Competitive Analysis of the Hotel Industry in Konya by Using Porter's Five Forces Model

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Abstract

One of the areas of industry in Konya which needs to be analyzed regarding effective factors on competition is hotel industry. Accordingly, the current research tries to analyze factors impacting on the industry using Porter's five forces model. According to this model, an industry is affected by five competitive forces and these forces determine the state of competitiveness and profitability of an industry. Porter's model is based on the insight that a corporate strategy should meet the opportunities and threats in the organizations external environment. Especially, competitive strategy should base on and understanding of industry structures and the way they change. Porter has identified five competitive forces that shape every industry and every market: entry of new investors, threat of substitutes, bargaining power of buyers, bargaining power of suppliers, and rivalry among existing competitors. Porter's model supports analysis of the driving forces in an industry. Based on the information derived from the Five Forces Analysis, management can decide how to influence or to exploit particular characteristics of their industry. This study aims to analyze the competitiveness at Konya Hotel Industry by using Porter's Five Forces Model. In this study, questionnaires have been used for data collection. The statistical population of the research consists of managers of hotel business (Senior, middle, executives).

Keywords: Porter's Five Forces, Threat of Entry, Power of Suppliers, Power of Buyers, Threat of Substitutes, Rivalry Among Existing Competitors.

1. Introduction

It is claimed in the Industrial Organization Theory that businesses can gain competitive advantage when they apply the strategies required by the external factors. In other words, the competitive forces in a particular industry determine the strategies that provide competitive advantage for the businesses in that particular industry (Porter, 1980; Porter, 1985). Therefore it is really important to analyze the competition conditions of the industries that businesses are and/or planning to be engaging in activities in, pick strategies accordingly to the results of the analysis, maintain the existing market share of the business and increase it further. Five Forces Model by Michael Porter is deemed as one of the important models that explain competitive forces in an industry. Porter (1979) asserts that the competition environment and the forces that affect businesses in an industry determine the profitability of businesses in that industry, and that all industries have an unique underlying structure that generates competitive forces (pp. 137-145). Hence it is necessary that the environment and five forces that affect competition are analyzed for a business to situate itself in the best position available in its current industry.

Porter has brought an important initiative to the field of competition analysis with the 'five forces model' he has developed on industrial construction that he claims has influence on the selection of location and the specifying of strategies to be followed. Industrial analysis is seen as a precondition for a business to situate itself safely and for it to set the course of its strategies by Porter (Karacaoğlu, 2006, pp. 29-30). In other words, by mentioning the collective power of the five forces, Porter indicates that businesses could thrive with correct positioning in the environment structured by these forces. The foreseen purpose in the model is the ability to subsist despite competitive forces and to use these forces in their favorwith correct positioning.

This paper intends to analyze the competitive level of hotel industry in Konya within the scope of 'Five Forces Model' and explain the forces that determine the competitive level in the hotel industry. The level, structure, causes and consequences of competition that hotel businesses are/may be facing will be presented more clearly with the conduction of this analysis. Moreover, the empirical data generated by the end of the research can be used as guidance for business strategies to be developed and picked.

2. Porter's Five Forces Model and Hotel Industry

According to Porter (2008), mindfulness of the five competitive forces could assist a business to understand the industry and position itself in a much more profitable place that is safer from attacks (p. 2). In this regard, Porter's five forces approach aims to reveal the bargaining powers of the suppliers and customers, competition between current businesses, threats of replacement products and possible new entries into the industry. When all the opportunities and threats created by each industrial force becomes clear, it will be possible for hotel managers to generate and conduct offensive and defensive strategies to position their businesses appropriately (Tavitiyaman, Qu& Zhang, 2011, p. 648).

The first of the factors that are important for gaining competitive advantage is *the entry of new businesses to the industry and the threats posed by them*;

New market entries signal the possible entry of new competitors in the industry. As these threaten the market share of the present businesses in the industry and increase the main generating capacity, creating excess supply, they might lead to remarkable reductions of the prices and consequently a decrease in the incomes of competitive businesses. The threat generated by new entries into the industry depends on the reaction the new business may face from its present competitors and present entry obstacles. Porter has listed these obstacles as (1) scale economies, (2) product differentiation, (3) capital needs, (4) access to chains of distribution, (5) cost disadvantages independent of scale, (6) present brand loyalty and (7) government policies (Porter, 2008, pp. 3-5).

Since the buildings and joining the supply chain requires vast amounts of investment and these investments can't be returned in short times, it can be said that the hotel industry features high levels of entry obstacles. Along with this, chain hotel managements act aggressively in order to increase brand recognition. This might result in creating effects of brand recognition and addiction and become an obstacle for entry. On the other hand, from economical to luxurious, attempts at differentiating the factors such as service pricing, decoration, architecture, site, management and employees in hotel industry can be observed. The increasing numbers of hotels limit the available sites appropriate for the target market. Government policies might be facilitative in sites considered for hotel construction, or they might make it more difficult (Cheng, 2013, pp. 52-57; Rutila and Tuominen, 2014, p. 19).

Consequently, the hotel industry features high levels of entry obstacles for newcomers due to a combination of different factors such as scale economies, vast requirements of capital for investment, supply and appropriate sites, experience.

Another threat in Porter's five forces model is *threat of substitutes*.

Substitute products are products and services produced in other industries that can substitute for businesses' products, even though they may not be identical or similar (Ülgen, Mirze, 2004, p. 97). Substitute products and services fulfill similar customer needs in different ways. These products are especially threatening in cases of (1) price dominance of replacement products, (2) conversion cost and customers' tendencies towards replacement products (Porter, 2008, p. 8).

There are no specific substitute product threats towards business' product and services in hotel industry. However, switching domestic travels to international ones or changing some destinations forones with more relevant costs or such might be problems businesses face. Among the same group of tourists, tendencies towards choosing cheaper accommodation like motels, hostels, guesthouses; preferring alternative options for food and beverages might emerge (Cheng, 2013, pp. 52-53).

Another threat generated by the industry is *the bargaining power of suppliers*

Suppliers with high bargaining powers can mostly put their wishes across in their relations with businesses, therefore businesses may not have the flexibility to pick and conduct strategic decisions and actions. Powerful suppliers might threaten the productivity of businesses in an industry by either raising the prices or lowering the quality of the products. The profit made in an industry is transferred to the suppliers by either of these means. (1) Input diversification, (2) Cost of switching suppliers, (3) supplier sales volume, (4) innovative integration are fundamental determining elements to suppliers' powers (Porter, 2008, pp. 6-7).

When the bargaining power is seen from the perspective of the hotel industry, the hotels need the furthered global information and reservation services. Moreover, hotels engage in business with various suppliers from the execution of the project to the service provided for the guests, like furniture, construction, textile, food and beverages, entertainment.

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However, unlike other industries, hotels are not confronted with the bargaining power of suppliers intensely. Having said this, as hotel managements need to gain cost advantage against their competitors at all times, they should cooperate with suppliers that contribute to gaining cost advantage, along with the creation of products and services that diversify in their own strategic groups (Cheng, 2013, p. 54).

Another one of the important factors that shape the competitive structure of the industry is *the bargaining power of buyers*.

Buyers that demand the goods and services produced in the industry are what is meant by customers here. Their bargaining power is that of lowering the prices, or of demanding higher quality or more service. (1) The customers' knowledge, (2) the customers' ability to perform backward integration, (3) the cost of switching suppliers to the customer and (4) the concentration of the customer in the total endorsement are the fundamental determining factors to customers' bargaining power. Customers are the foremost force that directs change in accommodation industry (Tavitiyaman, et al, 2011, p. 648; Porter, 2008, p. 7; Ulgen et al, 2004, pp. 99-100). Studies conducted in the field show that customers will increasingly purchase more, demand lower prices and acquire larger bargaining power (Taylor, Finley, 2009, pp. 82-95).

When the element of customers' bargaining power is looked at through the lens of hotel businesses, it is not likely for most customers to buy a hotel or construct a new one, as the required investment is high. Even many international hotel chain companies are the operators or managers of many hotels in their chains instead of owning them. Therefore backward integration as customers' bargaining power is not likely to happen. The limited nature of hotel customers globally (one customer not purchasing many rooms) gives advantage to hotels in regards to customers' bargaining power. Nonetheless, corporate guests demanding special prices for large-scale bookings is inevitable. For example, like tour operators providing service with low profit margins because of the competition, corporate guests would have a higher price sensitivity which means they hold a bargaining power risk (Cheng, 2013, p. 54)

Another element of Porter's five forces model that affect the competition and managerial performance is *rivalry among existing competitors.*

Rivalry between the existing competitors is the result of various structural elements. Many or equally strong competitors, slow expansion of the industry, high fixed costs, insufficient differentiation, surplus capacity, obstacles for exiting, etc. elements increase the volume of the competition between businesses (Porter, 2008, p. 9).

In the hotel industry, the entry of alternative services such as the construction of new hotels in increasing numbers, time sharing system, renting housing, increases the competition. Competition in the hotel industry is determined mostly by price, similarity of segments and location (Tavitiyaman et al, 2011, p. 649). When considered all together, competition tends to be intense in the hotel industry. Besides, there are barriers to exit from the hotel sector originating from various strategic and economic factors in big cities. As there are not sufficient locations for hotels or the markets are shared, hotel businesses in the industry tend to be located closely to each other. Moreover, even though it can be claimed that goods and services differ from economical hotels to the luxurious ones, it can be hard convincing people that they really do (Rutila, 2014, p. 19).

3. Research

3. 1. Research Purpose

The purpose of this research is to examine the factors which affect the competition level of Hotel Industryin Konya (with regards to the factors partaking in Porter's five competitive forces model), to determine their levels and to analyze whether they vary in terms of certain demographic and operating characteristics.

3. 2. Parameters and Hypothesis of the Research

According to Porter, five forces which determine the competition level are *Entry of New Investors, Threat of Substitutes, Bargaining Power of Buyers, Bargaining Power of Suppliers and Rivalry Among Existing Competitors*. Therefore, the competition level in this study was evaluated with regards to these five parameters.

The basic hypothesis to be tested for this study is as follows;

H. 1: Competition level perception of Participants differs significantly in accordance with hotel classification.

H. 2: Competition level perception of Participants differs significantly in accordance with hotel size.

H. 3: Competition level perception of Participants differs significantly in accordance with their experience in the sector.

3. 3. Method of the Research

A questionnaire had been made with senior managers and department managers of 24 hotels in Konya, which held Tourism Licenses. There are 3 five-star hotels, 7 four-star hotels and 14 three-star hotels in Konya. Minimum two managers from each hotel were interviewed and the questionnaire forms were handed.

The questionnaire consists of two main parts as questions with regards to Porter's Five Competitive Forces and demographic questions. The scales, which have been developed and used earlier for studies aim to determine the competition level of a sector by using Porter's Five Competitive Forces model, were prepared for hotel management in 5-Likert typein accordance with this study (1= Strongly Disagree, 5= Strongly Agree). The questions of the questionnaire were drafted in a way that choosing number "1" means that the person who chose this answer is considered "very low level of competition" and choosing number "2" means that the person who chose this answer is considered "very high level of competition". 40 of the questionnaire forms which were answered by hotel or department managers were received.

Partial Least Squares (PLS) method, which has a statistical power in complex models and small sample occasions, was used for this study due to limited number of samples. PLS introduces minimum limitation for sample size. According to some researchers, sample size does not cause any problems in PLS method. Moreover, the practical rule suggested for sample size in PLS method is; it is suitable to find samples 10 times more than the scale number of parameter that has maximum scale number in PLS model (Hair, Hult, Ringle&Sarstedt, 2014, pp. 19-20).

PLS method works with metrical, half metrical and categorical data and can process nonparametric data. Therefore, while determining the statistical levels of estimations, nonparametric methods are being used (Hair et al, 2014, pp. 22-23).

The use of PLS method in marketing, strategic management, management information systems and many other fields has been increasing in recent years (figure 1).
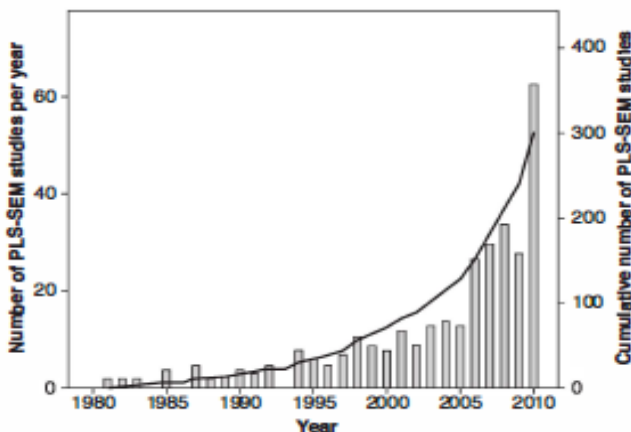

Figure 1: Number of PLS-SEM Studies by Years

Source: (Hair, et al, 2014; xv)

Systematic approach to evaluation of study results is as follows;

- Confirmatory Factor Analysis,
- Determining Composite Reliability,
- Calculating AVE-Average Variance Extracted,
- Testing the hypothesis.

SmartPLS and SPSS software were used in order to evaluate the study results.

3. 4. Data Analysis

Firstly, bootstrapping analysis has been made by SmartPLS program in order to develop parameters for determining the competition level and to determine the variable value. In bootstrapping analysis, many preload subsamples are being created by way of changing from the current sample and "t" value is being determined (Hair et al, 2014, pp. 135-138). In this study, significance level of each variable were tested by taking "t" value as 1. 96 ($\propto$= 0. 05) and the scales which do not meet the condition were eliminated from the analysis. Afterwards, indicator outer loading was made. In accordance with a generally accepted rule, in order to determine convergence validity, each question should be loaded as bigger than 0, 7. In this regard, there were no questions in the survey that does not meet this condition.

The average, standard deviation and factor loading of each scale created by PLS method were analyzed and as a result of the analysis, the factor uploadswere proper (minimum 10 points more than the other and the maximum of the line) for PLS conditions (Table 1).

Table 1. Average, Standard Deviation and Factor Loadings of Scales Analyzed in the Research

Factor Scales	AV	SD	BPOB	REAC	TOE	BPOS	TOS
Our customers have enough information to compare the products and services provided in our hotel to the products and services provided in other hotels.	3, 40	1, 39	0, 83	0, 56	0, 42	0, 45	-0, 01
Customers drive a hard bargain about the money for room reservations.	3, 15	1, 09	0, 66	0, 47	0, 22	0, 44	0, 16
In case the customers prefer other hotels, they do not face any extra costs.	2, 90	1, 39	0, 58	0, 41	0, 34	0, 22	-0, 19
In case the customers prefer other hotels, it is not easy to replace them with new customers.	3, 54	1, 36	0, 81	0, 68	0, 50	0, 38	-0, 02
The hotels in Konya are in balance with regards to their sources and capacities.	3, 02	0, 97	0, 51	0, 70	0, 30	0, 56	0, 12
Products and services of the hotels in Konya are standard and differentials are low.	3, 34	1, 25	0, 60	0, 77	0, 30	0, 36	0, 01
The market of the hotels of Konya is the same.	3, 34	1, 44	0, 58	0, 81	0, 29	0, 51	0, 03
It is easy to enter into the market as a new Hotel in Konya.	3, 62	1, 29	0, 58	0, 47	0, 96	0, 62	0, 06
Our customers do not have brand loyalty regarding the hotels and can easily prefer new hotels which are no name.	3, 37	1, 10	0, 25	0, 13	0, 81	0, 37	0, 16
The number of the suppliers who supplies main products and services (food provider, tour operator, travel agency, bus firms, etc.) is low.	3, 40	1, 30	0, 43	0, 47	0, 38	0, 78	0, 27
The products and services provided by the suppliers are important for the quality of the services provided to the customers.	3, 08	1, 24	0, 36	0, 47	0, 39	0, 65	0, 24
Replacing the current suppliers costs high.	2, 76	0, 97	0, 28	0, 31	0, 45	0, 63	0, 18
The terms of our cooperation with the suppliers (food provider, tour operator, travel agency, bus firms, etc.) who we are working with are long.	3, 35	1, 29	0, 44	0, 57	0, 53	0, 84	0, 44
There are plenty of options for accommodation and food & beverage for our customers outside the hotel.	3, 83	0, 97	0, 00	0, 17	0, 18	0, 39	0, 88

Choosing other accommodation or food & beverage option does not burden extra cost on the customers.	3, 31	1, 13	-0, 04	-0, 08	-0, 03	0, 26	0, 64
Alternative accommodation units (guesthouse, rent house, timeshare etc.) has benefit-cost advantage comparing to hotels.	3, 62	1, 24	-0, 01	-0, 08	-0, 04	0, 17	0, 71

AV: Average; **SD:** Standard Deviation; **BPOB:** Bargaining Power of Buyers; **REAC:**Rivalry Among Existing Competitors; **TOE:** Threat of Entries; **BPOS:** Bargaining Power of Suppliers; **TOS:**Threat of Substitutes

Next, the results of Composite Reliability were calculated. The traditional criteria for consistency is Cronbach Alpa and this criteria assumes that all indicators have equal reliability. However, PLS scales each indicator with regards to their reliabilities. Moreover, Cronbach Alfa is sensitive to number of questions of the scale and generally does not consider consistency reliability. In this regard, although Cronbach Alfa can be used as a traditional scale of consistency reliability; it is more appropriate to use another scale for measurement of PLS. The most appropriate scale here is Composite Reliability scale, which takes into consideration the different loadings of indicator parameters. Values between 60-70 points are sufficient for composite reliability and for oncoming processes of multidimensional researches, values between 70-90 points can be acceptable (Hair et al, 2014, pp. 101-102).

In this context, composite reliability values are calculated as reliability scale in this study. The reliability results are shown in Table 2. The values of factors are acceptable between 70-90 points.

The commonly used scale for Convergent validity is Average Variance Extracted (AVE). The generally accepted value for each factor is 50 and more points (Hair er al, 2014, p. 103). AVE values are shown in Table 2 and the values are acceptable as they are all more than 50 points. Thus, convergent validity is confirmed.

Table 2. Reliability Values of Research Factors

	AVE	Composite Reliability
BPOS	0, 5274	0, 8140
REAC	0, 5756	0, 8022
TOE	0, 7848	0, 8786
BPOS	0, 5337	0, 8186
TOS	0, 5677	0, 7946

Finally, arithmetic average and standard deviation of parameter scores are calculated after setting parameter scores with SmartPLS (Table 3). These arithmetic averages are used for evaluating the Competition Level of Hotel Industry in Konya. Moreover, the scores are analyzed by use of ANOVA method and the hypothesis are tested.

Table 3. Arithmetic Averages of Factors

	Average	Standard Deviation
BPOB	3, 25	0, 94
REAC	3, 23	0, 90
TOE	3, 50	1, 06
BPOS	3, 15	0, 87

TOS	3, 59	0, 83

4. Findings

4. 1. Demographic Findings

Demographic information regarding study subjects are shown in Table 4. Accordingly, 82, 5% of the survey attendees are male whereas 17, 5% of them are female with 62, 5% of them are university graduates, 35% of them are high school graduates and 2, 5% of them are primary school graduates.

Table 4. Demographic Findings

	Frequency	Percent
Gender		
Male	33	82, 5
Female	7	17, 5
Education		
Primary Education	1	2, 5
High School	14	35
Pre License	9	22, 5
License	16	40

4. 2. Professional Findings

Professional titles and experiences of attendees are shown in Table 5. Accordingly, 17, 7% of attendees are General Managers, 7, 5% of them are Deputy General Managers and 75% of them are hotel department managers. A great majority of attendees are experienced managers in the sector (90%) and in the field (52, 5%).

Table 5. Professional Title and Experience Findings

	Frequency	Percent
Title		
General Manager	7	17, 5
Deputy General Manager	3	7, 5
Department Manager	30	75
Experience in the Sector		
Less than 1 year	2	5
1-5 years	2	5
More than 5 years	36	90
Experience in the Field		
Less than 1 year	3	7, 5
1-5 years	16	40
More than 5 years	21	52, 5

4. 3. Competition Level of Hotel Sector of Konya

"The most efficient force", "The least efficient force" and "Competition Level in General" in the sector are evaluated by calculating arithmetic average of the scores regarding each competition force (Table 3) for determining the Competition

Level of Hotel Industryin Konya in accordance with Porter's Five Competitive Forces, which constitutes the basis of this research. As shown in Table 3, the Most Efficient Force in determining the competition level is *Threat of Substitutes (*TOS=3, 59) where the Least Efficient Force is *Bargaining Power of Suppliers* (BPOS=3, 15). Each factor determining the competition level of hotel industry in Konya are as 3=Medium Competition Level and 4=High Competition Level, as shown in Figure 2. Therefore, the competition level of hotel industry in Konya is not very high but medium level.
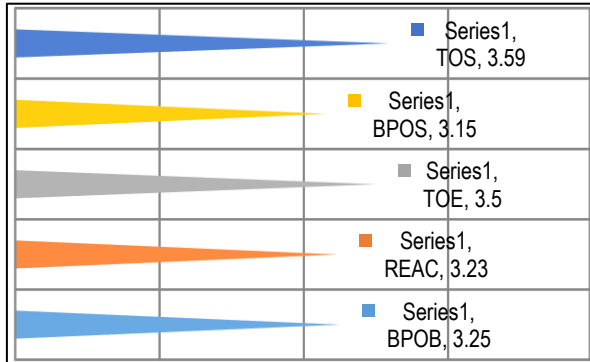

Figure 2. Competition Level of Hotel Industryin Konya

4. 4. Findings Regarding Hypothesis

ANNOVA test results which are tested by SPSS software are given below with regards to hypothesis of this study. In Table 6, the results of "H1: *Competition level perception of Participants differs significantly in accordance with hotel classification*" is given. Taking into consideration $p < 0, 05$ in each analyze of competition forces and the differences in hotel classification averages, H1 hypothesis is accepted.

Table 6. Competition Level Perception With Regards to Hotel Classification

H1: Competition level perception of participants differs significantly in accordance with hotel classification		Average	Standard Deviation	Sig
REAC	3 star	2, 60	0, 57	
	4 star	3, 00	0, 62	,000*
	5 star	4, 33	0, 59	
BPOB	3 star	2, 76	0, 75	
	4 star	2, 94	0, 74	,000*
	5 star	4, 29	0, 63	
BPOS	3 star	2, 89	0, 70	
	4 star	2, 61	0, 62	,001*
	5 star	4, 23	0, 24	
TOE	3 star	2, 96	0, 89	
	4 star	3, 33	1, 21	,000*
	5 star	4, 41	0, 30	
TOS	3 star	4, 03	0, 94	
	4 star	3, 01	0, 53	,015*

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	5 star	3, 85	0, 58

*p<0, 05

In Table 7, the results of "H2: *Competition level perception of Participants differs significantly in accordance with hotel size*" is given. Taking into consideration p<0, 05 in each analyze of competition forces and the differences in hotel sizes, H2 hypothesis is accepted.

Table 7. Competition Level Perception Regarding Hotel Size

Competition level perception of participants differs significantly in accordance with hotel size		Average	Standard Deviation	Sig
REAC	1-49	2, 58	0, 59	, 000*
	50-99	2, 85	0, 66	
	100-149	2, 73	0, 40	
	150-199	3, 98	0, 08	
	200-249	4, 16	0, 77	
BPOB	1-49	2, 90	0, 89	, 000*
	50-99	2, 53	0, 41	
	100-149	3, 16	0, 97	
	150-199	3, 62	0, 66	
	200-249	4, 18	0, 67	
BPOS	1-49	2, 96	0, 79	, 001*
	50-99	2, 64	0, 57	
	100-149	2, 70	0, 82	
	150-199	3, 52	1, 04	
	200-249	3, 97	0, 68	
TOE	1-49	2, 81	0, 84	, 000*
	50-99	2, 75	1, 01	
	100-149	4, 17	0, 82	
	150-199	4, 25	0, 35	
	200-249	4, 25	0, 62	
TOS	1-49	4, 37	0, 41	, 015*
	50-99	3, 36	0, 98	
	100-149	2, 97	0, 26	
	150-199	3, 87	1, 61	
	200-249	3, 59	0, 65	

*p<0, 05

In Table 8, the results of "H3: *Competition level perception of Participants differs significantly in accordance with their experience in the sector*" is given. Taking into consideration p>0, 05 in each analyze of competition forces, H3 hypothesis is declined. Therefore, the competition level perception of attendees does not differ regarding term of services.

Table 8. Competition Level Perception Regarding Service Terms

Competition level perception of Participants differs significantly in accordance with their experience in the sector		Average	Standard Deviation	Sig
REAC	Less than 1 year	3, 31	0, 29	, 33
	1-5 years	3, 02	0, 84	
	More than 6 years	3, 31	1, 00	
BPOB	Less than 1 year	3, 06	1, 55	, 15
	1-5 years	2, 94	0, 83	

		3, 44	0, 90	
BPOS	More than 6 years	3, 44	0, 90	
	Less than 1 year	2, 74	0, 85	
	1-5 years	2, 91	0, 72	, 28
	More than 6 years	3, 37	0, 97	
TOE	Less than 1 year	3, 00	1, 00	
	1-5 years	3, 19	0, 98	, 29
	More than 6 years	3, 80	1, 13	
TOS	Less than 1 year	2, 82	0, 36	
	1-5 years	3, 66	0, 68	, 42
	More than 6 years	3, 64	0, 97	

*$p<0, 05$

5. Conclusion

In this study, Competition Level of Hotel Industry in Konya is evaluated with regards to the parameters of Porter's Five Competition Force. Moreover, it is also evaluated whether perception regarding competition forces differs in terms of demographic and operating characteristics.

According to research results, competition level of Hotel Industry in Konya is "middle-high" levels. The Most Efficient Force in determining the competition level is *Threat of Substitutes* where the Least Efficient Force is *Bargaining Power of Suppliers.* Taking into consideration all results;availability of guesthouses of institutions, cheaper hostel or relatives' houses preferences of tourists can be considered as a threat for hotels. Besides, the customers can change their accommodation very fast due to their precision to price and also because their brand royalty is low. Therefore, it is possible to state that negotiation power of customers is high. There are not many obstacles in town to prevent new hotel investments other than fixed investment costs. Because of the fact that the products are standard, the competition level is high in this scope.

Furthermore, although competition level perception differs with regards to hotel classifications and sizes, it does not change the service terms of managers.

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