



Evaluation of Competition Conditions in the Hotel Sector in Istanbul

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ABSTRACT

The various dimensions of the concept of the competitiveness in service sectors have drawn attention of many researchers. Discipline of business concerns firm, sector and the international dimensions of national level competition. This study focus on explaining the competitiveness of Istanbul hotel sector by considering the dynamics connected to the sectoral competitiveness of tourism. For the analysis, different data collection techniques have been used. As for the secondary data, literature review has been done about Michael Porter's five forces model that is mostly preferred for this kind of researches. For the primary data, senior managers of hotels in Istanbul hotel sector were applied to the interviews and formal interviews. As a result of this study it's seen that Istanbul hotel sector has profitability rates that attract new entrants and the competition conditions are available for new entrants to the Istanbul hotel sector.

Keywords: Industry Analyze, Hotel Sector, Competition

JEL Classifications: M1, M2

1. INTRODUCTION

Tourism is known as one of the most developing sectors and the investments in tourism industry is highly increasing year by year. If the statistics of World Tourism Organization is analysed it can be seen that international tourism receipts increased by 48 billion USD in 2014 (unwto.org). When the international tourism receipts was taken into account Europe is leading the list which gets the %41 of worldwide international tourism receipts. Turkey, as a country competing in Europe - Mediterranean Tourism Market has its share of this total amount. So, it can be indicated that evaluation of competitive conditions of Turkish tourism industry can be significant to get data to improve developing suggestions. As a sub-sector of tourism industry (Batman, 2003), the competitive conditions of hotel sector in Istanbul was chosen to be analyzed as a sample of Turkish tourism industry. The main research question of this study is: "What are the competition variables in Istanbul hotel industry and how is the current state that they bring?" So, Porter's five forces model was chosen to analyze. The Istanbul hotel sector's competition conditions and therefore in the first part of this study, the five forces of competitive position model of Porter was discussed and explained. After the literature review,

the explanation of research questions together with the systematic analysis of the research findings obtained from the interviews and recommendations is presented.

2. LITERATURE REVIEW BASED ON COMPETITIVE ADVANTAGE AND FIVE FORCES MODEL

Competitiveness is defined in the literature as it is related with being different and supplying unique activities with unique processes. This motivation provides to get positive results in terms of profitability and market share, ability to locate the position of advantage and improving the skills and valuable sources of firms (Teeuwssen, 2004). Firms analyse the sector that they are active or they have the thought of being a new entrant, to decide the suitable analyse model or their strategies (Passemar and Kleiner, 2000).

The qualification of competitive sources of a firm are the main indicators of success or failure. The qualification of competitive sources can change because of competitors and customers based causes (Kandampully and Duddy, 1999. p. 51-56).

In the literature review, it is indicated that some firms are more profitable than others, so the question “Why?” stands out to be answered. To explain the parameters that are effective on competitiveness of sectors or industries; Porter indicates that there are five forces that determine industry attractiveness and long-run industry profitability. These five “competitive forces” are; the threat of entry of new competitors (new entrants), the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the degree of competition between existing competitors (Porter, 1979; Porter, 1980; Eren, 2000; Okumuş, 2002; Porter, 2000, Porter, 1998; Porter, 2003; Sarvan et al., 2003).

Yigit and Yigit (2012) indicates that all the organizations are surrounded by an environment and they survive and are affected by this environment. Environment has important impacts on the organizations that determine how the conditions change. Environmental analysis is a searching and interpretation process to understand of what the threats and opportunities are:

The environment of firms in the industries that's told in the five forces of Porter, consist of the dynamics that are given below.

2.1. New Entrants

New entrants to an industry can raise the level of competition; thereby reducing its attractiveness depends on the high demand and profit of that industry. The threat of new entrants largely depends on the barriers to entry. The basic barriers to entry are economies of scale, capital and requirements of investment, cost of suppliers and access to industry distribution channels or owning them (Johnson and Scholes, 1999. p. 115).

2.2. Threat of Substitutes

The presence of substitute products are told as one of the five forces of the industries that the companies must have a good position against, for it can affect the attractiveness and profitability of industry negatively due to the price levels and the ability of forwarding the demand to themselves. The threat of substitute products depends on buyers' willingness to substitute, the relative price and performance of substitutes. If in an industry, substitutes of products and services are many, this can be observed as threat, if the substitutes of products and services are fewer this situation is defined as opportunity in the literature (Hill and Jones, 1992. p. 71; Grant, 1995. p. 90).

2.3. Bargaining Power of Suppliers

Suppliers are told, in the literature, as the firms that supply raw materials and semi-manufactured products that are needed by the companies for production. The costs of items that are supplied from them have a certain effect on profitability of companies. If suppliers have high bargaining power in the industries, this can cause barriers to entry and affect the profit of competing companies. The bargaining power of suppliers can be described high if there are many buyers and few dominant suppliers. According to the literature the buyers of products in an industry can be explained as “powerful” if they have much more concentration than the producers of the industry and this gives them the power of forcing down prices (Cheng, 2013).

2.4. Bargaining Power of Buyers

Buyers are the people or firms that create “demand” in the industries. As it is indicated in the literature, the bargaining power of buyers can affect the competing companies negatively if there are few dominant buyers and many sellers existing in the industries.

If the purchasing quantity of buyers has a large proportion in the endorsement of firms, if the products and services of firms are standard and the alternatives of them are available for the buyers, if the threat of backward integration is possible for the buyers, if the cost of changing the firm is low for buyers, bargaining power of buyer are defines as threat for the firms (Ülgen and Mirze, 2003).

2.5. Intensity of Rivalry

After a detailed literature review, it is seen that the intensity of rivalry between competitors in the industries depend on the structure of competition, the structure of industry costs, the degree of differentiation, supplier switching costs, strategic objectives, and exit costs. And addition to these, if the products, services that are combined with the strategic process of one or more competitors can meet the needs of buyers the intensity of rivalry and its pressure in the industries rises up (Arthur et al., 1999. p. 74).

3. METHODOLOGY

3.1. Research Goal and Data Collection

In this study it was aimed to identify the current competition conditions of the hotel sector in Istanbul. The statistics of Republic of Turkey Ministry of Culture and Tourism (2013) stated that there were 57 five-star and 94 four-star hotels in Istanbul. The questionnaire of this study was totally given to 63 senior managers of 63 four- and five-star hotels in a semi-formal interview method. The semi-formal interview method was chosen to make it possible to ask more detailed questions that were based on main questions for more meaningful information. The questions ask economies of scale, capital and requirements of investment, cost of suppliers, access to industry distribution channels and owning them, buyers' willingness to substitute, the relative price and performance of substitutes, the bargaining power of suppliers, the bargaining power of buyers, the structure of competition, the structure of industry costs, the degree of differentiation, supplier switching costs, strategic objectives, and exit costs.

3.2. Evaluation of Collected Data

Table 1 shows all the senior managers interviewed in this research are from four to five star hotels and all of them have more than 3 years' experience in the hotel sector.

Table 1 shows 55 of these managers have more than 5 years experience in the hotel sector as senior managers and also all of these senior managers had BAs in tourism or business management. This is considered significant to get answers in depth for the strategy based questions that were asked during interview.

3.2.1. Evaluation of new entrepreneur

According to the literature, companies that pose threat are not only the current rivals but also the ones with the potential to take

Table 1: The demographic data of senior managers attended to interviews

Demographic data	25-35 years old	35-45 years old	45-55 years old	55-65 years old
Four star hotels	4	11	5	-
Five star hotels	2	12	26	3
Total	6	23	31	3
Experience in hotel sector as senior manager				
1-3 years	-	-	-	-
3-5 years	3	5	-	-
+5 years	3	18	31	3
Total	6	23	31	3
Higher education				
Tourism management	5	20	12	-
Business management	-	3	14	3
No higher education	-	-	-	-
Total	5	23	26	3

part in the sector. In other words, it is expected that the more a sector is attractive to potential companies, the more competitive the sector will be in the future. Therefore, the sectors which lack genuine challenges for the new entrants are always subject to severe competition. The sector access barriers are defined in the literature as the factors that decrease the possibilities to enter the sector, cause the entrants to be reluctant to enter the sector and to prevent them to take part in the sector. The managers interviewed about accessibility of Istanbul hotel sector state that the demand for the sector and the profitability rates are high. It is also expressed that it is possible to employ people at small wages in this sector. It is stated as another attraction that current number of businesses and supplies are below the demand. In the light of the data collected through interviews, it can be interpreted that the sector is attractive as the cost of labor is low, the demand is higher than the supply, and the profitability rate is high. However, it is also mentioned in the interviews that companies and services with trademarks exist in the sector. This can be defined as an access barrier since this situation requires new entrants to depend on a chain causing extra financial burden. In addition, that it is almost impossible to find suitable land or buildings for the new establishments in and around the cultural and historical areas of Istanbul, where the demand for touristic activities is high, and the cost of investment is so high are mentioned as entry barriers.

Another point needed to be analyzed here is the entry barriers to hotel management sector in Turkey that are created by the government. Disadvantageous value added tax rates, classification of legal processes and the effect of tough standardization of documents are the discouraging factors to enter the sector and to increase the costs.

3.2.2. Evaluation of threat of substitutes

In the literature, suppliers are defined as businesses from which producers get required products. As claimed by Porter, in the sectors where suppliers are strong, competition will be harsh. It is normal that if suppliers are strong, supply costs will be high and this will reflect on the production cost, so the cost of final product and the sale price will be high. Hotel managers' statements about the position of suppliers in Istanbul hotel management sector are

centered upon these topics. Hotel management sector does not need high-cost supply service for accommodation, considered as basic service. The production of service in the hotel sector is realized through integrating human resources with the hotel building, hotel room and the interior decoration of these. In this context, the items defined as raw materials or semi-products in other sectors are physical equipment included in the entry cost and the capital. In Istanbul hotel management sector, where the demand is higher than the supply and the income and profitability levels of companies are high, the number of supplier companies which provide extra service is very high. Companies which provide semi-products such as goods for food and beverage services, chemicals for housekeeping and textile supply are stated as major trade companies and they have bargaining power. The managers attending the interview imply that the number of companies providing reservation and sales automation systems is low, but the quality of their service and their bargaining power are high.

3.2.3. Evaluation of bargaining power of suppliers

In the literature, the term substitute products or services is defined as the products or services produced by different businesses in the sector to appeal to similar customer needs. In the hotel sector, four- and five-star hotels state that they not only supply accommodation but also organize multi-functional congresses, meetings and have entertainment, food and beverage services and SPA facilities. Four- and five-star hotels do not think the existence of substitute products or services within the accommodation service in the hotel sector in Istanbul pose significant threat to the potential demand for them. The reason for this is expressed as the customer's low renounce level about the demanded services in the hotel management sector. For instance, business representatives discussing investments prefer well-equipped and luxurious hotels to cheaper ones such as hotels with less than four stars and substitute accommodation services such as state guest house, etc. A great number of hostels, three-, two-, one-star hotels, guest houses and dormitories generally affect the supply with low economic capacity as a part of tourism movement called youth tourism. Although the number of such businesses with cost advantage existing in the market is high, their capacity to substitute the service supplied by four- or five-star hotels is low. This situation reveals that the supply of substitute products or service in the competition environment of the four- or five-star hotels is insufficient.

3.2.4. Evaluation of bargaining power of buyers

Both in the local and national arena, the limited number of buyers and numerous businesses that can fulfill these buyers' demands strengthen the buyers' bargaining power. The data collected through interviews reveal that Istanbul hotel management sector is a market where supply is lower than demand. In fact, this situation normally would lead buyers to lose their bargaining power against current businesses; however, the fact that the low number of the distribution channels of foreign customers has the bargaining power instead of the customers themselves gives the buyers a partial bargaining power although the demand is higher than the supply. This situation is similar to the one in other sectors which raises the buyers' bargaining power by making high purchases with a single order and comes out as a factor that makes competition

difficult by giving the buyers a bargaining power against current rivals.

3.2.5. Evaluation of intensity of rivalry

It is stated that in the markets where the number of rivals is high, the competition is high too, and the reason for that is the fact that all the rivals have to fight for the same customers and supplies. In the legal classification comprising both national and international capital investments, the facilities range from single-star to five-star hotels for Istanbul destination. When the managers of the four- and five-star hotels in the main sample of this study were asked the question inquiring whether the number of businesses functioning to meet the current demand, they said there are lots of hotels with various stars but competition systematic is different and it depends on the structural factor appealing to rival businesses' tourism demands. The senior managers of four- and five-star hotels state that their rivals are four- and five-star hotels; however, when sub-service concepts are taken into consideration, the rivalry conditions change depending on some criteria. According to the answers given in this context, although the marketing in Istanbul hotel sector is possible all through the year, companies' status of rivalry and who their rivals are depend on the following criteria;

- Providing proper supply to domestic and foreign customers' demand regarding their level of income
- Foreign customers' having command on the market of the country they are operating and their agreement conditions with the tour operators who act as distribution channels
- The hotels' being within the reach of the industrial areas where both foreign and local customers travelling on business have business
- The hotels' capability of signing protocols with the companies of local and foreign customers travelling on business
- The hotels' capability of hosting and organizing congresses and being close to the exhibition centers
- Being a part of a national and/or international chain
- The perception of the customers regarding the convenience of the hotel in respect to room number and the capacity
- The number of staff per customer and the service quality
- The hotels' being close to inner-city transportation systems and airports and having parking facilities as Istanbul has a heavy traffic problem
- The hotels' having active facilities such as spa, Turkish bath, sauna, and entertainment
- The hotels' adaptation to periodical changes of seasonal trends in tourism sector (e.g., while for some period a low capacity boutique hotel concept where personal service is more important may be popular, a high capacity four- or five star-hotels may be trendy for another period.)
- The hotels' being closer to historical and cultural tourism attractions (e.g., Bosphorus, historical peninsula, Taksim area, etc.).

According to data collected through interviews, it is understood that the competition conditions among hotels vary in terms of criteria above. Although all these criteria are effective in determining rivals, four- and five-star hotels have become to resemble each other in terms of facilities and meeting the demand

of guests. While it is possible to observe this resemblance in the services provided and in the internal concept, factors such as being close to exhibition centers, industrial areas, airports, historical and cultural sites are not accepted feasible due to the high cost of either constructing or moving the hotel building to those areas when the principle of consuming service in its place of production is taken into consideration.

In the literature, the structure of supply and demand in the sector is said to be another important factor affecting competition. The main factor affecting competition in every market is the balance of supply and demand. Competition is known to be high in the markets with high supply and low demand, and it is low *vice versa*. In the interviews, the tourism sector in Turkey is defined as a market for the rising demand of international tourism each year. Taking into consideration that one third of the tourism demand for Turkey is for Istanbul region, it can be clearly seen that foreign tourists' demand is high. Similarly, when domestic tourism demand is taken into consideration, the current accommodation demand for Istanbul region is above the supply because of the numerous business trips to this city, numerous congresses and exhibitions held in this region with so many attendees and the high demand for the historical and cultural attractions, and the market growth rate is stated to be much higher than the one in the last 10 years. In addition to the growing demand and high rate of market growth, the managers confirm the existence of the profitability level meeting their expectations when they are asked the question related to the distribution of profitability, another element to be analyzed carefully.

When asked about the current situation of fixed costs, hotel managers state that hierarchical structure is horizontal in the labor-intensive Istanbul hotel sector, the number of highly-paid managers is not high and the cost of labor is low. Businesses owning the hotel buildings state that the cost of periodically renovating the buildings is high; however, that cost is not calculated regarding that year but taking the economic life of the renovated building into consideration, which is once in 5 of 10 years. As the cost of renovation is divided annually and reflected to the fixed cost in that manner, its negative effect is stated as low. Nearly all of the interviewed five-star hotel managers state that there are some companies owning hotel buildings in the area where land and construction costs are very high in terms of entry costs; however, those costs are not evaluated as fixed costs but capital. Some company managers among four-star hotels state that the rental costs of the hotel building are high as a fixed cost. In this case, it can be suggested that fixed costs in Istanbul hotel sector are not so high.

In the literature, it is mentioned that storage costs is another factor for competition in the industry in general. However, it is not possible to stock service as a product in the accommodation industry, which is a negative aspect. Therefore, competitors do not have advantage on each other when store costs are taken into consideration.

Another question asked was the factor called substitution cost. In the literature, this factor means the costs that customers

have to pay if they change the product or the producer. In the accommodation industry, this change depends on the availability of the accommodation. The cost of such demands of the customers can be divided into two categories: Financial and non-financial (psychological, social, and so on) costs. Customers (tourists) are not willing to spend their limited time to do such changes and this another factor affecting substitution cost. Generally, when customers are not satisfied with the accommodation, their demand of changing their rooms is met by the hotels room and this is not considered as an extra cost by the hotels.

Scarcity of product and service variety is another factor increasing the competition among the hotels. The managers interviewed stated that hotels having similar standards can offer different extra services to satisfy their guests' needs. According to the literature, the structure of the distribution channels in the tourism industry is another factor affecting competition. It is also mentioned that foreign tour operators are dominant as distribution channels in the accommodation sector in Istanbul. Therefore, the lack of the distribution channel alternatives leads to the weakness of the bargaining power of the hotels against the tour operators.

According to Porter, sector exit barriers are also one of the important factors that affect current competition. Existence of factors that block or restrict the shifting from one sector to another can boost competition conditions in that sector. It is also mentioned that the fact that the capital investments regarding entry and operation periods is so high in Istanbul hotel management sector is a factor causing the businesses not to be able to decide easily when they want to quit. However, another point stated here is that the sector's profitability status is so high that it creates convenient conditions for the companies that consider exiting the sector to be substituted or bought by the new ones.

4. CONCLUSION

This study in which Istanbul hotel management sector's current status of competition was analyzed presents a detailed theoretical background based on Porter's five forces, an interview consisting of questions prepared in the light of these five forces and conducted with volunteer senior managers of four- and five-star hotels and detailed information about the competition conditions in the sector. Data gathered was interpreted after being analyzed systematically and the conclusions were made.

The demand is higher than the supply in Istanbul hotel sector currently and the profitability rates attract new entrants. This condition reveals that although the level of competition is not high today, there will possibly be a highly competitive environment with new entrants in the sector in the future. However, the high cost of investments to enter the sector and the strong position of already existing brands and the demand for them could be viewed as negative aspects for the new entrants.

In respect to substitute products, since the hotels offer multi-functional products and services to their customers and each product and service has its own market segment, it is not likely for the four- and five-star hotels to lose their customers.

When the suppliers' condition was analyzed it was found that while the number of suppliers is high, the number of suppliers that provide with high quality products is low. As a result, this condition does not affect the competition among businesses negatively.

When an evaluation on the bargaining power of customers is made, it is understood that the demand for accommodation is higher than the supply, and this makes the hotels to have more bargaining power. However, when the tour operators are considered as whole buyers, the advantage of the bargaining power may shift to the tour operators.

There is no data showing the tough competition among hotels as the demand is higher than the supply. In general, four- and five-star hotels have developed similar practices to compete with each other. So it can be told that Istanbul hotel sector is available for the new entrants and the profitability of the sector is attractive for them. If the rising statistics of world tourism demand is taken to account, it can be told that Istanbul hotel sector can also rise its share of total world tourism receipts by developing the investments.

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