

Discussion on China's Online Short-term Rental Competition Strategy Based on Michael Porter's Theory

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Abstract: The development of accommodation to the personalized and diversified online short-term rental has become the trend of China's business and travel accommodation development. However, the backward situation makes the overall supply capacity of online short-term rental in China insufficient. Based on this contradiction between supply and demand, we use Porter's competitiveness theory to establish China's online short-term rental competition model, analyze the five factors that affect the competitiveness of online short-term rental, as well as explain the key issues that should be addressed and propose strategies for the development of online short-term rental competitiveness in China.

1. Introduction

In recent years, with the rapid development of China's economy, the development level of various industries and the living standards of the people have leapt to a new level, as well as the social demand pattern and the intensity of demand have changed dramatically. In business and travel accommodation, the people put forward higher requirements for the online short-term rental platforms with individualization, diversification, complete life support and rich location selection.

In 2018, the number of online short-term rental users in China reached 147 million, an increase of 83.0% compared with 2017, and the development is very rapid. But as far as the current status of online short-term rental in China is concerned, the mode of short-term rental products is single, the credit system is imperfect, the service level is uneven, and some properties have poor customer accommodation experience due to incomplete monitoring facilities and management confusion, which is far from social needs [1].

In recent years, many scholars at home and abroad have analyzed the development status and existing problems of online short-term rental, and proposed development countermeasures, but lack of systematic analysis and not deep enough. Based on this contradiction between supply and demand, this paper uses Michael Porter's competitiveness theory to establish China's online short-term rental competition model, exploring the internal reasons of this imbalance between supply and demand as well as the development strategy to solve this problem.

2. Competitive situation in the online short-term rental industry

Sharing economy drives online short-term rental market, and consumers pursue personalized accommodation services. In 2010, the concept of online short-term rental rose in China. The rapid development of American company Airbnb has attracted many companies to join the online short-term rental market. China's first online short-term rental company, Airizu, was established in 2011, and then more and more Chinese companies joined the industry. In 2015, the National Conference first proposed the "sharing economy". Besides, Senseluxury, Onehome and many other companies entered the market, as well as Airbnb officially entered China, which accelerated the industry layout. Today's online short-term rental market is booming, and there are many competitive

platforms to seize the market. Its characteristics are as follows.

2.1 Present a market structure of monopolistic competition.

As of 2017, based on the domestic market share, the top three are Tujia, Muniiao and Airbnb. Tujia accounts for about 42% of the market share, followed by Muniiao and Airbnb, which respectively accounts for about 31% and 8% of that [2]. From the current development trend, the short-term rental industry is following the Pareto's principle: The advantages of the head platform led by Tujia are becoming more and more obvious, and the market share is concentrated in the hands of these few platforms.

It can be seen that the concentration trend of the online short-term rental market has increased significantly and it currently presents a market structure of monopolistic competition. Product substitution among different companies in the market is strong, and industry leaders are not stable enough to be replaced.

2.2 Competition is fierce, but the space and opportunities for development are greater.

With the encouragement of national policies and the advent of capital, the online short-term rental market will continue to heat up and the competition will be fierce. The characteristics of competition among enterprises are highlighted; Xbed specializes in Internet hotel operation solutions, using intelligent identification and AI technology to reduce operating costs and enhance user experience; Mayi's Youjia relies on a data dictionary to pinpoint high-quality listings in core business districts. The platform system is constantly upgraded; Xiaozhu provides the "first stay and pay" service, and opens the entrance of Fliggy; Airbnb launches the new listing standard "Airbnb PLUS" to select all the listings on the platform. Enterprises compete to develop marketing cooperation and use IP to promote brands; Zhenguo and NetEase Game "Man vs. Wild" launched the game IP theme homestay.

However, from the perspective of the industry life cycle, the current online short-term rental market is still in the growth stage, and the development space is huge. In the first half of 2018, among the online short-term rental APP rankings of user recognition, Xiaozhu ranked first, with a recognition level of 5.58, followed by Airbnb, with a recognition level of 5.57. Tujia and Mayi listed in third and fourth. Xbed, an online short-term rental platform driven by Internet and technology, is also ranked in the top ranks with a recognition of 5.02 [1]. At present, the popularity of online short-term rental platforms is generally not high, and there is still much room for improvement. The industry still has no obvious leading edge, and the whole is still in the cultivation stage.

3. China's Online Short-term Rental Competition Model

Michael Porter's Five Forces Model theory is an effective tool for analyzing the competitive characteristics of the industry in which the company is located. The theory holds that the competitive advantage of enterprises is determined by the industry structure, and there are five kinds of competitiveness in the industry, which consist of competition among existing competitors, threats of potential entrants, threats of substitutes, bargaining power of suppliers, and bargaining power of consumers. Based on the analysis of this competitive structure, Porter's competitiveness theory finds the key factors that restrict competition, and adopts corresponding counter-attack strategies to provide a new theoretical analysis method for industry competitiveness, and to provides new ideas and directions for understanding the behavior of the object and guiding the competition [3].

Online short-term rental, as a business model with better domestic economic development, has strong vitality, but its survival and development are affected by many factors. How to evaluate its existing competitiveness and what kind of strategy we adopt to enhance its competitiveness is the key to restricting the development of the domestic online short-term rental industry. In view of this, the paper establishes an online short-term rental competition model based on Porter's competitiveness theory, as shown in Figure 1.

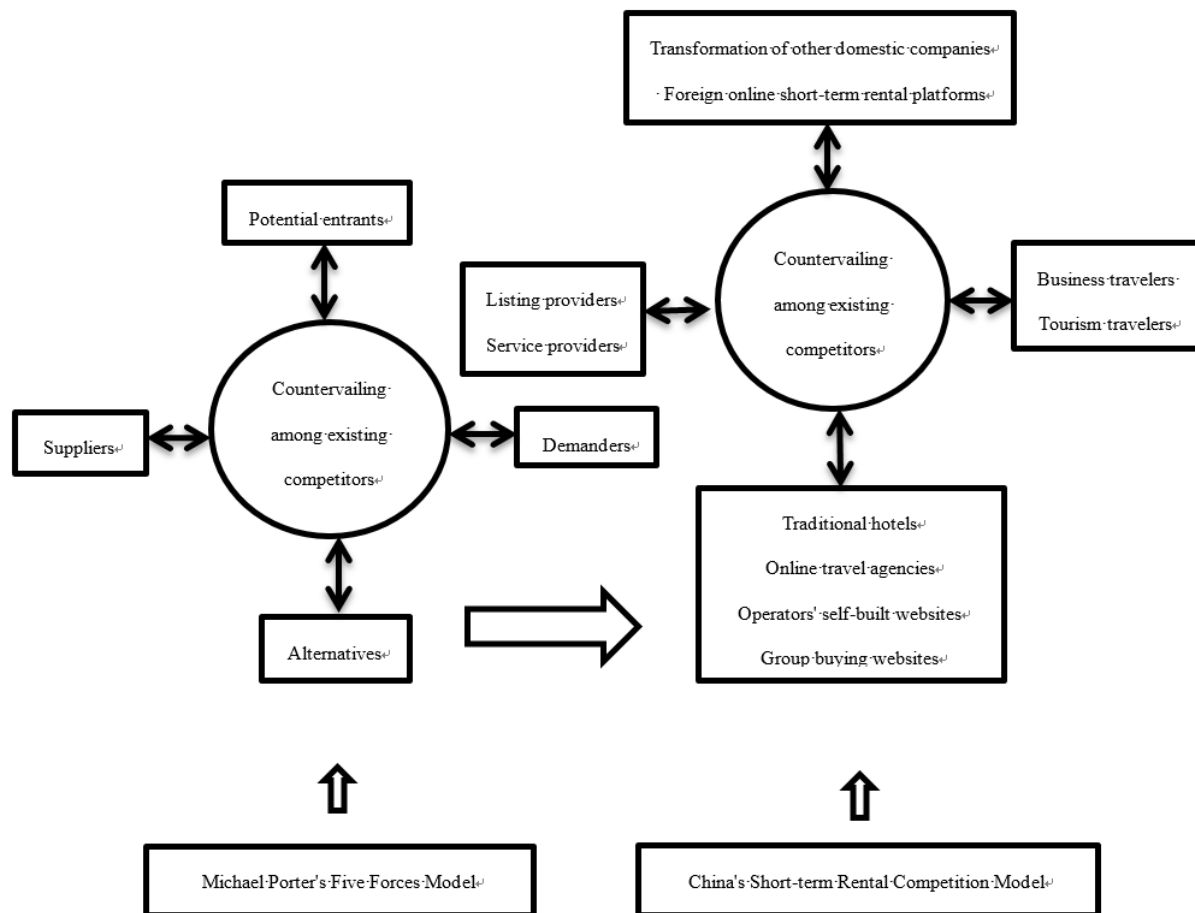


Figure 1. China's online short-term rental competition model

In Porter's competitiveness theory, the competition among existing competitors, the threat of potential entrants, the threat of substitutes, the bargaining power of suppliers and the bargaining power of consumers are reflected in the online short-term competition model in China: (1) Countervailing among existing competitors: market coverage, short-term rental price, funding level and service level. (2) Potential entrants: transformation of other domestic companies, foreign online short-term rental platforms. (3) Alternatives: traditional hotels, online travel agencies, operators' self-built websites, group buying websites, classified information websites. (4) Bargaining power of suppliers: listing providers, service providers. (5) Bargaining power of demanders: business travelers, tourism travelers.

The five competitive forces in the model together constitute a dynamic competitive environment for stimulating innovation. The following will analyze the competitiveness of online short-term rental industry based on this environment, and propose a series of development strategies to improve the competitiveness of online short-term rental.

4. Analysis of China's Online Short-term Rental Competition Model

4.1 Competitive analysis among existing competitors [4].

The development of the sharing economy in the "Internet Plus" era has given birth to industry prosperity. In June 2011, China's first online short-term rental platform, Airizu, was established in Beijing. In just a few short years, the online short-term rental industry has created a number of platforms for short-term rental, such as Xiaozhu, Zroom, Tujia, Muniao and Mayi.

The intensity and quality of competition among existing enterprises is an important indicator of the development trend of an industry, including the intensification of enterprises, the degree of scale, as well as the checks and balances between each other. The competition among online short-term rental companies is mainly reflected in the market coverage, price, capital and service level of

short-term rental enterprises.

For existing competitors in the industry, this paper analyzes from the following four aspects.

4.2 Market coverage.

In the initial stage of industry development, quickly occupying the market and increasing the coverage of the property is the main competitive strategy of China's online short-term rental industry. The bilateral market characteristics of online short-term rental determine the importance of market coverage. Scale expansion and resource integration are the inherent requirements of online short-term rental development. In terms of listing type, Tujia, Estay and Ziroom rely on their own listings or cooperate with real estate developers, mostly for the entire suite source, while Xiaozhu and Muniao are mostly provided by individual owners.

4.3 Short-term rental price.

In terms of platform service fees, domestic online short-term rental mostly adopt the “non-neutral” pricing strategy of the bilateral market model, which means that the high price is charged to the party with low demand elasticity and relatively insensitive price, and the party with high demand elasticity and relatively sensitive price is charged low. The platform charges the landlord for the service fee and the tenant is free. For example, Xiaozhu and Zhuwona charge the landlord a 10% technical service fee [5]. In terms of listing prices, most online short-term rental platforms emphasize sharing features and focus on price/performance. However, high-quality short-term rental products also occupy the market. For example, Tujia and Estay are positioned as high-end holiday short-term rental platforms for middle-income and high-income people.

4.4 Fund level.

Rapidly occupying the market through huge investment or seeking strategic alliance is the main competitive strategy of domestic online short-term rental enterprises. In fact, most companies have a strong background in capital or resources. For example, Ziroom is owned by Lianjia, Quhuhu is owned by Qunar, and Mayi is owned by Ganji. With the rapid development of the sharing economy, the capital market is gradually optimistic about China's online short-term rental. In the first half of 2018, a total of 13 short-term rental companies received investment, and Ziroom received the largest financing in the industry, reaching 4 billion yuan [1].

4.5 Service Level.

At present, the domestic online short-term rental industry is mainly divided into two camps. One is represented by Tujia, Estay and Ziroom, relying on their own houses or cooperating with real estate developers to integrate large-scale housing, provides real estate hosting services, butler services to the landlord, and tenants with relatively standardized products, through the unified renovation of the property. The other is represented by Xiaozhu and Muniao, which is closer to the model of Airbnb and only provides basic services for intermediary services.

4.6 Analysis of threats from potential entrants.

The threat status of potential entrants depends on the entry barriers of the industry and the counterattack degree of the original enterprises. If the barriers to entry are high, the original enterprises will have a strong counterattack and the potential entrants will have difficulty entering the industry. Therefore, the threat of the entrants will be small [6]. Although the operation mode and management methods of most domestic online short-term rental platforms have changed greatly compared with traditional hotels, mainly reflected in the diversified, personalized, location-rich and fully-equipped services of short-term rental housing. However, as the domestic online short-term rental industry is a new industry, it is still in the stage of transition from the initial stage to the growth stage. The short-term rental platform has lower technical thresholds, less capital requirements, lower entry and exit barriers. At the same time, with the rapid development of online short-term rental, more companies will enter the online short-term rental industry. The potential entrant threats in the domestic online short-term rental industry mainly have the following two aspects.

4.7 Transformation of other domestic companies.

Some existing domestic enterprises have transformed into online short-term rental industry. Taking Lianjia as an example, Zroom was launched by Lianjia in 2011, which quickly occupied the majority of graduates and white-collar market. In the first half of 2018, Zroom won the largest financing in the short-term rental industry, reaching 4 billion yuan.

In general, the current domestic online short-term rental industry has fewer barriers to entry. There are no technical barriers or financial barriers in the online short-term rental industry itself, and there are no administrative barriers due to the lack of industry regulations. Therefore, other domestic companies have strong ability to enter the online short-term rental industry.

4.8 Foreign online short-term rental platforms.

At this stage, foreign online short-term rental platforms mostly adopt a cooperative approach to enter the Chinese market. Airbnb, an US online short-term rental platform, officially entered mainland China in December 2016. The star company in the online short-term rental area stores users' personal data on local servers and reaches new agreements with local governments in Shanghai, Chongqing, Shenzhen and Guangzhou.

Foreign advanced online short-term rental platforms have gradually entered the short-term rental market in Mainland China. Their business model is relatively mature, and they have accumulated rich experience in business operations, market expansion and marketing. It is relatively easy for them to expand into new markets, so that potential entrants have a greater threat to domestic short-term rental platforms.

4.9 Analysis of threats from alternatives.

Alternatives to online short-term rentals are those that provide accommodation services similar to online short-term rentals, and can replace online short-term rentals to some extent. In China, the threat of substitutes mainly comes from offline homestays, inns, family hotels and second-hand housing markets. By the end of 2016, the total number of online registrations of inns and homestays reached 50200, and the booking transaction volume of China Online homestays exceeded 10 billion in 2017 [7].

Online short-term rental, as an emerging industry that combines “Internet Plus” as well as business and travel accommodation, is dominated by the light asset model, which has greatly affected the performance of traditional hotels. But the products it provides are essentially solutions to accommodation, so all industries that offer accommodation services can be a substitute. If the listings and services provided by the alternatives are good enough and the price is lower, the price limit for online short-term rentals will only be at a lower level, which limits the benefits of online short-term rentals. The more attractive the price of an alternative product is, the greater the threat that substitutes pose to the online short-term market is. This will exacerbate industry competition, and companies must pay attention to the threat of alternatives.

At present, the online short-term rental credit system is imperfect, the resulting incomplete housing information has increased the risk of transactions, and the true reliability of information has become the most concerned factor for users with a ratio of 55.9% [1]. In addition, the development of online short-term rental is disorderly, the degree of organization is low, and the service level is uneven. The corresponding management regulations and qualification assessment standards are needed to constrain and standardize the development of online short-term rental market. Many consumers have a wait-and-see attitude or distrust of online short-term rental, and substitutes have strong alternative capabilities.

4.10 Analysis of bargaining power of suppliers.

Online short-term rental is essentially a service process. The supplier is a supply system consisting of individual owners, real estate developers, property providers, middle and high-level managers, and bottom-level service personnel. The threat of suppliers is mainly to increase the supply price or to reduce the quality of the products and services supplied. At present, the suppliers

of the domestic online short-term rental industry mainly come from the following two aspects.

4.11 The providers of the listings.

The housing is the blood of the development of short-term rental platforms. The development of online short-term rental must first benefit from the rich housing, especially the advantages of short-term rental housing, diversification, personalization, complete living facilities and rich location selection. Online short-term rental has fundamentally improved the accommodation experience.

As the main providers of the property are the personal owners or second-hand homeowners, the starting point is to share the income by sharing the idle property. Because the additional income and the number of listings are small, the bargaining power is relatively weak. In addition, from the perspective of housing supply, there are data showing that there are currently over 65 million sets of idle houses in China, and less than 5% of them are used again [8]. The housing resources are abundant, so the bargaining power of suppliers is not strong.

4.12 Service providers.

The healthy development of online short-term rental is inseparable from the standard operation of service providers, including middle and senior management and general staff of short-term rental platforms. Experienced and high-quality platform managers can greatly improve the operational efficiency of the platform, and the dedicated staff can ensure the smooth implementation of the company's plan.

At present, the middle and high-level practitioners of China's online short-term rental platform may have many years of senior management experience in the enterprise, or have many entrepreneurial experiences or overseas study experience, and the overall quality is higher. The short-term rental platform does not have many technical requirements for the underlying service staff. Similar to the needs of the traditional hotel industry, the general staff can basically be qualified after short-term training, and the underlying service personnel have weak bargaining power.

4.13 Analysis of bargaining power of demanders.

With the rapid development of China's economy, the main body and scale of online short-term rental demand is growing. In 2018, the number of users of China's online short-term rental industry reached 147 million, an increase of 83.0% from last year's 0.8 billion. It is estimated that the number of users will reach 304 million in 2020. At the same time, the demand for diversification and personalization of short-term rental has also been significantly improved. The data shows that 62.8% of the respondents use the online short-term rental APP because of the rich room type and personalized choices, which are the primary reasons for users to use such platforms [1].

In general, the demand for online short-term rental industry is mainly tenants, and the bargaining power of demanders is limited. First of all, as personal consumers, tenants are more sensitive to price, and it is very easy to compare prices on the Internet. At the same time, tenants can evaluate the property or service, so the tenants have a certain bargaining power. Secondly, because the current online short-term rental industry is still in the process of establishing industry norms, there is still room for improvement in the service process optimization of each link. Individual tenants are in a passive position because of individual dispersion and independent orders. Besides, most of the contracts signed are format contracts, which also determines its limited bargaining power [4].

5. Development strategy to improve the competitiveness of online short-term rental industry

5.1 Improve the credit guarantee system and the security of transactions.

With the increasing market share of online short-term rental, ensuring user's safety has become an urgent and top priority. In the first half of 2018, the users of online short-term rental APP were surveyed on the expected improvement factors of the platforms, and the result shows the stricter control of the safety and hygiene of accommodation was one of the most anticipated short-term rental industry improvement, as well as 49.2% of the respondents expected to improve it [1].

Online short-term rental enterprises can improve the platform credit guarantee system from the

following three aspects: First, dock the public security information management system, identify the identity information of the tenants, and effectively prevent the illegal persons from using the online short-term rental to implement the hidden illegal behavior. Tujia first released the "one-stop management system" in March 2018, and opened up with the public security system to achieve identity authentication and face recognition. Second, online secure transactions use third-party payment systems to ensure the security of funds. The online short-term rental platform should also provide users with sufficient guarantees to prevent the loss of compensation when the user's rights are violated. Third, a two-way scoring system can be introduced. According to the cumulative evaluation and credit rating, the two parties can make two-way selection, which can restrict the tenant's unilateral evaluation to a certain extent, making the evaluation on the website more objective and more valuable.

5.2 Establish information sharing channel cooperation.

Nowadays, the development of online short-term rental enterprises has reached a preliminary scale. In order to develop and expand the business scope of the enterprise itself, it is necessary to cut through the aspects of integrating information sharing channels. Online short-term rental enterprises should cooperate with closely related industries to transform each other's favorable resources into their own resource advantages, so that the advantages of this industry become a new channel for online short-term rental enterprise information sharing.

In this regard, Xbed is ahead of most companies. In June 2018, Xbed announced that it had achieved convergence and direct connection with 26 platforms such as CTRIP, Three fast online, and Airbnb, as well as opened up barriers among platforms to solve the problem of unsynchronized room information on each platform. The landlord can publish to the other 26 platforms in Xbed's one-click release, and the room status is instantly stravelynsynchronized to all major platforms. To simplify the process of guest accommodation and landlord multi-channel publishing, platform uses technology to achieve sales interoperability.

5.3 Lead brand development with accurate image positioning.

Accurate image positioning is the foundation for successful brand management. For short-term rental enterprises to achieve rapid development, it is quite important to carry out brand building. Consumers choose a brand precisely because their image orientation meets the psychological needs of consumers.

Looking at successful companies in the short-term rental market, Xiaozhu focuses on business and tourism short-term rental, as well as the two rooms and one living room, fully rented and equipped with laundry and cooking functions, has become the signature of Muniao, while "Airbnb" is the best choice for domestic users with outbound travel needs. These are the best proof of the advantages of accurate image positioning. Inaccurate positioning of the brand image, including too many products, will inevitably lead to the image of product disorder, and will also cover products that have original brand advantages. Therefore, only based on the brand, can consumers' perception of the short-term rental platform rise from sensibility to rationality, from impulsive consumption to selective consumption, and form brand loyalty [9].

6. Summary

Online short-term rental is still in its infancy in China. Whether it is in the construction of short-term rental platform or in operation management, it needs to be carefully explored. Based on Michael Porter's theory, this paper analyzes China's online short-term rental competition model and puts forward the development strategy of online short-term rental competitiveness in China, which can provide reference for the development of online short-term rental enterprises and the government to develop online short-term rental platform development strategy.

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