

# Challenges and Opportunities of Hotel Online Booking in China

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**Abstract.** This paper provides insights into Chinese consumers' behavior, attitude, and preference for travel planning and research, hotel selection and on-property spending patterns. Challenges and opportunities are discussed and practical recommendations are made for global hotel companies to create and execute their multi-channel eCommerce strategy by focusing on culturally savvy website localization and wise online marketing.

**Keywords:** eCommerce in China, website localization, online travel booking, consumer behavior, hospitality.

## 1 Introduction

China, as the 2nd largest economy with 457 million Internet and 309 million mobile Internet population, owns 3000+ travel websites. While the penetration rate of online travel booking is still low, an explosive growth in this sector is expected to take place in the next few years [1].

With almost all the world's major hotel companies entering the China market, it has become an urgent topic to understand the China's social and cultural context, the market and the consumer in the online hotel booking landscape. While there are commonalities between the western and China markets, the focus of the discussion here is on the uniqueness of the culture and the corresponding consumer behavior and expectation. It aims to provide practical guidance for global hoteliers to best align their products and services with the China market and therefore to achieve win-win outcomes. Note this paper is more focused on hotel online research and booking by transient customers instead of group intermediaries for meetings and events.

## 2 Social and Cultural Context and Online User Behavior

### 2.1 Cultural Characteristics

Relevant to our discussion here, China's culture can be characterized by two of the dimensions in Hofstede's model: collectivism and high power distance[5]. Based on Hall's culture style theory, China's culture is considered as "high context [2].

China is a typical *collectivism* culture, where people are integrated into strong cohesive in-groups. They tend to conform to group norms. Under many circumstances, the opinion of the collective will influence and even change the individual's own view. Therefore, "word of mouth" is an important influencer of consumer behavior. People favor "best sellers" and tend to follow the crowd. Thus, in general, market leaders have the best opportunity to become even stronger.

Because of the nature of collectivism, relationships are extremely important. Social and personal networks drive achievement. This is applicable to both individuals and businesses. Companies allied with other highly performing companies are generally perceived as well established and trustworthy. Friendship links to other companies and businesses are commonly seen on many highly respected brand sites in China. This also implies that global companies should consider establishing good business partnership with strong local brands.

*Power distance* is the extent to which individuals accept and expect the unequal distribution of power. China had a higher score than the US in power distance according to Hostede's studies. People respect authority, seniority and celebrities, tend to focus on prestige, credentials, certifications and awards and use them as indicators of quality assurance. For global companies whose brands and identities are unfamiliar to the Chinese customers, leveraging the abovementioned information for marketing and promotions can be quite effective.

In *high context* (HC) cultures, the communication is identified as indirect, ambiguous, maintaining of harmony, reserved and understated. Studies show that websites in HC culture tend to use more imagery and animated effects than those in low context culture; Websites are expected to be diverse and sophisticated; Navigation paths are more subtle and less linear.

## 2.2 Cultural Preferences

China has a very long history and profound culture with many unique aspects Relevant to the topic of our discussion, here are the highlights:

### *Every name has a meaning*

In the Chinese culture, almost all names have some meaning, especially when it comes to business names. International companies entering the China market need to pay special attention to the way their brand is translated. A good translation often needs to meet the following criteria:

- phonetically sounds similar to its original pronunciation,
- sounds pretty and carries elegance,
- the meaning is relevant to the customer and matches the company's business value,
- easy to remember, and
- there should not be other (negative) interpretations of the name, even based on homophones.

Coke Cola's name translation changed from sounding like "biting the wax tadpole" to "putting the mouth to rejoice", made a huge difference in impacting customer's perception of the brand although both phonetically sound similar. IKEA's Chinese translation "perfect for the home" is also highly regarded. On the other hand, Best

Buy recently shut down all their stores in China. Its name translation “百思买” , could be interpreted as “always thinking of buying (from the store)”, or “thinking a hundred times before buying”. The latter could sound negative to the business.

#### *Symbolic meanings are important*

As mentioned earlier, in the high context culture, people tend to use more images and icons to communicate to avoid over-straightforwardness. In the Chinese culture, certain colors, numbers and animals are associated with strong symbolic meanings as shown in Table 1. Some of the associations are based on ancient beliefs, and many are simply derived from the homophones. For example, “four” is a homophone of “death”. It is very important to use the appropriate images in the right context.

**Table 1.** Symbolic Meanings of Colors, Numbers and Images of Animals

Category		Meaning
Colors	Red	happiness and good luck; or financial gains
	Green	Financial losses;
	Gold	Royal and power
	White	Death
Numbers	Eight	Homophone of “Prosperous”
	Three,six, nine	Lucky
	Four	Homophone of “death”, bad luck
Animals	Dragon	Noble & powerful
	Tiger	Powerful
	Dog	Loyal
	Cat	Clever but disloyal
	Donkey	Stupid

#### *The Chinese language is complex and dynamic*

Being intricate and complex, the Chinese language has its own analogies and expressions. When it comes to translation, special attention needs to be paid to the language nuances. For example, if the hotel room promotion is 20% off the regular price, it should be stated as 80% offers in Chinese. Also the address in China goes from the broad to the specific, which is opposite to the western format.

In addition, the separation between Mainland China and Taiwan due to historical reasons makes the language even more complex: traditional Chinese characters are used in Taiwan while simplified in China; Many terms and concepts originated from the West also have different translations for China and Taiwan.

Recently, there have been a number of “Internet terms and phrases” added to Chinese people’s vocabulary. For example, microblog is also called “scarf” because of the homophonic relationship between the terms. “Fans (of celebrities)” is now translated into “thin vermicelli”. To make connections with the target customer, global companies need to beware of these expressions.

### 2.3 Hotel Information Searching Behavior

Overall, the Chinese Internet population is younger than those in other countries. 81% of them are younger than 40 years old, and 53% are aged between 20-40.

According to iResearch's data[3], an increasing number of Chinese users use the Internet to research on hotel information year over year. In 2010, the top three popular channels are: general search engines, OTAs and portal sites. For travel information research, such as travel ideas and price comparison, direct hotel sites are used less than search engines and OTAs, largely because during the research phase, 70% of the users had no idea about which hotel to stay [7].

For search engine activities, after the destination is determined, frequent keywords used fall into two categories: brand names and well-known landmarks. iResearch's findings [4] show that high-end international brands are less searched than economy hotel brands. There are two major reasons behind this: first, the economy hotel market is much larger than the high-end hotel market, and the target audience of economy hotels is much more price sensitive than the high end hotel audience. Secondly, the price sensitive users are much more likely to conduct online research than the less price sensitive users.

The landmark keywords often include attractions, shopping areas, traffic hubs, and entertainment centers. When selecting keywords for SEO purposes, hotel websites should make good use of the relevant landmark names.

### 2.4 Trip Planning Timeline and Hotel Reservation Behavior

According to the iResearch data [3], leisure travelers do not take a long time for planning compared to their western counterparts: 80% of the leisure trips were planned within half a month before departure and 32% of the reservations were made after arriving at the destination. This suggests that last minute deals via email or IM may be attractive to the right customers and mobile can play a big role in same day hotel booking. Location based marketing message may work well once the related technology gets more robust in China.

When it comes to the actual hotel booking[3], although OTA sites still lead the way, which account for 32% of the total bookings, direct hotel channels (brand site plus phone and mobile reservations) are now #2, claiming 26% of the market share, followed by online shopping platforms (such as Taobao) (11%). On the other hand, there are still a large number of internet users who end up booking offline (by calling to or walking in to the hotel property).

### 2.5 Key Hotel Selection Drivers

Similar to the leisure travelers in the US, the #1 factor driving the Chinese travelers' hotel selection decision is price. Convenience of the hotel location is the second most popular reason. The subsequent influencers are amenities, hotel reviews and the star-ranking of the hotel [3]. For travelers especially those who have no idea or are unsure about which hotel to stay, hotel reviews play an important role in their decision making. Recent studies [8] show that 81-90% of online shoppers or online travel bookers read product/hotel reviews before purchases.

**Table 2.** What hotel customers care most?

<b>Factors impacting hotel reviews</b>	<b>Leisure Travelers</b>	<b>Business Travelers</b>
#1	Price	Amenities
#2	Location	Transportation
#3	Transportation	Service quality
#4	Amenities	Location
#5	Service quality	Food & beverage
#6	Food & beverage	Price

Based on a comprehensive analysis of customer-contributed hotel reviews, Qunar, one of the top Chinese vertical travel search engines, reported [8] that the most important factors the hotel guest cares about differ between leisure travel and business travel (as shown in Table 2). Their results show that business travelers' top priority is hotel amenities while leisure travelers are much more price sensitive and look for the best performance/cost ratio.

Economy hotel customers more focus on whether the property is brand new or has been renovated followed by high speed internet and breakfast while customers of 3-star or lower hotels pay more attention to breakfast and business center.

## 2.6 On-Property Consumer Behavior Patterns

According to Goldman Sachs' research, non-room revenue (e.g., food and beverage) typically makes up 40% of the hotels revenue and in some cases over 50% [6]. The (high-end) hotel is generally perceived as the location for frequent business travelers to host clients. Luxury is seen as crucial for self-marketing & as a "business investment". Public space is perceived more important than the guest room.

In terms of the luxury tier loyalty program, some studies show that people are more interested in earning points for status add-ons than free nights and other studies [6].

## 3 Characteristics of China's Hotel Online Market

China's hotel online market has its own unique characteristics. First, as discussed earlier, the penetration rate of online hotel booking is still low. Most travelers use online channels for research and the reservation takes place offline. Secondly, global hotel companies face tough competition from local hotel chains, OTAs and other third party online travel platforms. Third, global hotel companies need to quickly get adapted to the local culture in order to replicate their eCommerce successes with other markets. Detailed discussions are as follows:

### 3.1 Tough Competition in the Hotel Online Research and Booking Space

Just like in the western markets, hotel companies face tough competition with many other players, such as online travel agencies (OTAs), online platform providers (e.g., Taobao), travel and general search engines (e.g., Qunar and Baidu), and travel community sites (e.g., Daodao). Next we are going to look at them more closely.

### *Dominance of OTAs*

In general, there is a hate and love relationship between the hotel companies and the OTAs. According to many case studies, the OTA channel could be 10 times more expensive than the hotel's direct online channel [12]. However, when travel supply outweighs demand, travelers are shopping around and hoteliers are more susceptible to discounting and working with the OTAs. In the past two years during the economic downturn, that happened to the top 30 western hotel companies [12]. Nevertheless, the direct channel revenue for these companies is still twice as that from the OTAs.

In China, the situation is not quite the same yet. While chained hotels with good brand awareness are more capable of expanding a membership network and build up a central reservation system (CRS), independent hotels have to rely on the OTAs to sell their rooms. With about 90% of the hotels being independent [11], the OTAs become a natural choice for customers to research and book hotels.

As of early 2010, Ctrip had 55% of the OTA market share, followed by eLong (22%), one of Expedia's China components. Ctrip has well integrated its online resources and traditional travel agency functions via strategic acquisitions. It has the largest call center in the world. 40% of its revenue comes from online bookings while 60% from phones. Its business model seems well suited to the China market: most users tend to use online channels for research and planning while making reservations offline. 80% of Ctrip's hotel revenue comes from 4-star and above hotels.

eLong is currently more focused on online hotel booking, especially for hotels of mid-tier or below.

### *Other 3<sup>rd</sup> party channels*

The vertical travel search engines and travel community sites (e.g., Daodao) also attract a large amount of hotel research traffic. Qunar and Kuxun are the leading vertical travel search engines. By traffic, Qunar is the 2nd largest travel site in China. Daodao is now the China branch of Tripadvisor and hosts a large volume of user generated reviews.

### *Taobao: the rising online platform*

More recently, China's largest eCommerce player Taobao also entered the travel market. With its huge user base of 370 mln registered accounts, it has a great potential to also play a large role in online hotel booking.

With these various channels available to leverage and yet compete with, hotel companies need to have a clear understanding about who and where their customers are, how they can be best reached, and what channels are most suitable for the business.

### *Online marketing spending pattern*

The most recent data show that hotel companies' online marketing spending is primarily on portal websites, accounts for 73% of the total spending [3], followed in turn by lifestyle (including travel) sites, finance sites, video sites and news sites. Among the portal sites, the MSN portal claims the largest share of 57% of hotel advertisement costs.

### 3.2 Special Challenges for Global Hotel Companies

While global hotel companies bring in cutting edge management expertise and admirable services to the market, they are also facing additional challenges when executing their ecommerce strategies in China:

#### *Different SEO practices*

In China, search engine penetration is 95% and the dominant search engine is Baidu, which is also the number one source for hotel information research. More than 20% of the ctrip traffic comes from Baidu. An eyetracking research [14] has shown that when examining search results, Baidu users don't follow the same scan patterns as the Google users (focusing on the upper left "golden triangle" area), and the sponsor links and organic results are also treated differently. Therefore, SEO strategies and rationale tied to Google may not completely work with Baidu.

#### *Brand differentiation*

Although the general attitude of Chinese customers towards the high-end western hotel brands is positive, people tend to treat them as in the same group because of the unfamiliarity of the brands. Certain companies enjoyed the first movers' advantages, but since the competition is getting so intense, all companies need to figure out the most effective way to foster customer loyalty and increase brand recognition in order to stand out from the pack.

#### *Website localization and cultural differences*

Using direct online channels to drive revenue and build customer loyalty is the ultimate goal for large hotel companies, and website localization is a big topic for those that are expanding their business in China. A popular approach has been to design one website and make it adapted to various languages and regions without engineering changes. This helps the company maintain centralized control over the content dissemination and keeps the development costs reasonably low. However, this does not warrant the same level of customer satisfaction, effectiveness and profitability for a different market. In order to make the website culturally relevant, an array of factors need to be carefully thought through, including user expectations, cultural preferences, business practices, language nuances, related government policy and many more. Great lessons can be learned from some world renowned companies' successful and unsuccessful stories in China, such as eBay [9]. Also, regional offices should be enabled to make necessary dynamic changes to the site in a timely manner.

#### *Target customers*

A large portion of the target customers for these hotels are business executives, who are less price sensitive and less likely to do hotel research or book hotels themselves. Instead, dedicated travel staff or assistants take care of their travel. Understanding who, how and when are involved in the different stages of the travel journey (from research & planning, hotel booking, pre-arrival, staying on property to post-trip) for this type of customers will help hotels better strategize personalized marketing, online product development, on-property services and loyalty program operations.

## 4 Opportunities and Recommendations for Global Hotel Companies

Compared to the Western hotel markets, the China has the following differences:

- The percentage of chained hotels is much smaller (7%);
- Hotel online booking penetration is still very low (8%);
- Most global hotel companies are competing for the upper mid-tier and upper tier market;
- OTAs are dominating online hotel booking;
- The leading search engine Baidu works differently from Google;
- The Taobao B2C platform is getting an increasingly higher participation rate from all kinds of high-end consumer brands.

These differences bring challenges and opportunities for those global hotel companies. Specific recommendations are as follows:

### 4.1 Maximizing the Direct Online Channel

It is evident that the direct online channel has the most advantages. It allows the brand to interact with and engage its customer directly throughout different phases of the travel journey, grow brand loyalty and build long term competitive advantages.

In recent years, branded economy hotels have grown their direct online channels effectively [11]. Seven Days Inn for example has cut out its indirect online channels. With 80% of its customers as returning customers, 7 Days Inn has 70% of the reservations coming from direct Internet channels [4]. Other economy hotel chains are also able to keep their OTA channels under 8% [13]. The increased visibility of the direct online channels gives the customer more options and help them better understand the advantages of these channels. It also creates the momentum for hotels at all levels to invest more in their own direct channels, reduce costs, and minimize dependencies on expensive channels.

Most of the global companies, managing 4 or 5-star hotels in China, have robust online distribution networks and have been successful in their niche markets. Their brands are perceived prestigious and desirable in China especially thanks to the quality of the services, exclusive locations, grand facilities and amenities. In order for their direct channels to be better recognized by the Chinese customers, they need to do the following:

- Create a culturally savvy online marketing strategy to promote their brands and attract traffic.

As mentioned earlier, in a collectivism culture with relatively high power distance score, “word of mouth”, thought leaders, professional experts and celebrities have large influence on people’s behavior, and also people pay attention to credentials and certificates. Global companies should make good use of related information, such as celebrity usage, company awards, accolades, rankings and prestige as well as “digital word of mouth” information (e.g., hotel reviews), and integrate them into their SEO,

SEM and online advertising practices to increase brand awareness and attract traffic to the website.

In addition, hotel companies need to focus on the advantages and exclusive benefits of the direct online channel, such as the promise of the brand, availability of room upgrades, hotel packages, and flexible cancellation policy.

- Optimize the localization of the official Chinese website to increase website stickiness and traffic conversion rate.

Many global hotel companies have launched their website in Chinese, and most of them use pictures of Chinese people and showcase local architectural achievements to display local promotions and make connections with the customer. This makes the site feel culturally relevant and is well aligned with the values of China's high context and collectivism culture, which is a great starting point.

To bring these websites to the next level, the companies need to strengthen their Chinese language processing capabilities so that the user is not forced to enter Pinyin for their name and address. Also they need to deepen the level of localization, which requires a lot of detail-oriented work. Table 3 below shows some subtle differences between the western websites and Chinese websites.

**Table 3.** Differences between Typical Western and Chinese Hotel Websites

<b>Subject</b>	<b>Western Site</b>	<b>Chinese Site</b>
Guest information required	Email & address	Email & cell phone number
Room guarantee	Credit card	Optional
Online payment method	Credit card	3 <sup>rd</sup> party payment, bank card and bank transfer

Given that Chinese users have a slightly different perception of site usability: they tend to place more emphasis on the visual appearance and prefer pictures and photos over text, hotels should consider displaying more large-sized, emotionally engaging photos to show the grander of the hotel's architecture, lobby and public areas within the building. In addition, the website of high-end hotels needs to generate the right impression for the customer that matches the perception of the brand.

Global companies should also get strategic in introducing customers to their large distribution network around the world. When China's outbound travel to the West gets more common, the customer's familiarity and loyalty to the western brands will influence their hotel and travel decision in a positive way.

## **4.2 Craft Out a Multiple Online Channel Strategy to Sustain the Growth**

As the Internet evolves to be more and more open, social, mobile and intertwined, the available online channels become more sophisticated and diversified. In addition to the direct online channel, strategies for SEO, OTAs, virtual malls, and mobile and social media marketing need to be carefully thought out as well. Having multiple channels complement each other will make the company's growth more sustainable and less immune to the economy situation, and thus out-smart the competition.

Because of the collectivism culture in China, typically existing market leaders tend to be more likely to get stronger. Identifying the market leaders and partnering up with the right players is critical to any global hoteliers. Since the China market is so dynamic and still fast developing, new players and new business models may emerge any time. Therefore, it is also equally important to keep monitoring the market and making strategy adjustments accordingly.

Overall, the companies that are culturally savvy and capable of aligning their strengths with the customers' needs, will stand out from the "western group", earn Chinese customers' loyalty, and eventually become successful in the China market.

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