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## The Impact of Competition Conditions on New Market Entrants in Istanbul Hotel Industry: An Analyse by Using Five Forces of Competitive Position Model of M.Porter

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### Abstract

It is stated in the literature that about 25 million people attended in tourism movement in 1950 throughout the world, after the following 60 years this quantity has increased to 900 million people. In this parallelism, also the income of tourism industry has increased from 2,1 billion USD to 940 billion USD during the same 60 years in world wide. According to the tourism forecast of World Trade Organization (WTO) the number of tourists will increase to 1,8 billion people and the income will increase to 2 trillion USD in world wide (wto.org). Addition to this forecast, World Travel and Tourism Council (WTTC) indicated that Turkey will be one of the most growing tourism destinations in the world (wtcc.org). When it is thought on the point of these assessments, to get profit as much as possible from this future situation and to have competitive advantage versus the other competitors; Turkish Tourism Industry needs to be developed with new investments and the realization and the success of new investments in an industry is related with the barriers of that industry for the new entrants. So in this study the availability of Istanbul Tourism Industry for new entrants was tried to be determined by making interviews with the 36 managers of the hotel companies in Istanbul. The questions of interviews were prepared as depending on the Competitive Position Model of Porter.

Keywords: Five Force Model, Competition in Hotel Industry

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### 1. Introduction

As it is indicated in the literature, tourism industry is consists of several sectors which are focused on travel, accommodation, F&B and entertainment services. This study is focused on determining the hotel sector that is one of the most important sub-sectors of tourism industry to analyse it as a part of the whole research that aims to explain all Turkish Tourism Industry (Aktaş,2002, Batman,2003, Denizer,1995, Medlik,1997). As being one of the most demanded tourism destinations and being in the competition for leadership in world tourism market, it can be specified that new market entrants and investments are important for the growth of Turkish Hotel Industry. In this context it is also important to analyse the current competition conditions of Turkish Hotel Industry to determine if it is convenient

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for new market entrants or not. And Istanbul was chosen as the sample research area as being the most popular and demanded city and as having the tourism season for 12 months. In this point the question of this study is constructed on the research question that is written below;

**Research Question:** What is the current competition conditions and the availability of Istanbul Hotel Sector for new entrants?

So, this study is focused on analyzing the current competition conditions of Istanbul Hotel Sector and its availability for new entrants by using the 5 forces of competitive position model of Michael Porter. In this context, the study begins by a literature review of Five Forces of Competitive Position Model of M.Porter, then will go on to explanation of research question. Research methodology, analyses results and research model will take place at second section. The results of the analyses were discussed and recommendation were provided for managers and academician at the last section.

## 2. Literature Review Based on Research Question

### 2.1. Five Forces of Competitive Position Model of M.Porter

As it is indicated in the literature review, a sector is built of a group of firms some firms are more profitable than others or the sector has high barriers for new entrants. So the question is; “Why?”. The answer lies in understanding the dynamics of competitive structure in that sector or industry. The most influential analytical and most used model in these kind of researches for assessing the nature of competition in an industry is Michael Porter's Five Forces Model, which is described below (Carhy,2005, Eren,2000 ,Okumuş ,2002,Porter, 2000, Sarvan vd.,2003, Teare, 1996, Ülgen ve Mirze,2003):

Porter explains 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,The degree of rivalry between existing competitors.

#### 2.1.1.Threat of New Entrants

New entrants to an industry can raise the level of competition, thereby reducing its attractiveness. The threat of new entrants largely depends on the barriers to entry. High entry barriers exist in some industries (e.g. shipbuilding) whereas other industries are very easy to enter (e.g. estate, agency, restaurants). Key barriers to entry include; Economies of scale, Capital / investment requirements, Customer switching costs, Access to industry distribution channels, The likelihood of retaliation from existing industry players.

#### 2.1.2.Threat of Substitutes

The presence of substitute products can lower industry attractiveness and profitability because they limit price levels. The threat of substitute products depends on: Buyers' willingness to substitute, The relative price and performance of substitutes, The costs of switching to substitutes.

#### 2.1.3.Bargaining Power of Suppliers

Suppliers are the businesses that supply materials & other products into the industry. The cost of items bought from suppliers (e.g. raw materials, components) can have a significant impact on a company's profitability. If suppliers have high bargaining power over a company, then in theory the company's industry is less attractive. The bargaining power of suppliers will be high when: There are many buyers and few dominant suppliers, There are undifferentiated, highly valued products, Suppliers threaten to integrate forward into the industry (e.g. brand manufacturers threatening to set up their own retail outlets), Buyers do not threaten to integrate backwards into supply, The industry is not a key customer group to the suppliers.

#### 2.1.4.Bargaining Power of Buyers

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