

# The Strategy for Capsule Hotel Industry in China

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**Abstract:** Affected by the epidemic, the global hotel industry is on the decline, and the discussions on the current hotel market debate and relevant solutions have never stopped. Turning the time back to the early twenty-first century, the first pioneers in China set up capsule hotels after studying and researching the operational model of the Japanese capsule hotel market, and around 2010 they began to test the waters for the market as a whole, but ultimately failed. Now that the Chinese accommodation industry is in several stages, capsule hotels have a great opportunity to establish themselves in the market today, especially during the epidemic, compared to the narrow market and tiny profit margins of a decade ago. This paper intended to develop from a subtle point of view that combines Marketing Mix theory and SWOT analysis to analyze the new industry in the hotel industry-Capsule Hotel. The paper mainly focused on how to use past data to consolidate and promote their position in the hotel industry market according to the special group of Generation Z.

**Keywords:** Capsule hotel; Generation Z; Hospitality industry; Marketing Mix Theory.

## 1. Introduction

### 1.1 Background

The concept of a capsule hotel can be defined as a small size room compartment roughly the size of a single bed made of fiberglass, plastic, wood, metal, or any rigid material [1]. Capsule hotels are essentially convenient products spawned by Japan's horrible overtime working culture. The world's first real capsule hotel, Named Capsule inn Osaka, opened in 1979 and it's only allowed male consumers to stay.

Japan-the birthplace of Capsule hotel, in that place, the nine hours in the Yuanzu Capsule is the most original form of traditional capsules, and the branches of the other five flowers have expanded.

The Global Capsule Hotel market is 132 million in 2012, an increase of 159 million in 2017. According to data analysis, the market income of the Capsule Hotel will reach 226 million US dollars in 2022. The composite growth rate from 2017 to 2022 is 6.03% [2]. However, the Capsule Hotel presents an embarrassing situation in China-its profitability is very unbalanced.

There are currently four general types of hotels in China Hotels: Apartment Hotels, Resort Hotels, and Conference Hotels, but for Capsule, at present, there is not so meticulous division. The interview data shows that the income of most capsules is flat, and even the phenomenon of opening less than half a year. The first month of the capsule hotel has reached 60% of the occupancy rate, 70% of peaks, and even 100% of the booking rate [3]. There is a serious polar differentiation in the hotel market, the head is smaller, and the tail is large. Therefore, it is difficult to find research on China Capsule Hotel.

The purpose of this article to set the research time in 2019 and beyond is aimed to conduct research on the more complete capsule hotel industry today and compare the industry status before the outbreak with the current situation of the industry affected by the epidemic, with the forecast, and predict the possible future, even the development route. This Paper will research Generation Z to confirm that these future consumer markets' main or potential force will contribute to this field.

At a time when the status of the disease has dealt a heavy blow to the hotel industry and even the service industry, some people think that emerging industries such as capsule hotels that have not established a foundation in this industry will face a complete collapse, while COVID-19 is changing people's travel and lifestyle, on the other hand, it has injected a ray of hope into the industry. Hotel

businesses try to attract more and more guests to this comparative novice concept and their efforts have started to reveal colors of success over the last few years [1].

## 1.2 Research Gap

Although the research on capsule hotels is increasing, most the researcher only focuses on the creativity of capsule hotels—Compaction of Space in Contemporary Japanese Megalopolises, that the creation and layout of Japanese capsule hotels bring the problem of "space-time" to a new level of discussion [4]. The reasoning of how to make the most functional hotel room, in which a person spends a minimum of time, has led to a dramatic reduction in personal space, the absolute combination of minimum time with minimum space is the basis of the concept of capsule-type hotels [4]. But a lack of thinking about the phenomenon of capsule hotels - is this just a trend? How do attract more new customers based on retaining existing customers? Does the traditional hotel system apply to capsule hotels? How do improve the established impression of a part of people in the capsule hotel industry? How to develop the domestic capsule hotel industry? These are the research gaps that this paper rarely found in the research process.

Preliminary findings also indicate that a sizable proportion of restaurant customers (64.71%) and the majority of hotel customers (70.42%) believe that the use of various technologies in service delivery will be necessary for the COVID-19 environment to minimize human-to-human contact [5]. This echoes part of the capsule hotel idea: While COVID-19 is changing people's travel habits, it is also making group travel impractical, and people will focus more on epidemic prevention, hygiene, and close encounters, a lucrative business opportunity for the capsule hotel industry.

When it comes to attracting more new customers through the membership system, the masses may probably think of the customer loyalty programs that almost every hotel has. So, is the traditional hotel incentive mechanism suitable for the new type of hotel like a capsule hotel? The gist of this paper is: Capsule hotels can imitate the membership system of traditional hotels, but they need to have the characteristics-a part that could be independent of the theme of the hotel itself and makes customers feel sincere. In a large room which many people living together, it could be difficult to guarantee a perfect sleep experience for every customer being separated only in different capsules, although most of the time everyone gets a pair of earplugs. Hotels can formulate more detailed rules on the volume control, and set up unique incentive mechanisms for this, such as equipping each room with a decibel tester, following the requirements of four-star hotels and nursing homes for room noise, which cannot exceed fifty decibels during the day. It cannot exceed forty decibels at night [6]. Once it exceeds this range, customers can report to the service staff and will immediately replace any empty room for free with a certain degree of compensation.

The development of capsule hotels in China is a long and painful journey. The first Chinese capsule hotel opened in 2011 but ended in dismal fire safety, yet an impression of unsafely and narrow has been branded into one of the Chinese generation's minds.

Now, this kind of cognition is popular, though capsule hotels should focus on Generation Z, a specific customer group, which feels more personal service and a warmer experience that is more in line with their living habits. As this generation was born and raised under specific conditions different from the other generations in the labor market, hotels can use the Internet to promote themselves, invite video platform bloggers to make Vlogs or come to Go to the store for evaluation, show the difference from traditional hotel accommodation, and then use relatively low prices to attract new customers to experience [7].

## 1.3 Structure of the Paper

This Paper mainly wants to further analyze the Capsule Hotel Industry under the epidemic, including how to attract customers, and expand their forces in a particular customer group.

Also, this article will review Marketing Mix 4C Theory to prove the hypothesis, verify it utilizing questionnaires and online research, and conduct a general discussion around the research question after been conclusion.

## 2. Literature Review

### 2.1 Marketing Mix Theory - 4Cs

The Marketing Mix theory (hereinafter referred to as the 4C) comes from the Marketing Mix 4Ps theory (hereinafter referred to as the 4P), The four “C” s state the: Customer, Cost, Convenience, Communication [8]. To differentiate with 4Ps, the 4Cs theory puts the benefits of customers more on the benefits of the company itself (see Table 1). Because of this, the 4Cs theory is at the center of the customer, so this paper fits the target research group is Generation Z.

**Table 1.** Definition of 4P& 4C

Categories	4P		4C
<b>Product</b>	Study product or service scope, project, product or service positioning, brand, etc.	<b>Customer</b>	Study the customers’ needs and provide appropriate products or services
<b>Price</b>	Consider the basic price, payment, commission, and discounts	<b>Cost</b>	Consider the cost customers willing to pay
<b>Placement</b>	Consider direct distribution and indirect distribution	<b>Convenience</b>	Consider customers’ needs to enjoy the convenience offered by third-party logistics
<b>Promotion</b>	Use the form of advertising, personal promotion, sale promotion, public relations, etc.	<b>Communication</b>	Actively communicate with customers, to find double wins solution

Sorting from: "Principles of Marketing" (Asia) Kotler and others, translated by HeZhi yi [9]

American marketing professor McCarthy put forward the 4P marketing mix strategy in the 1960s, named Product, Price, Place, and Promotion. In essence, 4C and 4P have completely different themes, combined with the background of the times when the theory was proposed (around the 1960s), yet the company's market and marketing revolve around the single or multiple products to satisfy the market.

Of course, with the change of time, the disadvantages of 4P are gradually magnified, just like 3G and 4G Internet are gradually abandoned by generations, the disadvantages of 4P over-reliance on the internal enterprise make it became more difficult for 4P to make rapid changes according to the unpredictable market response, and at a time when companies are scrambling to imitate new business models, 4Ps no longer hold a decisive advantage, and this becomes a big reason for its development to 4C.

Different from 4P, 4C stress the importance of the customer's consumption experience. In this set of models, the theory forms a top-to-bottom triangular rank, with customer satisfaction at the top, lower purchase costs, and finally from the perspective of consumers, how to make Shopping has become more convenient. All layers serve the satisfaction that the ultimate company wants to make consumers feel. Compared with its predecessor 4P, the 4C has evolved considerably. It aims to seek customer satisfaction, which is a requirement for every business in today's market in which customers are increasingly dominant in transactions.

Through the effective operation of a combination of 4P and 4C marketing theories, it meets the cultural needs of different regions and different values of people and allows people to recognize the cultural value of their services [9]. This is what consumers want to see too.

Under the condition of 4C, more and more companies pay attention to markets and consumers and establish a closer and more dynamic relationship with customers.

In May 1999, Microsoft has started a holistic strategic adjustment under the host of CEO Balmeud. This decision makes Microsoft no longer only develops development routes according to the requirements of the company's technical experts but is more concerned about the needs of the market and customers.

However, from the actual application and market development trend of enterprises, 4C still has a shortage.

Under the guidance of 4C, companies often lose their needs in passive adaptation customers, which makes them lose their direction, and gives the greater cost to meet what consumer needs. How to combine consumers' interests and long-term profits of customers it's a question that 4C still needs to be solved.

4R theory which comes from 4C is not within the discussion herein, so it is not involved in the discussion of this paper

## 2.2 Important Results

The marketing mix management paradigm has dominated marketing since the 1940s and McCarthy (1964) further developed this idea and refined the principle to what is generally known today as the 4Ps. During the Doc-Com Boom marketing managers are learning to cope with a whole host of new marketing elements that have emerged from the online world of the Internet. In some ways, these new marketing elements have close analogs in the offline world, and yet from another perspective, they are revolutionary and worthy of a new characterization in the E-Marketing mix (or the e-marketing delta to the traditional marketing mix) [10].

Even now, managers have never stopped for this study. Because the consumer demand has been placed in the first character, this makes the 4C theory sound very idealization. This Method is aimed at consumer demand, and users usually believe that only exploring consumers' real needs, and according to this planning and design ensure the final success of the project. However, due to the experience of the living quality, the degree of education, the nature, the family structure, the individual aesthetics are different, and everyone's focus on the quality needs of the product is greatly different, therefore, it is not easy to learn more and meet the needs of consumers.

In particular, the Generation Z group is particularly concerned with the sub-branches, and if it is excessively pursuing the identity of the customer, it may reach a negative effect.

In this paper's point of view, in the continuously changing market, there is a precedent for the sudden situation of COVID-19, this research believes that the future companies will gradually give up their dependence on the company's internal products can be from a small place-for example, a person only hot pot, so in this paper's opinion, the capsule hotel industry can refer to Book and Bed Tokyo, a series of industrial chains centered on capsule hostel, including but not limited to coffee, electronic/offshore mall, and design surrounding industries chain. It reflects the understanding of the hobbies between consumers but also exhibits which hotels have a mentality in spending their minds.

## 2.3 Summary

Overall, these studies highlight the need for the understanding of what consumers need, Through the effective operation of a combination of 4P and 4C marketing theories, it meets the cultural needs of different regions and different values of people, allows people to recognize the cultural value of their services and at the same time develops with the brand value.

Unexpectedly, a special event that had never been thought of as an influential factor in the whole industry happened. The entire industry is affected by COVID-19, and for such bursts, 4C has a considerable number of options, relative to other Marketing Mix Theory companies, using 4C theory companies are more likely to have a more flexible development path.

## 3. Methodology

### 3.1 Research Design

This paper will use SWOT Model and its analysis. SWOT Analysis (short for strengths, weaknesses, opportunities, threats) is a business strategy tool to assess how an organization compares to its competition it is historically credited to Albert Humphrey in the 1960s [11]. It is often used to

identify the strengths and weaknesses of a business and help them to identify existing and potential opportunities and threats in the market.

The SWOT model is designed to help companies understand their position, and for the research object of this paper, the capsule hotels in China, which is actually in a confused stage, need clearer guidance and an analysis of the entire market. Different regions, cultures, and changing factors that are not always the same have led to the fact that capsule hotels in China cannot fully apply the operation model of capsule hotels in Japan: Chinese youth hotels and Internet cafes that provide accommodation have been formed for a longer time, also, they have a deeper impact on ordinary people. more familiar. Therefore, the capsule hotel industry should not expect to be able to achieve as good results as capsule hotels in other countries in a short period, but this also means this industry has more time to prepare and find a brand-new road that belongs to capsule hotels.

### 3.2 Introduce the Research object

As stated in this paper in the Background, Throughout the global capsule hotel industry, they had total revenue of USD 132 million in 2012 which increased to USD 159 million in 2017. According to the QYR data analysis forecast, the revenue of the capsule hotel market will reach 226 million US dollars in 2022, with a compound annual growth rate of 6.03% from 2017 to 2022 [12]. The development of domestic capsule hotels is concentrated after 2016, and currently, the capsule hotels operating in the market are mainly concentrated in airports and high-speed rail stations.

Taking Shanghai Airport as an example, under normal circumstances, each unit can generate revenue of 200-250 yuan per 24 hours. At present, the airport has a total of 80 cabins, which is expected to generate 5.5-6 million in operating income every year [12].

**Table 2.** Revenue figures for Shanghai Airport

<i>Name</i>	<i>Amount (annual)</i>	<i>Remark</i>
<i>Turnover</i>	7.3 million	200 yuan/day per cabin
<i>Less: Rent</i>	1.82million	10 yuan per square meter/day
<i>Less: Salary</i>	0.24 million	5000 yuan/month per person
<i>Less: Operating cost</i>	1.46 million	each unit is 40 yuan/day
<i>Less: Others</i>	1 million	
<i>Total profit</i>	2.78 million	Without depreciated

Sorting from: <https://zhuanlan.zhihu.com/p/101497206>

Calculation based on data from Table 2 demonstrates the profit margin is about 40%. By combining with data, the SWOT analysis can be made more comprehensive, without appearing too much on paper. The above example shows the business status of capsule hotels at Shanghai Airport. Compared with the existing high-end, mid-end, and economy hotel markets, the profit margin of 40% has far exceeded the rate of return of existing hotels. However, among the mid-range hotels with the best returns, the average return rate is still less than 20% [3].

The advantage of the capsule hotel in Shanghai Airport is that: Compared with the time-based hotels located around the airport, the capsule hotel located in the airport not only ensures the convenience and speed of passengers but also reduces the hidden dangers of fire and the possibility of fire and other accidents. The monitoring system and corresponding security system equipped at the airport can also take care of the accommodation of passengers. Its weakness lies in the defects of time nodes. Special events such as the epidemic in Shanghai will lead to a sharp decrease in the number of customers spending at the capsule hotel at Shanghai Airport, resulting in a shortage of cash flow or even having to close, which will cost more after the epidemic. time and money to rebuild.

Its opportunities lie in the emerging artificial intelligence industry, each capsule hotel generally needs 4-5 staff, and in the coming future, through artificial intelligence, each airport capsule hotel can reduce 1 to 2 staff, this has been initially reflected in the Tmall Genie X1 used by Xixi Xixuan Hotel.

Its threat lies in the unstable epidemic situation. Until the COVID-19 situation in Shanghai improves, no matter how much preparation is made, there will be no customers to use and consume.

### 3.3 SWOT Analysis

#### 3.3.1 Strengths

One of the biggest advantages of capsule hotels is the location. Not just at the airport capsule hotels which have been mentioned above. The location of most capsule hotels is the first step in the manager's marketing and operation. Their purpose is to give tourists who come to play or residents with certain spending power a temporary price that is relatively low in price and subsequent consumption. The accommodation is convenient for travelers to enjoy the downtown business district while reducing excessive extra expenses such as fares and tour guide fees. Therefore, there are generally more capsule hotels in big cities than in second and third-tier cities in most countries. Taking Japan as an example, one of the biggest benefits of staying at a capsule hotel is the proximity to most attractions in Tokyo. This is a big reason why travelers opt for the capsule hotel over more expensive options; while the proximity might be just as close to Tokyo's center, capsule hotels come at a fraction of the cost [13].

Not only local tourism can bring more profits to capsule hotels, but capsule hotels also can contribute to the local economy, this industry also belongs to the hotel industry, it's local attractions that bring masses to the community, but it's the hotels that keep them there [14]. The advantage of capsule hotels lies in novelty and low price, it attracts potential customers, customers bring consumption and money, customers consume for local tourist attractions, consume for the local catering industry, and of course, also for the capsule hotel accommodation consumption. Since then, a complete service industry chain led by capsule hotels has been formed.

Capsule hotels are more able to meet the social needs of younger customers than traditional hotels. Customers stay in traditional hotels for seven days to half a month without getting acquainted with other guests, but in the special "bedroom" of a capsule hotel and there it brings a large easier to meet new friends, which will enhance the consumption experience of customers and make traveling alone more human.

In the capsule hotel industry, the best-performing product is the sleeping area which brings the name "capsule" to the whole capsule hotel industry.

But from the perspective of extension, capsule hotels can develop horizontally, including the service industry and catering industry into the scope of operation. Take Book and Bed Tokyo as an example. This capsule hotel makes its interior layout look warm and peaceful, they use the layout and decoration of a bookstore to decorate the hotel interior. At the same time, they also expand their own business. To increase the brand effect, Book and Bed Tokyo has broadened its thinking and established an offline mall and cafe that is intricately connected with its capsule hotel. Such as canvas bags, key chains, etc. They understand the needs and aesthetics of their main consumers, so Book and Bed Tokyo have maintained a good profit-making to this day.

#### 3.3.2 Weakness

The shortcomings of Capsule hotels are obvious: in a sleeping space where many people live together, it is difficult for the hotel to ensure that every guest gets a good sleep quality. To coordinate with fire protection and ventilation, the sound insulation of ordinary rooms in most capsule hotels is not so ideal. Despite the word "quiet" everywhere in capsule hotels, light sleepers are more likely to be disturbed by the sound of customers turning over on the upper floor or the snoring of others in the same room and the early morning alarm. This has always been a top priority for many capsules hotel founders, even though they can ensure that every room has sound-isolating earplugs.

Interfering factors that coexist with noise are customer privacy and security concerns. Although some capsule hotels have begun to implement separate elevators and rooms for females and males, unfortunately, because of fire safety and other issues, all capsule hotel room doors are designed to be easy to open from both sides. Pursuing the coordination of the overall environment of decoration, not

only increases the potential risk of harm to consumers but also detracts from the reputation of the industry.

The capsule hotel industry urgently needs a group of loyal customers to this industry. The significance and importance of Customer Loyalty to the entire hotel industry have been seen by every manager.

Loyal customers could not only bring long-term profitable profits to the hotel but also become a human-type advertisement that the hotel does not require extra expenses. Attract more potential customers.

Now the capsule hotel is facing or experiencing the situation: most customers will come to this type of hotel for a short time because they are curious about the new accommodation method of the capsule hotel, but they will still travel and stay in the future. Choose a traditional hotel.

Capsule hotel also lacks the resource of "being recognized". Most people have a bad impression of capsule hotels. According to the comments on the Internet platform, it is not difficult to see that many people use coffins to describe and describe capsule hotels and do not understand, support, and safety. This is their inherent perception of capsule hotels. Impressions also need to be corrected.

### 3.3.3 Opportunities

As this paper mentioned earlier, the improvement of technology not only brings convenience to ordinary people but also brings hope to the capsule hotel industry and points out the way of development.

The style most capsule hotels are passionate about is almost the same - they all favor futuristic technology. Jack Ma and Alibaba have brought the hope of the service industry of unmanned hotels and unmanned malls to China. Although its cost will temporarily be higher than that of manual labor, its gimmicks and novel business methods can attract There will be a lot of continuous income. If it can effectively continue to operate, the one-time expenses will be filled by the continuous income.

This point can be discussed alongside Strengths' second point.

The research used Book and Bed Tokyo as an example to illustrate how a commercial industry chain centered on capsule hotels is formed, proving that proper horizontal development and change can bring more to capsules.

### 3.3.4 Threats

Although the Fire Protection Law of the People's Republic of China and the Fire Protection Supervision and Inspection Regulations do not have relevant regulations on the unit area of beds, in the future, after this blank area is filled, it is difficult to say whether it will have any impact on capsule hotels in China.

This is an unstable factor that may hit the capsule hotel industry in the future.

Although it is unlikely to happen in China, industries such as capsule hotels should be afraid of the emergence of a consumption trend: people advocate a lifestyle of high consumption and high expenditure. This concept of life will only appear when the general living standards of the people are greatly improved (Compared with the current domestic economic strength).

The capsule hotel industry focuses on convenient, fast, and low-cost accommodation hotels, when people's spending power has increased significantly, most people will not care to avoid some small expenses, which will lead to the shrinkage of the entire industry.

## 4. Results & Discussion

This paper introduces how SWOT Analysis can be used in summarizing and classifying capsule hotels. At the same time, this paper also explains the reasons for using this analysis. Combining factual reasons and theoretical knowledge analysis, it has been founded that capsule hotels under the SWOT framework are used. The industry is suitable for making proper use of its good architectural characteristics to strive for a good geographical location, and it has set its sights on the travel of the younger generation. In the explanation stage, this paper summarizes the advantages and

disadvantages, analyzes the success of this industry in terms of location, leading the regional economy, and meeting customer needs finds its shortcomings in customer privacy, lack of customer loyalty, which makes the entire industry shaky at these points that cannot be ignored. This paper also analyzes the possible threat of high consumption life to this industry and expounds on the improvement of technology improvement to the industry.

## 5. Conclusion

From previous discussions, capsule hotels still have a good prospect under the epidemic. Under the trend of Generation Z as the main research target, it can be found that the younger group does not only pursue high consumption lifestyle, on the contrary, they are more likely to pay for goods and services with concerns, the companies need to cater to these consumer values to be successful.

Capsule hotels can win the favor of young consumers with relatively low prices and better geographical conditions so that they feel the high-cost performance. For consumers, during the pandemic outbreak of travel itself is a need to spend a cost to ensure healthy thing, if the capsule hotel industry can change people's impression of it, according to the requirement of customer consumption and concepts, become into a clean base, whether the capsule hotel industry in that country will be also a lot of profits.

The disadvantages of capsule hotels are as obvious as their advantages. Apart from the stereotyped impression of some groups, there are still many points that need to be improved, such as the inability to fully protect customer privacy like traditional hotels, and the existence of fire hazards in facilities and layout.

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