable with developing categories and making comparisons and contrasts. It also requires that the researcher be open to
possibilities and see contrary or alternative explanations for the findings.” (Creswell, 1994, p153).

Marshall and Rossman (1999) suggested that researcher need to consider the time when formulating a proposal to undertake qualitative research. Researchers spend most of the time on the primary data collection stage which was nearly seven months. Firstly, finding a research a suitable sample is not easy as there are lots of hotel brands in the market; secondly, finding a suitable interviewees is not easy as the Chinese culture are less open in terms of presenting and less likely to help students because they may be afraid of the interview will leak corporate information, and corporate image; thirdly, cooperating with interviewees’ time table is not easy as senior managers are all very busy; fourthly, Chinese hotel market is changing fast, researcher sometimes need to do 2nd interview with the interviewees in order to gather the latest information. Fifthly, time difference is also an obstacle for researchers to set up appropriate time for interviews.

Marshall and Rossman (1999) also stated that the process of analysing qualitative data and the data collection are almost beginning at the same time. Therefore, data transcription is very important. Generally, interviews will take audio-recording and subsequently transcribed. However, transcribe the audio-recording is extremely time consuming (Saunders, Lewis, Thornhill, 2007). There are many qualitative research approaches. There are also different strategies to deal with the data collected (Coffey and Atkinson, 1996; Dey, 1993; Miles and Huberman, 1994; Tesch, 1990).

Table 4.2
It is very important to test the interviewees’ answers; sometime they may talk another thing that may be helpful for another question. Chinese interviewee seems less likely to be willing to be recorded. Researcher will send a copy of interview summary to interviewees. The purpose of doing this is in order to confirm the accuracy and comprehensiveness of the notes. Also, interviewees can reply with their additional suggestions. Therefore, researcher will keep the e-mail record which is more organized and reliable as it has already confirmed by interviewees. It also saves time then audio-recording. On the other hand, the researcher tries to ask questions which are not discussion questions in a simple and direct way, so that more accurate and brief answers can be given. This is very helpful for the note taken. In addition, Chinese interviewee would like to tell you more when they think they have experience in one particular aspect no matter it was an open question or closed question you were asked.

In order to transcribe the data, researcher need to have different strategies to deal with the data collected. Tesch (1999) groups these strategies into four main categories:

- Understanding the characteristics of language;
- Discovering regularities;
- Comprehending the meaning of text or action;
Reflection.

In order to serve the research question, secondary data need to show the evidence of hotels’ success/failure facts, which using franchising and/or licensing as a market entry mode. Number of hotel rooms, number of hotels and cover areas will be the most important figure to compare. There were some figures in the hotel surveys. However, as the fast developing of Chinese hotel industry, latest figures are needed.

Generally, hotel website and China Chain Association website have the hotel details including the hotel rooms, number of hotels and cover areas, and are annually updated. Also, the figure will also include the number of hotels in planning. Due to the need of business, hotel website may include some exaggerated figures, therefore, figure from the China Chain Association website is more reliable.

Combine with primary data, researcher may found support or contradiction to the primary data through secondary data. When primary data is supported by secondary data, the finding from the comparison of the questions can be proved. Once, primary data is against by the secondary data, researcher need to go back to the primary data analysis, see if there is something missed. The researcher needs to notice that the period of time that mentioned by interviewees and secondary data showed. Also, researcher needs to put it as interview questions if needed. Therefore, both of the primary data and secondary data’s accuracy can be examined. On the other hand, it may lead to new findings to this thesis.

4.4 Structured analysis of qualitative data

As Maylor and Blackmon (2005, p351) stated that: ‘In a structured analysis of qualitative data, you compare your findings to a conceptual framework you have developed or found in the literature. This will help to guide you analysis and interpretation, but still allow you to identify those aspects of your evidence that differ from what other researchers have previously found.’ Therefore, structured analysis of
this research’s primary data will lead to strong evidences which are difference from previous research.

According to Stone, Jarrett, Woodroffe, and Minocha (2004, p33) “A structured interview has predetermined questions that are asked in a set way; there is little, if any, scope for exploring additional topics that might arise during the interview.”

This research divides three groups of interviewees which are franchisors/licensors, franchisees/licensees and explorers. Questions (Three sets of questions are showed in appendix4.1) were designed under the same concept, but asked in different ways. In other words, there are three sets of questions for three different groups of interviewee. However, those questions will be concentrated on the franchising and/or licensing on the Chinese hotel market. Because the questions were designed before the interview, the answers can be compared easily. In the same group, each answer of each question can be summarized into key points (Examples can be seen in the appendix 4.2). The difference of each key point from different interviewees is compared. Therefore, it shows different hotel brand with different background have different/similar opinion on the same question. After compare the answers of each interviewee in the same group, a finding of each group can be found. Then combine the finding of three groups, will lead to finding of this research. Due to there may be some extra questions on different interviewees because they may have some unique situations, the key points of these answers can be seen as unique points. Then, according to the codes, finding can be found through interpretation.

In practise, it is hard to make sure every interviewees answered all the questions that researcher settle down. Interviewees generally would like to talk more on the areas that they know. Researcher on the other hand, will guide them to answer the key questions that related to the research question. Researcher could only gathered rich information for some questions. Only the information which is strongly present by one group of interviewees, two or three groups of interviewees can be seen as valuable. The conceptual frameworks set up through this information are viability.
The questions in the Appendix 4.2 are the key questions related to the research questions and gathered rich information from interviewees. In the Appendix 4.2, the researcher selected and presented the best answered interview questions. The reasons for presenting these questions only are as follows:

They are the best answered questions which means the interviewees gave the most comprehensive and relevant information.

The answers for these questions provided key contribution to the research findings. Appendix 4.2 is for the purpose of illustrating the data analysis process to the readers.

There were twenty interviewees answering questions in relation to this research. Considering the large quantity of all answers together, the research only chose the most presentable for the purpose of illustration.

“After researcher have written the notes or produced a transcript, of an interview, researcher will also produce a summary of the key points that emerge from undertaking this activity. Therefore, researcher will be conversant with the principal themes that have emerged from the interview and how researcher would like to explore the further in forthcoming data collection session.”


4.5 Concept identification

Open coding

A systematic process for identifying concepts is open coding. Open coding starts with codes that emerge when the researcher highlights the key ideas. Bryman and Bell (2003, p435) suggested that:

Coding is ought to be done as soon as possible. It is preferable that if it’s done through the process of data collection, so that the data can be kept in a way that makes sense to the researcher and can be easily categorized after.

Read all materials before you start to code or interpret them;

group the codes into categories;
Begin to look for theoretical ideas in the categories;
If too many codes are generated, the researcher needs to find out a simple way of interpreting them.

*Categorization*

As mentioned above, after the answers are coded, they will be put into different categories according to the research question. This is a preparation for the development of the next stage: conceptual framework.

*Conceptual framework*

This section is to develop a concept from the categorized codes and organize them into a framework. So that the researcher can compare it with the conceptual framework developed from the Chapter 2 Literature Review.

*Data analysis process*

Overall, the data analysis process was carried out as follows (also see appendix 4.2):
First of all, the researcher categorized all research questions and answers from interviews according to the informant interviewed. For example, all research questions and answers involved in one interview were put into one category shown appendix 4, opening coding. All the questions asked in one interview are listed on the left hand side, all the answers are presented in the middle column and all the corresponding codes are on the right hands side.

The researcher then categorized all the codes created according to research question. For example, the researcher interviewed 20 informants for this study so that for each question there were 20 codes generated from 20 answers.

The researcher can then clearly see the various codes for each research question and easily compare them to conclude a conceptual framework. The conceptual framework developed through this process enables the research to compare the
findings from primary research with the conceptual framework from the literature review. Following the structure and the concept of open code, the main findings from each group are concluded in 4.5. The comparison and discussion is carried out in the next chapter.

4.6 The summary of conceptual framework

Taking into consideration that the interview questions were all interconnected around the research problem, the conceptual framework developed from this chapter is presented regardless of the research question orders. The conceptual framework below was developed from the categorized codes as stated above.

The summary of the conceptual framework is as follows:

1) What types of market entry modes used in China?
There are many types of market entry strategies existing in Chinese hotel market. Management contract, franchising, licensing, leasing and acquisition are the main market entry strategies used by different types of hotels. Management contract is mainly used by foreign brand or foreign invested high class hotels such as Hilton. Franchising and licensing are mainly used by foreign budget hotel chains such as Super 8. Leasing and acquisition are mainly used by Chinese domestic budget hotel chains such as Home Inn.

2) Characteristic of Franchising:
- Management and technology support;
  Generally, franchisor will provide consultancy on how to operate the hotel for franchisees. Franchisor also provides assistance on how to use the global distribution system, management system etc.
- Standard service and facilities;
  Franchisors will give some guidance on service and facilities, which franchisees have to follow. Franchisors generally care if franchisees will follow the guidance.
- Global reservation system;

66
International budget hotel chains will provide all their franchisees their global reservation system. This is domestic budget hotels can not provide. It is very attractive by franchisees.

- Focus on brand image;
One of the significant advantages that franchising different from other market entry mode is franchisors very care about the brand image. They will try to built or protect a good reputation.

- Marketing support;
Franchisors generally have hold market plan such as which cities should go in; how many hotels in particular cities; how to advise in the new locations and so on. All the marketing actions will taken by franchisors.

- Training program;
In order to reach a better result on building a good reputation, make sure franchisees know how to operate the hotel and provide standard services, franchisors will provide different training programs to franchisees due to different problems.

3) Characteristic of Licensing:
- Fast expanding speed;
One of the significant advantages that licensing different from other market entry modes is licensing is a fast speed expanding market entry mode.

- Freedom on operating the hotels;
Licensees in the hotel industry have a high level in operating hotels. Once the licensing fee is paid, the Licensee has almost total independence on management. For example, some licensees could even set room prices by themselves.

- Technology support;
Generally, international budget hotel chains will provide their global distribution system to their licensees. However, they are less likely to provide or provide limited assistance on how to use the system.

- Longer contract time

Generally, the contract time of licensing agreement is longer than other contracts. Once licensees signed the licensing contract, they have to run the hotels for a longer time.

4.7 Concluding the analysis

When additional data is no longer adding extra information to your concepts or adding any new insights from reviewing your concepts, the research has reached theoretical saturation. This is when the analysis is complete (Maylor and Blackmon, 2005, p362).

Researcher interviewed fifteen senior managers who are working in the foreign hotels in China, four franchisees/licensees who signed the franchising/licensing agreement under the foreign hotel brands and five field experts who are from the China Hotel Chain Association or had rich experience in the international hotel industry and worked as a consultant for foreign hotels. Through the decision on selecting the market entry modes are made by the senior and top managers in the foreign hotels, franchisees and licensees as the operators still have some valuable opinions on franchising and licensing. It is an honour to get support by Mr. Christopher L. Bachran who is former president of Jing Jiang International Hotel Management Company Ltd, and the Managing Director of Bachran & Associates recently, which is providing property development advisory services for land use projects specializing in hospitality, resort, retail and integrated developments. Roger Gerber who is senior manager in TZG Partner Ltd which work and represent all types of international brands of hotels from 3-6 star has great support to this research. Also, Mr Hao from China Hotel Chain Association gave great support to this research. This research is
also supported by several hotel groups particularly Zhong Zhou Express.

In conclusion, this chapter provides an in-depth analysis of the interview data gathered for this research. The concept of data analysis of this research is to simplify complex data materials into categorized codes and develop a conceptual framework from these codes. The comparison of data is complicated, but the concept identification (process of analysis data) is structured and rational.

Chapter 5 Finding and Implication
This chapter begins with a general introduction of the environment of the Chinese hotel industry and describes the market entry strategies used by foreign hotel groups followed by a detailed comparison was carried out using results from chapter 4. At the end, the chapter presents the contribution, limitations and implications of this study.

5.1 Market entry strategies used In the Chinese hotel industry

During the 1980-1990, nearly all the domestic hotels were joint ventures with foreign hotel groups as joint venture was the only form allowed for foreign investor to operate business in China during the early stage of the reform. Therefore, joint venture was the main market entry mode used by international hotel groups in China. This is different from the hospitality development theory, which management contract was the main market entry mode at the early stage of development.

Until now, some Hong Kong or Macau invested hotels are still keeping their joint venture agreements with their partner hotels in mainland China. On the other hand, some of them are using management contract as the market entry mode for their expansion in mainland China. However, most of the Hong Kong or Macau invested hotels are in small scale. Normally, they launched 3-5 hotels in mainland China and most them locate in the big cities such as Beijing and Guang Zhou. Also locations are far away from each other.

International hotel groups, who launched the five-star or four-star hotels and entered the Chinese market at the early stage of the reform such as Hilton, are still using management contract as their market entry mode in China. On the other hand, international hotel chains as the new entrances such as Super 8, Intercontinental, Days Inn preferred licensing or franchising as the market entry mode in China. However, they combined the other market entry mode such as management contract or combine with licensing and franchising together. On the other hand, domestic budget hotel
chains such as Home Inn, Jing Jiang used leasing and acquisition to penetrate domestic markets.

In conclusion, there is a number of market modes used in the Chinese hotel industry. Due to the different stage of Chinese economic and legislation, international hotel brands had different market entry mode. In such a complicated and highly competitive market, one single market entry mode can not satisfied the expansion needs of international hotel companies. Due to the difference of development desire and hotel type, franchising and licensing are more popular to be used by international hotel chains particularly budget hotel chains. Due to the fact that international hotel chains have rich experiences on franchising and licensing and rich resources particularly in finance, they cold expand through franchising and licensing over a much bigger area.

5.1.1 Management contract vs. Franchising and Licensing
(High-class vs. economic)

Mr. Hao (2007, from China Chain Store and Franchise Association)
Famous international hotel groups have two main expansion methods. One is through the cooperation between hotel management groups and real estate funds/real estate project investors. Basically, the real estate investors purchase real estate projects and the international hotel groups manage the real estates. For example, Days Inn took over management of three domestic hotels in Beijing. The second method is the international hotel groups invest directly in real estate projects such as Accor from France. Ibis in Tianjin city is actually a development of a real estate project carried out by Accor.

The famous Hilton hotel group since its entry in the Chinese market in 1988 until now, it has only operated five hotels. It mainly singed management contract to deliver its management to other hotels. In recent years, there were three hotels in Dalian city;
Nanjing city and Shenzhen city continuously terminate their contract with Hilton. In recent years, Hilton has had difficulty accomplishing its scheduled annual profit targets, but on the other hand, the costs were too high. For example, 6 Hilton senior managers took 1.5% of the sales revenue as management fee. The figure equals to the total salary of all Chinese employees in the hotel. Hilton as an old “noble” brand since its entry in China has failed to achieve diversification of brand like Intercontinental and Marriott nor increased management and project investment like Accor and Shangri-la. It’s even failed to accelerate the pace of high-end brands output (Fei, 2006).

This hotel giant when first landing on Chinese shore had great aspirations. June, 2005, Hilton planned an introduction of a top brand called “Conrad” before the Beijing Olympics; June 2006, Hilton managed to introduce the economic hotel brand “Hilton Garden Inns” and plans to expand 50 branches (Fei, 2006).

Clearly, the problems with management contract used in early days in the Chinese hotel industry are becoming more and more obvious, especially when compared with franchising. As stated in the literature review that as the international hospitality industry develops, international hotel groups will tend to adjust their strategies from management contract to franchising. Because of the unique characteristics of the Chinese hotel industry, management contract as a market entry strategy can hardly satisfy the expansion needs of international hotel chains. Some traditional hotel brands are also switching from management contract to franchising.

Generally speaking, franchisor or licensors set standards and provide guidance to the franchisees and licensees. As Robert (2007) said: “Different from five-star hotels and four-star hotel, in China budget hotels are rapidly penetrating the market offering clean rooms with all the IT and amenities a person needs with a tight budget for business or leisure.” In other words, international budget hotel chains will provide IT
support to subsidiaries operating under their brand, which is the area that licensing is involved as literature mentioned in Chapter 2.

In conclusion, management contract has less control than franchising and licensing. Franchising and licensing provide better guidance for franchisees and licensees. This is extremely helpful for the owners who have less experience in hotel management. Therefore, not like the five-star or four-star hotels, which have already developed in the Chinese market for nearly 20 years, budget hotel industry as a newly developing industry needs high level of control when facing a vast market like China.

5.1.2 Leasing & acquisition vs. Franchising and Licensing
(Domestic vs. foreign)

Through the research, research found that domestic budget hotel chains mainly expand through leasing and acquisition, international budget hotel chains on the other hand mainly use franchising and licensing as market entry modes. The comparison of the market entry modes between domestic budget hotel chains and international budget hotel chains as follow:

Comparing with the domestic budget hotel chains, foreign budget hotel chains have well-known brands and have good reputation. As China becomes an international country, foreigner from different countries will more likely to choose the hotel brands that they know well. Therefore, international hotel brands have advantages on attracting international customers. According to World Tourism Organization’s (WTO) statistics, the number of tourists entering China is increasing by 8% each year. This is one of the best grow worldwide. By 2020, China will become one of the world’s largest tourist destinations. Tourists will reach 180 million per annum. The secretary-general of the World Tourism Organization pointed out that China has made great process in developing its tourist industry. (Xu and Hao 2003).
International hotel chains often have large funds and rich experience in franchising/licensing also in budget hotel management. Therefore, they can provide unit service to customer. For example, all Super 8 Hotels in China are aimed to providing consistently clean rooms and friendly service with good value to all hotel guests. This is different from other budget hotel which will not provide both clean rooms and good service to customers because of low cost.

In addition, the market offers foreign budget hotel groups great sources, which are the original low level hotels in the market. Expand in lowest cost and fastest speed. There are lots of three star or lower end hotels which are not doing their business well in the Chinese domestic market. This offers foreign budget hotel groups a less competitive environment.

However, licensing fee and franchising fee of international hotel brand are generally more expensive than domestic hotel brand, which can be seen form Table 5.1 (in Appendix).

International hotel chains do not have enough human resources in China. The managers selected in China are not trained enough for managing budget hotels. Chinese managers do not have experience in international marketing or World Trades related hurdles in China. The sociocultural distance is high between western countries and China. These issues indicate that there is high risk for foreign hotel chains to expand in China. As mentioned by Christ (2007), Chinese managers still have misunderstanding on budget hotel management. A lot of Chinese hotel managers haven’t realised the requirement of budget hotel is different from high class hotel. They simply think the difference of budget hotels and high class hotels is the lower standards. Therefore, they think if they can manage the five-star or four-star hotels, then they can manage the budget hotels. Some international hotel companies send expatriates to China, but expatriate need some time to understand the Chinese business environment as the Chinese are so different from western customers.
Also, international hotel chains changed their names when they entered the Chinese market. For example, Super 8 changed the name to Super 8 Hotel in China, different form Super 8 Motel in America. It will be welcomed by franchisees because of its successes in America. Zhong Zhou Express as one of Inter Continental’s subsidiaries changed its name to suit the taste of Chinese consumers.

In addition, licensing helps foreign hotel chains to enter China’s market fast and achieve a bigger market share than their home market. However, it does not guarantee a greater profit. For example, According to the <2006 China budget hotel report>, comparing with Jing Jiang and Home Inn, who used leasing, foreign hotel groups who used franchising in China generally had lower profit.

The purpose of domestic hotel chains using leasing as the main market entry mode is because leasing can help domestic hotel chain reducing the cost of capital, thus shortening the construction period.

International hotel chains which have rich financial resources, rich franchising/licensing experience, advanced Branding & Reservation System & Global awareness and strong brand reputation have ability to expand with a higher level of control market entry mode which ensures the quality of service. As Mr. Hao (2007) from China Chain and Store Association says ‘The main difference on foreign hotel chains and the domestic chains is how they operate their brand. Foreign hotel chains do care about their brand image. The main reasons on why they use franchising as market entry mode are not only because they have experience on it but also protect the brand image.’
Table 5.2 Rank of budget hotel in Oct 2007

<table>
<thead>
<tr>
<th>Rank</th>
<th>Hotel Brand</th>
<th>Opened Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Home Inn</td>
<td>201</td>
</tr>
<tr>
<td>2</td>
<td>Jing Jiang</td>
<td>148</td>
</tr>
<tr>
<td>3</td>
<td>Motel 168</td>
<td>88</td>
</tr>
<tr>
<td>4</td>
<td>7-Days</td>
<td>71</td>
</tr>
<tr>
<td>6</td>
<td>Super 8 (No. 6)</td>
<td>51</td>
</tr>
<tr>
<td>7</td>
<td>Green Tree Inn</td>
<td>34</td>
</tr>
<tr>
<td>8</td>
<td>Zhong Zhou Express</td>
<td>16</td>
</tr>
</tbody>
</table>

(Adapted from http://www.inn.net.cn/news.php?id=831 05-10-2007)

Through the comparisons in Table 5.1 & 5.2, domestic budget hotel chains still have certain advantages over international budget hotel chains. However, international budget hotel chains generally have shorter history in the Chinese hotel market; their development speed is faster than domestic hotel groups because of their quality of service. For example, Super 8 ranked No. 7 in <2006 China Economic Hotel Survey> (Table 3.3) but ranking No. 6 in Oct 2007 (Table 5.2). Green Tree Inn which entered Chinese hotel market in 2005 had ranked No. 6 in Oct 2007 (Table 5.2). The new entries brought great pressure on domestic hotels. Domestic budget hotel companies started to re-consider their market strategies. Some of them such as Home Inn and Motel 168 started to use franchising. Home Inn and Motel 168 which combined franchising and leasing was already ahead of Jing Jiang Inn which used leasing only (see Table 3.3 and Table 5.2).

From the Table 5.3, international hotel chains such as Super 8 and Green Tree Inn generally have greater growth rate comparing with the domestic hotel chains such as Jing Jiang Inn and Home Inn.
Table 5.3

<table>
<thead>
<tr>
<th>Brand</th>
<th>open hotels</th>
<th>growth rate</th>
<th>open hotel rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jing Jiang Inn</td>
<td>118</td>
<td>71%</td>
<td>16,885</td>
</tr>
<tr>
<td>Home Inn</td>
<td>134</td>
<td>97%</td>
<td>16,162</td>
</tr>
<tr>
<td>Motel 168</td>
<td>52</td>
<td>173%</td>
<td>11,272</td>
</tr>
<tr>
<td>Zhong Zhou Express</td>
<td>28</td>
<td>12%</td>
<td>4,430</td>
</tr>
<tr>
<td>Super 8</td>
<td>42</td>
<td>133%</td>
<td>4,249</td>
</tr>
<tr>
<td>Green Tree Inn</td>
<td>21</td>
<td>163%</td>
<td>2,873</td>
</tr>
</tbody>
</table>

(Adapt form <Green Paper of the Development of Economic Hotel 2006> )

In conclusion, international hotel chains and domestic hotel chains use different market entry modes due to the different level of development and ability for expanding. Domestic budget hotel chains mainly used leasing and acquisition. International budget hotel chains rapidly expanded through franchising and licensing. Domestic budget hotel chains such as Home Inn stared to use franchising. CEO of Home Inn Sun said “We used to be against the use of franchising; now we have to change our mind.” (<Daily Economy News>, 2005, 31st May). It means franchising did provide greater benefit for hotel development in China.

International hotel chains view the expanding in the Chinese hotel market as part of their global strategies. They need to be careful when selecting the market entry mode as they have global reputation. They need to consider more factors than the domestic hotel chains as their goals are not only focus on the market share but also consider the influence of the global image.

5.2 Conclusions on Franchising and Licensing

Advantages of franchising

Licensing and franchising has their unit advantages as market entry modes in the Chinese hotel market. As Tim from Zhong Zhou express says “Licensing offers a way
with fastest expansion speed, franchising offers a way that guarantees quality service of the original hotel.”

Franchising as a new and pure western concept can help international brand expand in China successfully. It gives franchisees a freedom to operate the hotel, which effectively reduces the cultural conflict. Through franchising, international hotel groups can understand the orientations and changes in Chinese market quickly. Franchising differs from licensing in the many aspects such as it provides global reservation technology and advanced managing experience. Franchising focuses on brand development. It provides unified advertisement strategy and market positioning.

Advantages of licensing
Licensing enables International hotel brands with fast expansion. Licensing is generally used by International hotel brands to gather greater market share. Then the hotel groups would use franchising to ensure quality of service.

From the Table 5.1, hotel chains used licensing as market entry mode control more hotels and cover wider areas than leasing. As mentioned in the 〈2006 China Economic Hotel Survey〉, in 2005, Super 8 opened 2-3 new hotels every month. After entered in the Chinese market less than one year, the report shows that Super 8 continued its annual business plan for two years.

However, as Chris (2007) mentioned, if the licensees does not have a strong presence in the Chinese market then it may lead to a negative image. According to experience franchisees and licensees’ opinions, franchising agreements focuses more on the quality, but licensing agreement focuses more on the long time of contract and the license fee. “They don’t really care about how I manage the hotel, they are care more about whether I can pay for the fee or not” (Interviewee, 2007)

Licensing also brings a number of problems. Tim (2007) mentioned there may be
different prices and qualities of service in different license hotels. For example, the standard price in Beijing is about 40 Euro per night but it is only 18 Euro in Suzhou. Super 8 has limited degree of control on the capital control of licensees in China. Licensees always invest more capital and because of this they would increase the price. This obviously leads to damage of reputation.

In addition, international hotel chains tend to sign master licensing agreement with particular Chinese partner who has power in the Chinese hotel market, and then establish franchising under the master licensing agreement. For example, as mentioned above, in 2004, Super 8 selected the Tian Rui Hotel group to be their master licensing partner as Tian Rui Hotel Group had the capital and market knowledge. Under the master licensing agreement, Tian Rui acts as franchisor/licensor in China and will develop the brand and franchise system there. Meanwhile, US licensor Super 8 Motels Inc. provides its trademarks and international sales and reservation services. This is in support of the literature review. Therefore, licensing can play an important role in helping international hotel chains’ expansion in China. It is important to note that Licensing played a unique role in the Chinese hotel industry. This neither is different from the western hotel market nor mentioned in the literature. However, compare with franchising, licensing only plays an assistance role.

International hotel chain can not use single market mode in a complicated market like China. Franchising and licensing with different advantages emphases on different aspects. Combine these market entry modes can be seen a suitable way for foreign hotel chain entering China.

In summary, according to the research in this study, a number of characteristics of international hotel chains franchise in China have been identified as follows:

*Two Standardization concepts:*

- Standardized operation;
• Standardized corporate image.

Four unifications:
• Unified brand name;
• Unified reservation system;
• Unified management system;
• Unified service standards;

Advantages of franchising:
System advantage: Global reservation system, hotel operation management system and experience service management system;
Marketing Support: Unified marketing and unified advertisement;
Less initial investment: franchising requires less financial and human resource investment at early stages;
Penetration ability: Franchising with its unique characteristics has strong ability to penetrate new markets;
(Barbie & Tim, 2007, form Zhong Zhou Express; Ling, 2007, from GUI Lin Dan Gui Hotel; Fang, 2007, form Super 8; Lu, 2007, from Inter Continental)

Franchising was the main market entry mode used by foreign hotel companies. Domestic hotels in China have begun to realize its importance and start implanting it as a market strategy. Its characteristics in the Chinese hotel market have greatly helped international hotel chains successfully expanding in the Chinese hotel market. Franchising as a market entry strategy can better satisfy the demand of the Chinese hotel market comparing with other strategies. Licensing on the other hand, has a number of advantages, but yet can not meet the market requirements as perfectly as franchising. It is more suitable to be used as an assistant strategy.
5.3 Implications

5.3.1 Implications to theory

The contribution of this research to the literature is extended study on the use of franchising and licensing. Also, the literature explained the advantages and disadvantages of franchising and licensing (2.1 and 2.2) in general. This research explained the advantages and disadvantages of franchising and licensing in the hospitality industry (5.1.2).

Franchising and licensing can provide faster expansion than other market entry modes. Licensors can get large income from licensees but less cost as licensors would be less likely to supply management support. The return on investment would be fast. Therefore, licensors are entering the Chinese market with less capital investment and higher return on investment.

Generally, time of licensing agreement is longer than franchising, then the hotel brands can stay in the locations for a longer time once the licensing agreements are signed. This leads to an extension of the international hotel brand’s life cycle. The disadvantages of licensing in the Chinese hotel industry appeared on the damage of the brand image. As licensing has less control than franchising, licensors are less involved in the business operations. They simply provide the global reservation system technology to the licensees and provide technology assistance. This type of strategy lacks of control of licensees’ operations, and also lacks of loyalty from licensees. Licensees don’t have unified management support and marketing guidance. License hotels do not have standard service. Quality of service can not be guarantee. Quality control of the hotel is difficult. All of these may lead to damage the reputation of the international hotel brands, which is very important in the global hotel industry. Without the unified marketing guidance it may lead to competitions amount companies under the same brand. In summary, Licensing is a market entry mode with fast speed expanding bigger market and occupies for a longer time. Also it has
advantages on less investment.

The main advantages of franchising are that it guarantees quality of service. Franchising involves the whole business not as licensing which only involves a part of the business. Franchisors focus on the standards of service and the facilities of each franchisee hotel. Therefore, brand image can be protected. International franchisors provide not only the global reservation system but also management support and unified marketing guidance. Therefore franchisors have greater degree of control comparing to licensing. Franchisees are operating their hotels under the help of franchisors but still have freedom on business activities. On the other hand, this increases the loyalty of the franchisees. Therefore, international hotel chains are not entering the Chinese hotel market individually but with franchisees. As international franchisors generally provide the unified marketing guidance including promotion, this gives franchisors better planning for future expansion. From a long term point of view, franchising provides a longer and better business development base. Franchising also has the advantages that licensing have which will be high income from the franchisees. Even franchisors provide more support to franchisees comparing to licensing, franchising is still a low-cost market entry mode as it only invest in necessary technology and know-how. As brand image is very important in the global hotel industry, international hotel chains need to consider the franchisees’ business ethics. In order to make sure the franchisees follow the guidance and standards, international hotel chains have to spend time on scanning the application in order to select the suitable franchisees.

In conclusion, this research not only focuses on in-depth analysis of franchising and licensing but also advantages and disadvantages of franchising and licensing. This research discussed the development of the Chinese hotel market which is one of the new and most important elements of the global hotel market through the analysis. It is a supplementary of the global hospitality development theory.
5.3.2 Implications to practice

The implication for practices of this research is that it provides a better explanation of the suitability of franchising and licensing as market entry modes in the Chinese hotel market for international hotel companies. Hotel companies in the Chinese hotel market today can have a better understanding on the strength and weaknesses on their market entry strategies through this research. This research also helps them consider the market entry strategies for their future expansion. For the international hotel companies who are planning to enter the Chinese hotel market, this research provides a theoretical framework on selecting the market entry modes.

5.4 Limitations

This research is based on the Chinese hotel market. It did not compare the hotel market in other countries. The primary data are mainly collected from US hotel groups such as Inter Continental, Super 8, or their subsidiaries in China such as Zhong Zhou Express, etc. brands from Europe, and other continents and countries only occupy a small proportion.

5.5 Implications for further study

The implication for further research includes two aspects which are in theory and practice. In theory, other researchers could investigate and development more comprehensive theories in the use of franchising and licensing, especially in the aspect of brands worldwide. This study focused on the hotel industry in China only. Franchising and licensing’s suitability in other industries and countries need to be developed for practical purposes.
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Appendices
Appendix 4.1

Interview questions to experts
Company Name:

Name:
Title:
Tel:
E-mail:

Q1. What is your company mainly due with?

Q2. What type of hotels use franchising and licensing as market entry mode?

Q3. What are the other market entry modes that hotels use?

Q4. What are the reasons that hotels use franchising?

Q5. What are the reasons that hotels use licensing?

Q6. What are the reasons that hotels use other market entry modes?

Q7. How do you think about the franchising/licensing environment in Chinese hotel industry?

Q8. What are the unique differences of Chinese hotel market?

Q9. What are the advantages of franchising in the Chinese hotel market?

Q10. What are the disadvantages of franchising in the Chinese hotel market?

Q11. What are the advantages of licensing in the Chinese hotel market?

Q12. What are the disadvantages of licensing in the Chinese hotel market?

Q13. What are the reasons that foreign hotel chains used different market entry mode with the domestic hotel chains?

Q14. Compare with the domestic hotel budget chain, what are the key successful factors of foreign hotel budget chain expanding in China?
Interview question for Hotel Companies (including Franchisor and licensors)

Hotel name:

Hotel type (please V): Five / Four Hotel
- 1-3 Star Hotel
- Budget Hotel
- Other (If other, Please state) _______

Location of Hotel (City, Town): Shanghai, Guang Dong, Beijing, Northeast of China, East of China (Coach), Middle of China (He Nan, Tian Jing).

Name: 
Title: 
Tel: 
E-mail: 

Q1. When did you star to run this hotel?

Q2. Is your hotel a foreign brand?

Q3. Why did you choose this brand / what are the reasons cause you choose this brand?

Q4. What kind of agreement you signed with the brand company?

Q5. How do you think feel when you operated the hotel under this agreement?

Q6. What kind of problem you face to under this agreement?

Q7. Did you operate other brand hotel before?

If yes, please list the brand name__________ and answer Q9-Q11

Q8. What are the differences on the agreement that you signed before?

Q9. What are the differences between current brand and this brand?

Q10. What are the reasons that you change the brand?

Q11. What are the other differences between franchising agreement and licensing agreement according to your experience and knowledge?
Interview questions to franchisees and licensees
Name:  
Title:  
Tel:  
E-mail:  

Q1. What kind of hotel you are?  

Q2. If your hotel is foreign invested, please state when did you entered the Chinese market?  

Q3. If your hotel is in cooperation with foreign hotels, please state the names of hotels and type of cooperation being used.  

Q4. What is the major market entry strategy your hotel use in the Chinese market?  

Q5. Please state the main 5 reasons why you use this strategy?  

Q6. Any other market entry strategies did you use before in the Chinese market?  
If yes, please answer the questions below:  
Please state the market entry strategies you used before__________  

Please state the main 5 reasons why you used this strategy?  
1.  
2.  
3.  
4.  
5.  

When did you change your market entry strategy?  

Please state the 5 main reasons why you changed your strategy.  
1.  
2.  
3.  
4.  
5.  

Q7. Compare with five-star and four-star hotels, what is the difference on market
entry modes used by foreign budget hotel chains.

Q8. What is your opinion on the development of budget hotel in China?

Q9. What are the advantages of franchising to your hotel?

Q10. What are the disadvantages of franchising to your hotel?

Q11. What are the advantages of licensing to your hotel?

Q12. What are the disadvantages of licensing to your hotel?

Q13. What are the successful factors on your hotel’s expanding in China?
Appendix 4.2

From Hotel Companies (including franchisors and licensors)

<table>
<thead>
<tr>
<th>Interview questions</th>
<th>Interviewees answers</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1. What kind of hotel you are?</td>
<td>Inter Continental is Five-Star hotel. It also has subsidiaries under other brand name. For example, Zhong Zhou Express, it is budget hotel.</td>
<td>Foreign brand, Five-Star Hotel, Budget Hotel</td>
</tr>
<tr>
<td>Q4. What is the main market entry modes your hotel use?</td>
<td>It depends on the type of the hotel brand. For example, Inter Continental opened its high class hotel only under management contract in Shen Yang city. Zhong Zhou Express on the other hand, mainly use franchising</td>
<td>Management Contract (high class hotel), Franchising (budget hotel)</td>
</tr>
<tr>
<td>Q5. Please list the main reasons why use these market entry modes?</td>
<td>Traditionally, we used management contract on our brands in other countries. Five-Star hotels have strict rules on management and high quality of service. Other budget hotels that used franchising showed their successful expanding through franchising in China. Now, our goal is not only focus on one or hotels but also focus on how large areas we covered. Franchising seems more suitable as it has strong ability to penetrate new markets</td>
<td>Management Contract: Traditional; Strict rules on management &amp; high quality of service. Franchising: successful experience from others; Strong ability to penetrate new markets</td>
</tr>
</tbody>
</table>

Super 8 and Day Inn’s success was because of their advantages
### Extra Question 1
**Comparing with the domestic budget hotel chain, what are the key success factors of foreign budget hotel chain in China?**

In management, brand image, and financial resources. Their customer network and quality of service have been integrated into a standardized system along with their brand development. For example, they have a unified brand image, a unified service standard, a unified distribution system, and a unified marketing strategy. This brings them a very strong competitive advantage.

- A standardized system for customer network and quality of service.
- Unified standards for service, distribution and marketing.

### Extra Question 2
**How did China’s membership in the WTO affect foreign budget hotel’s market entry modes in China?**

China’s membership in the WTO enabled China with high speed of economic development. This obviously led to an increase in the number of business visits and tourists. This is of course an opportunity for both China’s domestic hotel groups and foreign hotel chains. The membership also reduced obstacles for foreign hotels entering the Chinese market. Before, It had to be 50:50 joint ventures. Then it reduced to partnership. Since 2005, foreign hotel groups have been able to establish wholly owned foreign enterprises (WHOFE).

- Increased demand in the hotel industry
- Reduced entry barriers and increased choice of market entry strategies.

### Extra Question 3
**How do you evaluate the market entry modes that foreign budget hotel chains used comparing with domestic budget hotel chains?**

Foreign hotel chains need to understand what the customers in the Chinese hotel industry want? For example, they should combine the idea of foreign budget hotel and the Chinese traditional business hotel together and provide more comprehensive service. Super 8 and Day Inn have stronger brand image than most of the local hotels, but they have a much higher running cost. The

- Licensing is a fast expansion strategy
- Leasing is a cost effective strategy.
local hotel groups use leasing as their main strategy. It makes their expansion much cheaper.

### Categorization

<table>
<thead>
<tr>
<th>Code 1 (interviewee from Inter Continental)</th>
<th>Code 2 (interviewee from Super 8)</th>
<th>Code 3 (interviewee from Zhong Zhou Express)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 What kind of hotel you are?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Foreign brand</td>
<td>• Foreign brand</td>
<td>• Foreign invested</td>
</tr>
<tr>
<td>• Five-Star Hotel,</td>
<td>• Budget Hotel</td>
<td>• Budget Hotel</td>
</tr>
<tr>
<td>• Budget Hotel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4 What are the main market entry modes your hotel use</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Management Contract (high class hotel),</td>
<td>• Franchising &amp; Licensing</td>
<td>• Franchising</td>
</tr>
<tr>
<td>• Franchising (budget hotel)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q5 Please list the main reasons why use these market entry modes?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Management Contract: Traditional; Strict rules on management &amp; high quality of service</td>
<td>• Franchising: Penetrate new markets; Standard management, service and facilities; Good for brand image; Licensing: Built relationship with local partners; Use the strength of local partners; Fast expanding speed; Occupy the cities for longer time</td>
<td>• Franchising: Standard management, service and facilities; Penetrate new markets; Brand image</td>
</tr>
<tr>
<td>• Franchising: successful experience from others; Strong ability to penetrate new markets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Extra Question 1

- A standardized system for customer network and quality of service.
- Clean & cheap rooms provide customers value for money
- A standardized
- pinpoint the rapid development of economic period and choose better geographical
Unified standards for service, distribution and marketing. 

system for customer network and quality of service. 

and people’s psychological change 

Concentrate resources on prices and service. 

a standardized system for quality for service 

Unified standards for service, distribution and marketing. 

system for customer network and quality of service. 

and people’s psychological change 

Concentrate resources on prices and service. 

a standardized system for quality for service 

Increased demand in the hotel industry 

Reduced entry barriers and increased choice of market entry strategies. 

Entry strategy from one single strategy to multiple strategy choices. 

Joint Venture → management contract, franchising, licensing → WHOFE 

Opened up a huge market along the east cost of China 

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Leasing is a cost effective strategy. 

Licensing is a fast expansion strategy. 

Leasing brings financial advantage to the domestic budget hotel chains 

Franchising provide best guarantee on the quality of service. 

Licensing + franchising is a useful way of reducing costs and maintaining brand image 

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Leasing brings financial advantage to the domestic budget hotel chains 

Franchising provide best guarantee on the quality of service. 

Licensing + franchising is a useful way of reducing costs and maintaining brand image 

Conceptual Framework 

According to the codes in different categories, the researcher identified and summarized a conceptual framework as follows: 

Concept developed from Q1: They are foreign invested hotel or foreign hotels. 

Concept developed from Q 4: Foreign budget hotel chains generally use franchising as the main market entry mode. 

Concept developed from Q5: Franchising is a market entry mode that provides standard management
service and facilities. These are very helpful for franchisor to built reputation and keep the band image. Franchising also has ability on penetrating into new markets.

Concept developed from Extra Question 1:

Comparing with the domestic budget hotel chain, the most important success factors of foreign hotel budget hotels chains expanding in China are their standard system for customer network and quality of service. They provide standard service, distribution and marketing guidance and assistance particularly standard service such as clean and cheap room which will provide customer value for money. On the other hand, the rapid development of economic and people’s psychological change on the hotels and spending gave foreign hotel chains great opportunities. In addition, foreign budget hotel chains generally select the better location.

Concept developed from Extra Question 2:

As China became a member of WTO, Chinese hotel market became more and more open. It brought foreign budget hotel chains more freedom on selecting their market entry modes. It was joint venture at the early stage of economic reform, then there are many market entry mode performed in the Chinese hotel market such as franchising and licensing even wholly own subsidiary.

Concept developed from Extra Question 3:

The main characteristic of licensing is expanding in a fast way. The main characteristic of leasing is expanding in a cheap way. The main characteristic of franchising is protecting the brand image. Combining the different market entry modes will provide an expanding way that combines the characteristic of each market entry mode.
<table>
<thead>
<tr>
<th>Interview question</th>
<th>Interviewees’ answers</th>
<th>Code</th>
</tr>
</thead>
</table>
| Q3. Why did you choose this brand / what are the reasons causing you choose this brand? | This is a foreign budget hotel brand. It is very successful in America. It provides worldwide membership system and reservation system. The licensing agreement gave me great freedom to operate my hotel. | • Foreign brand  
• Better reputation  
• Worldwide membership and reservation system  
• Great freedom on operation |
| Q6. What kind of problem you face to under this agreement?                          | Although the system and the brand reputation are better, we don’t really know how to use it. They did teach us how to use it, but only a short time. Also, we don’t have hotel management background; we don’t know how to operate the hotel. They only gave us limit guide on management. In addition, the licensing fee is very expensive. The contract time is 10 years, I don’t feel comfortable on such a long time. | • Limit technology support  
• Don’t know how to manage  
• Limit guide on management  
• Licensing fee is expensive  
• Contract time is long |
| Q10. What are the reasons that you change the brand?                                | I would like to change a brand under the franchising agreement. I have explained the problem I faced to under the licensing agreement. Also, franchisor will provide more support on management. | • Change to franchising agreement  
• Better management support |

**Categorization**

<table>
<thead>
<tr>
<th>Categorization</th>
<th>Code 1 (licensee)</th>
<th>Code 2 (franchisee)</th>
<th>Code 3 (licensee)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3</td>
<td>• Foreign brand</td>
<td>• Foreign brand</td>
<td>• Foreign brand</td>
</tr>
<tr>
<td></td>
<td>• Better reputation</td>
<td>• Better reputation</td>
<td>• Better reputation</td>
</tr>
<tr>
<td></td>
<td>• Worldwide</td>
<td>• Worldwide</td>
<td>• Worldwide</td>
</tr>
<tr>
<td>Question</td>
<td>Limitations</td>
<td>Problems</td>
<td>Solutions</td>
</tr>
<tr>
<td>----------</td>
<td>-------------</td>
<td>----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Q6</td>
<td>Limit technology support, Don’t know how to manage, Limit guide on management, Licensing fee is expensive, No profit, Contract time is long</td>
<td>Licensing fee is expensive, Low profit, Licensing contract is long, No management support, Licensor only care about the licensing fee</td>
<td>Change to franchising agreement, Better management support</td>
</tr>
<tr>
<td>Q10</td>
<td>Change to franchising agreement, Don’t want to change</td>
<td>Change to franchising agreement, Franchisor provide management support, Contract time is shorter, Try other brand</td>
<td></td>
</tr>
</tbody>
</table>

**Conceptual Framework**

According to the codes in different categories, the researcher identified and summarized a conceptual framework as follows:

Concept developed from Q3: Franchisees and licensors would more likely to select a foreign brand as they though foreign brand has better reputation and brand image. The worldwide reservation system is very attractive. Under the franchising or licensing agreement, franchisor or licensor can enjoy the feeling to run the hotel under their mind.

Concept developed from Q6: The limitations on the licensing agreement from licensees’ aspect are following: 1) Licensors are less likely to provide management support. Licensees feel loss when they operating their hotel. 2) The license fee is high; most of the income should pay for the license fee. Therefore, licensees have low profit. 3) Licensees have to run the hotel for a long time as the contract
time is longer than other agreements.

Concept developed from Q10: Licensees would like to operate their hotels under franchising agreements. The main reason is franchisor will provide better management support.

**From Experts**

<table>
<thead>
<tr>
<th>Interview question</th>
<th>Interviewees’ answers</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2. What type of hotels use franchising and licensing as market entry mode?</td>
<td>Foreign budget hotel chains are more likely to use franchising and licensing</td>
<td>● Foreign budget hotel chains</td>
</tr>
<tr>
<td>Q3. What are the other market entry modes that hotels use?</td>
<td>Some HK invested hotels still keep their joint venture relations with the local partners. Hilton and Inter Continental used management contract operating their hotels. Home Inn, Jing Jiang and Motel 168 used leasing and acquisition. However, they started to consider franchising in recent years.</td>
<td>● Joint Venture (HK invested hotels) ● Management Contract (Hilton &amp; Inter Continental) ● Leasing &amp; Acquisition (Home Inn, Jing Jiang and Motel 168) ● Home Inn, Jing Jiang and Motel 168 started to consider franchising</td>
</tr>
<tr>
<td>Q9. What are the advantages of franchising in the Chinese hotel market?</td>
<td>Franchise hotels will have standard quality of services, unified advertisement. There will not direct competition among the franchise hotels. One important advantage is franchising can protect brand image well.</td>
<td>● Standard quality of service ● Unified advertisement ● No direct competition among the franchise hotels under the same brand ● Protect brand image</td>
</tr>
<tr>
<td>Q11. What are the advantages of licensing in the Chinese hotel market?</td>
<td>Super 8 singed the master licensing agreement with Tian Rui in order to use Tian Rui’s market network in the Chinese market. Its significant advantage is the fast expanding speed. Generally, the contract time of license agreement is longer, international budget hotel chains then can occupy the location for longer time.</td>
<td>● Use master licensors’ market network ● Fast expanding speed ● Occupy the location for longer time</td>
</tr>
<tr>
<td>Q12. What are the disadvantages of licensing in the Chinese hotel market?</td>
<td>The main disadvantage of licensing is no guarantee on the brand image. License hotels</td>
<td>● No guarantee on brand image ● No standard service or</td>
</tr>
<tr>
<td>Categorization</td>
<td>Code 1</td>
<td>Code 2</td>
</tr>
<tr>
<td>----------------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Q2</td>
<td>Foreign budget hotel chains</td>
<td>Foreign budget hotel chains</td>
</tr>
</tbody>
</table>
| Q3             | ● Joint Venture (HK invested hotels)  
                 ● Management Contract (Hilton & Inter Continental)  
                 ● Leasing & Acquisition (Home Inn, Jing Jiang and Motel 168)  
                 ● Home Inn, Jing Jiang and Motel 168 started to consider franchising | ● Management Contract (foreign invested high class hotel)  
                 ● Leasing & Acquisition (Chinese domestic budget hotel chains) | ● Leasing (Chinese domestic budget hotel chains)  
                 ● Management Contract (foreign brand high class hotels, HK invested high class hotels)  
                 ● Home Inn started to use franchising in 2005 |
| Q9             | ● Standard quality of service  
                 ● Unified advertisement  
                 ● No direct competition among the franchise hotels under the same brand  
                 ● Protect brand image | ● Unified marketing support  
                 ● Unified quality of service and facility  
                 ● Protect brand image/ built brand reputation  
                 ● Global reservation system  
                 ● Support on hotel management  
                 ● Provide training program  
                 ● Avoided culture conflict | ● Management & technology support;  
                 ● Standard service and facilities;  
                 ● Global reservation system  
                 ● Care the brand image  
                 ● Unified advertisement  
                 ● Annual training program  
                 ● Avoided culture conflicts |
<table>
<thead>
<tr>
<th>Q11</th>
<th>Use master licensors’ market network</th>
<th>Combined the wide market network from Chinese master licensors</th>
<th>Avoided culture conflicts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fast expanding speed</td>
<td>Fast expanding speed</td>
<td>Fast expanding speed</td>
</tr>
<tr>
<td></td>
<td>Occupy the location for longer time</td>
<td></td>
<td>Occupy the location for longer time</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q12</th>
<th>No guarantee on brand image</th>
<th>May lead to damage of the reputation</th>
<th>Not good for brand image</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No standard service or facilities</td>
<td>Licensees has less profit</td>
<td>Lack of licensees’ loyalty</td>
</tr>
<tr>
<td></td>
<td>Weak management</td>
<td>Lack of loyalty from licensees</td>
<td>Limit/no management support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Limit help from licensors</td>
<td></td>
</tr>
</tbody>
</table>

Conceptual Framework

According to the codes in different categories, the researcher identified and summarized a conceptual framework as follows:

Concept developed from Q2: Franchising and licensing are mainly used by international budget hotel chains.

Concept developed from Q3: There are also other market entry modes existing in the Chinese hotel market as follow: management contract which mainly used by international invested high class hotels; leasing and acquisition which mainly used by Chinese domestic budget hotel chains. It has to notice that domestic budget hotel chains started to use franchising in recent years.

Concept developed from Q12: The significant advantage of franchising is the guarantee on the brand image. It protects the brand image and built a good reputation. Franchisors will provide management support, global reservation system to franchisees. Quality of service and facility of each franchise hotel has to reach a standard level. The advertisement will taken by franchisors. Franchisors will also provide annual training programs to franchisees.

Concept developed from Q14: The significant advantages of licensing are its fast expanding speed and occupy particular locations for long time. International hotel chains can take the advantages of the market network of local partners through the master licensing agreements.

Concept developed from Q15: The significant disadvantage of licensing is no guarantee on the brand
image even lead to damage of brand. Licensees generally have low profit. Also licensors provide limit management support to licensees. These lead to lack of loyalty from licensees.

Appendix Table 5.1