

Hotels and Resorts Industry in Australia

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Abstract: Nowadays, hotels and resorts industry in Australia is facing more challenges due to aggressive competition. This paper will use Porter's Five Forces to examine profitability for hotels and resorts industry in Australia. The study shows that Internal rivalry and substitutes will wound the profit of the hotels and resorts industry in Australia while bargaining power of supply is low now. Therefore, supplier power can't cut the profit. And the barrier of entry protects the revenue to some degree. In the future, the bargaining power seems getting stronger.

Keywords: Hotel, Resorts Industry, Porter's Five Forces.

1. Introduction

A hotel or a resort refers to an establishment which operates more than 15 rooms with licenses. The accommodation provided by hotels includes a few basic facilities and some hotels offer food and beverages ("Hotels and Resorts in Australia," 2016). This paper will use Porter's Five Forces to examine profitability for hotels and resorts industry in Australia. There is a market definition above all. Then the paper will explain and analyse how internal rivalry, threat of entry, substitutes and complements and bargaining power of suppliers and buyers impact upon industry profit separately. Finally, come to some conclusions.

2. Market Definition

The industry's markets are defined by the intended purpose of travel in Australia ("Hotels and Resorts in Australia," 2016). Domestic tourist, domestic and international business travelers, international tourists and other visitors are the four segments of the industry. It is remarkable that domestic tourists take up 48% of the market. Also, 29.7% of the market is occupied with domestic and international business travelers ("Hotels and Resorts in Australia," 2016). Even though domestic tourists hold nearly 50% market, business travel is regarded as a mainstream of total revenue in the industry because business travelers will choose hotels preferentially than other types of accommodation like motels or serviced apartments. The demand of the industry in Australia is expected to increase in next five years due to boom tourism especially tourists from China ("Hotels and Resorts in Australia," 2016). Overall, the growth of demand brings rising profit in the future.

3. Internal Rivalry

Internal rivalry indicates the competition among companies for sharing revenue of a market (Besanko et al., 2012).

In fact, competition in this industry is high and the trend is increasing because of increasing serviced apartments ("Hotels and Resorts in Australia," 2016). Internal rivalry damages the profit of hotels and resorts in the industry by three major ways.

The first aspect is price competition. Intensified price competition results from a big number of competitors, hotels'

lack of price leadership and price elasticity of demand. Firstly, the hotels and resorts encounter both internal competition of numerous hotels and external competition including motels, serviced apartments and caravan parks ("Hotels and Resorts in Australia," 2016). Secondly, as Besanko et al. (2012) point out, the competitor will capture revenue by lower price if the firm does not have price leadership. Generally, the price of hotels and resorts is not so low. Meanwhile, the competitor such as serviced apartments provide much lower price but more room space for consumers. Thus hotels and resorts have to offer lower price or promotions to attract consumers. Thirdly, high price elasticity of demand also intensifies the price competition (Besanko et al., 2012). The demand of the industry is sensitive to price because travelers are influenced by many factors such as global economic trend, exchange rate, consumer and business confidence and so on. All of these causes an exaggerated price competition and such price competition will hurt hotels' profit.

Moreover, in my viewpoint, the aggressive competition now begins to transfer from price competition to non-price competition. Normally, increased profitability reflects in location, star rating, independent operations and service. To attract customers, hotels and resorts are switching from differentiation strategy to other method like luxury and exclusivity ("Hotels and Resorts in Australia," 2016). Some modern hotels focus on guest experience because more and more travelers are looking for a distinct travel experience. Actually, the appearance of serviced apartment changes the accommodation preference and style of some travelers. And the changing reveals several weakness of hotels such as flexibility. Hotels and resorts are required to provide better service while lower price. Assuming the fix cost is unchangeable, in this case, the profit of the hotels will be eroded by low revenue per room.

4. Threat of Entry

Profit is damaged by lower barriers to entry the industry since more competitors will share the industry revenue. Kim and Oh (2004) assert that the barriers to entry in this industry is high because the investment amount is huge. However, barriers to entry in this industry are medium and steady ("Hotels and Resorts in Australia," 2016). Many establishments can be leased now and the regulatory hurdles are lower. Setting up a new hotel becomes affordable and

quicker comparing the situation ten years ago ("Hotels and Resorts in Australia," 2016). Hence, more and more investors or owners will enter the industry and the profit of hotels in the industry will be reduced.

Nevertheless, Besanko et al. (2012) states that a few reasons hinder new entrants. First of all, brand loyalty. Some hotels and resorts have a loyal customer base especially lucrative business travelers. The loyal customer will bring high revenue for the industry. For example, Hilton Hotels is one of the world's best-known hotel brands and has a lot of loyal customers. Even Hilton's Australasian branch only operates nine hotels in Australia, it grasps 3.0% market share among aggressive competition ("Hotels and Resorts in Australia," 2016). On the other hand, hotels and resorts with rich experience will put entrants at a cost disadvantage (Besanko et al., 2012). Kim and Oh (2004) declares that the risk of entering the industry is high if the company or individual has no experience in the industry. For instance, Marriott International, Choice Hotels International, and Hilton Hotels Corporation restricted distribution channels by using entry barriers to compete with entrants (Kim & Oh, 2004). Finally, economies of scale also play an important role during jockeying for share in the market. Even lower entry may hurt hotels' profit, brand loyalty, a steep experience curve and economies of scale can protect the profit of the hotels and resorts.

5. Substitutes and Complements

Increasing substitute accommodation reinforces the competitiveness in the industry (Kim & Oh, 2004). Therefore, the high competition level erodes the total revenue of hotels and resorts in the industry. The threat of substitute accommodation will be analysed from two perspectives, leisure travel and business travel, because the two types of travel occupy more than 94.8% market ("Hotels and Resorts in Australia," 2016).

Leisure travel plays an important part in the industry while it is affected by many uncertain factors such as length of travel and price, not only of hotels but also of transportation, and so on ("Hotels and Resorts in Australia," 2016). Customers will choose substitute accommodation if their expenditure falls down. Serviced apartments seal business in the past five years because most of them are four-star rated but provide lower price than four-star hotels ("Hotels and Resorts in Australia," 2016). That proves the price elasticity of demand of leisure travel is very high. In the future, the demand of leisure travel is likely to increase because of rising discretionary income and depreciation of the Australian dollar. The number of serviced apartments is expected to upsurge in the next five years that highly competitive substitute accommodation like serviced apartment will damage the total profit of hotels in the industry.

Although leisure travel is the vital part of total revenue in the industry, the industry is more sensitive to business travel, which reaches 29.7% of the total revenue ("Hotels and Resorts in Australia," 2016). As we discussed before, the price elasticity of demand of business travel is much lower than leisure travel because most business travelers will regard hotels as their first choice than motels or services departments. That means business travel is not so sensitive to price. The growth of business travelers in the next five years will contribute to higher profit of the hotels in the industry.

However, several big projects of building new hotels to satisfy the accumulative demand of accommodation face delay since finance problem ("Hotels and Resorts in Australia," 2016). Therefore, the excess demand will be solved by substitute accommodation due to supply difficulty of hotels that erodes the profit of hotels.

6. Bargaining Power of Suppliers

Suppliers in the industry are defined as helping hotels and resorts produce end-products or services by supplying input materials (Kim & Oh, 2004). Suppliers can be divided into three major parts in Australia. The first type is construction service that build and support hotel properties. The second type is dairy product wholesaling which supply dairy products for hotels and resorts. The third type of supplier is food wholesaling that provides different sorts of food and liquor for hotel and resorts ("Hotels and Resorts in Australia," 2016).

Besanko et al. (2012) notes that competitiveness of the input market and the relative concentration of the industry need to be considered when analysing the bargaining power of suppliers. Both construction industry ("Construction in Australia," 2016) and food wholesaling industry, which includes meat, poultry, smallgoods ("Meat, Poultry, Smallgoods Wholesaling in Australia," 2016), fish and seafood ("Fish and Seafood Wholesaling in Australia," 2015) and liquor ("Liquor Wholesaling in Australia," 2016) wholesaling industry, have high competition level. Only dairy produce wholesaling industry has medium competition level ("Dairy Produce Wholesaling in Australia," 2015). In the industry, the upstream supplier market is competitive generally. Accordingly, the prices of inputs will be determined by supply and demand. As to relative concentration of the industry, all three major types of suppliers have low concentration level. In this case, the bargaining power of supplier is not strong and it can't erode the total profit seriously.

7. Bargaining Power of Buyers

The buyer power refers to the ability of organization or individual customers to bargain with sellers. Strong buyer power can corrode profit of the sellers (Besanko et al., 2012). The buyer of the industry is mainly made up two groups. Travel agency and tour arrangement services in Australia and the consumers in Australia ("Hotels and Resorts in Australia," 2016).

Firstly, competitiveness of the buyer market, which including travel agency and tour arrangement services and the consumers, is highly competitive ("Travel Agency and Tour Arrangement Services in Australia," 2016). Thus, the bargaining power of buyers is low because the prices of hotels will be determined by supply and demand. Secondly, the concentration level of buyer market is also low. As Kim and Oh (2004) discussed, no single buyer dominates the market. No powerful buyer group can negotiate with hotels for lower demand price in the industry. Hence, the weak bargaining power of buyers increases the profit.

However, the bargaining power of buyers is stronger due to availability of substitute accommodation and new technology. Booming substitute accommodation such as serviced apartments gives customers more choices that hotels have to limit their price to prevent losing customers. Additionally, Kim and Oh (2004) asserts that new technology which enable

travelers to book hotels around the world makes the buyer power stronger. The profit of hotels and resorts will be extract from buyer power in the future.

8. Conclusions

In short, by analysing the impact of Porter's Five Forces upon hotels and resorts industry, it is clear that internal rivalry and substitutes will hurt the profit of the hotels in the industry due to aggressive competition. Whereas, supplier power can't erode the revenue because the bargaining power of supply is low. Threat of entry will damage the profit to some degree while barrier of entry protects the profit. Besides, even the bargaining power of buyers is lower now, however, the power is expected to be stronger in the future.

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