****

9B18M019

JINJIANG GROUP: GLOBALIZATION THROUGH STATE OWNERSHIP AND POLITICAL CONNECTION[[1]](#endnote-1)

Wiboon Kittilaksanawong and Qiannan Shi wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

*This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e)* [*cases@ivey.ca*](mailto:cases@ivey.ca)*;* [*www.iveycases.com*](http://www.iveycases.com)*.*

Copyright © 2018, Ivey Business School Foundation Version: 2018-05-09

Since 2015, Chinese state-owned tourism company and hotel brand Jinjiang International (Group) Company Limited (Jinjiang) had made a series of aggressive domestic and overseas acquisitions of major hotel groups, with total payments of over US$3.5 billion. These acquisitions had made the firm the largest hotel group in Asia and the fifth-largest in the world.[[2]](#endnote-2) As a state-owned company, Jinjiang was required to make strategic moves that facilitated the Chinese government’s “Go Out” and “One Belt and One Road” (OBOR) national policies.[[3]](#endnote-3) At the end of 2016, noticing the rise of the online tourism platform market, the group had also made a large investment of ¥1 billion in the global hotel-sharing online platform WeHotel to accelerate its globalization.[[4]](#endnote-4)

Given the decline in the domestic hotel market and the maturation of the international hospitality industry, as well as the Chinese government’s efforts to reduce public expenditures and corruption,[[5]](#endnote-5) would these strategic moves allow Jinjiang to defend its competitive position and achieve its ambitious goal of becoming a world-famous brand? Would such aggressive acquisitions worsen the company’s debt position and threaten its survival? How should the company integrate different management cultures and values between state-owned and private entities to realize potential synergistic benefits? In many countries, acquisitions of “home-grown” companies by state-owned Chinese companies were viewed in an extremely negative light;[[6]](#endnote-6) how could Jinjiang overcome this negative image while continuing its aggressive globalization efforts?

**JINJIANG INTERNATIONAL (GROUP) COMPANY LIMITED**

**Company Background**

Jinjiang was a state-owned holding company headquartered in Shanghai. It was one of the leading travel and hospitality conglomerates in China, with investments in 194 enterprises.[[7]](#endnote-7) In 2017, Jinjiang had six business divisions: hotels, transportation and logistics, travel, realty, investments, and finance.[[8]](#endnote-8) The four listed companies held by the group were Jinjiang International Hotels (Group) Company Limited (Jinjiang Hotels), Jinjiang International Hotels Development Company Limited, Jinjiang International Travel Company Limited, and Jinjiang International Industrial Investment Company Limited; the latter three companies were directly controlled by Jinjiang Hotels (see Exhibit 1).

Jinjiang was a well-known brand in China with a brand value of more than ¥30 billion. The company intended to increase its presence and brand awareness internationally. The brand “Jinjiang” was created in 1951 and was listed in the top 10 “most valuable old brands of Shanghai.”[[9]](#endnote-9) Since the core of its business was hotels, the group’s strategic goal was to become one of the most well-known hotel brands in the world with global distribution channels and transnational operations.[[10]](#endnote-10)

**Evolution of the Company**

Jinjiang’s long history could be traced back to its first hotel, created in Shanghai on June 9, 1951, just after the establishment of the People’s Republic of China (PRC), as the first national guest house for heads of the Chinese central government and foreign national guests. The hotel was founded by female entrepreneur Zhujun Dong, a pioneer of the Chinese feminist movement, and had seen many important historical events. In 1972, American president Richard Nixon stayed at the hotel on the first day of his first visit after the establishment of the PRC.[[11]](#endnote-11) The guests staying at the hotel mostly came from overseas; they included over 500 government officials and leaders from more than 150 countries and regions.

From 1984 to 1993, Shanghai’s government began to group dozens of hotels in Shanghai to accommodate foreign officials and created Jinjiang’s hotel group. At the same time, Jinjiang’s business was expanded to other cities, such as Beijing and Kunming. In 1993, Jinjiang Hotels was listed on the Shanghai Stock Exchange. From 1996 to 2003, the company underwent some corporate restructuring and merged with a few hotel groups, including, in 2003, the Xin Ya Group, which operated hotels and restaurants, mainly in Shanghai.[[12]](#endnote-12) Starting in 2010, the company began to explore outside of China by investing in the United States, joining with U.S. firm Thayer Lodging Group to buy Interstate Group, a world-renowned hotel operator; Thayer Lodging Group bought half the shares and Jinjiang bought the other half, although both firms sold Interstate Group in 2016, after separating some of its assets.[[13]](#endnote-13)

**Core Businesses**

Hotels, transportation and logistics, and travel were Jinjiang’s three core businesses, contributing more than 90 per cent of its revenue.[[14]](#endnote-14) Yet hotels—including different brands, franchised hotels, and hotel realty investments—were the main business sector for Jinjiang. Until 2016, Jinjiang Hotels had over 6,000 hotels in more than 60 countries and was ranked first in Asia and fifth in the world in terms of its size as a hotel group. Jinjiang Hotels had a portfolio of brands that covered all market segments. These brands included Metropolo (a luxury hotel), Jinjiang Inn (an economy hotel), and Bestay Hotel Express (a budget hotel).[[15]](#endnote-15) The firm also owned some city landmark properties in China, including the famous Fairmont Peace Hotel in Shanghai, which faced the well-known Oriental Pearl Radio & TV Tower.[[16]](#endnote-16)

In addition to developing its hotel brands, Jinjiang Hotels had partnered with some international food chains in the restaurant industry, such as KFC and Yoshinoya. Moreover, it had joined with one of the top three hotel management schools, Les Roches International School of Hotel Management, to create Les Roches Jinjiang International Hotel Management College in Shanghai.

Jinjiang’s transportation and logistics business offered quality transportation solutions for political figures, business travellers, and tourists through its more than 10,000 taxis, limousines, and tour buses. It also developed other supporting services like repairing, leasing, training, and sales for auto service centres.[[17]](#endnote-17)

Through its travel business, Jinjiang was one of the largest travel operators in China, providing various travel services, including tour guides and travel arrangements. Its professional teams offered tailor-made travel programs for individuals or groups in almost 70 locations.[[18]](#endnote-18) As one of the major businesses of Jinjiang, the travel division relied on resources and other advantages of the holding company.

**Role as an Exclusively State-Owned Company**

State-owned companies in China played an important role in the country’s economic development. In 1991, Jinjiang was officially designated as an exclusively state-owned company with registered capital of ¥2 billion.[[19]](#endnote-19) This registered capital and initial investment all came from the Chinese government, so the owner of the company’s assets was the country. State-owned companies were different from private companies in China in that they were responsible for implementing national economic policies and plans. These companies also enjoyed preferential policy benefits, as well as privileged access to government resources and information.

The supervising body of all Chinese state-owned companies was the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC). Although SASAC did not have direct management power over Jinjiang, it did influence the company’s operations through its role as investor (that is, through state ownership) and through supervision (that is, politically connected persons) inside the company. Since Jinjiang was a state-owned company, SASAC determined the group’s responsibilities and obligations concerning its investors, board of directors, and board of supervisors.[[20]](#endnote-20)

**Chief Executive Officer**

Minliang Yu, the chairman and chief executive officer (CEO) of Jinjiang, was also the general manager of Shanghai Yangtze Hotel, a five-star luxury hotel in Shanghai. Born in Shanghai in 1957, Yu was an economist with a master’s degree in economics from Fudan University. Having rich experience in hotel management, he joined Jinjiang in 1984. Yu also had the title of Party Committee Secretary[[21]](#endnote-21) for the group, which meant he was responsible for organizing party committee meetings to discuss high-level strategic issues and ensuring that all of the company’s strategic decisions were in line with the principles and policies of the Chinese government. Like several high-level executives in other Chinese state-owned companies, Yu had a strong connection with the government and with politicians in the Communist Party of China; therefore, he was expected to direct the state-owned Jinjiang in ways that aligned with government policy.[[22]](#endnote-22)

**CHINESE NATIONAL POLICIES AND PLANS**

Because state-owned firms’ directions and operations needed to align with China’s policies, understanding the country’s social, economic, and political plans and goals was crucial for Jinjiang’s executives to develop their own corporate- and business-level strategies. The two main government policies that related to Jinjiang’s business were the Go Out and OBOR strategies.

In March 2000, former Chinese president Zemin Jiang officially presented the Go Out national strategy, which encouraged Chinese companies to invest abroad in order to (a) increase the competitiveness of China’s companies (especially national companies), (b) bring advanced technology and equipment into China, and (c) create world-class enterprises that China could be proud of. Through various policy and financial supports from the government, including accessible loans and reduced taxes, Chinese companies began to increase their overseas direct investments, with large state-owned companies being the pioneers of the Go Out strategy. As a result, China’s foreign direct investment (FDI) outflows increased sharply, and even caught up with its FDI inflows.[[23]](#endnote-23)

In 2014, FDI outflows increased to 90 per cent of FDI, signifying that China would soon become a country with net outward FDI flows. However, China’s FDI outflows accounted for only 5 per cent of the total FDI outflows in the world from 2010 to 2012. Since 2004, Chinese firms had been surprising competitors with some of their high-profile purchases of international brands. These purchases included Chinese computer manufacturer Lenovo’s acquisition of IBM’s personal computer business in 2005, Chinese automobile manufacturer Geely’s purchase of Volvo from Ford in 2010, and Chinese Hainan Airlines purchase of 25 per cent of Hilton Group’s shares in October 2016.[[24]](#endnote-24)

Further, in late 2013, then Chinese president Jinping Xi proposed the ambitious OBOR initiative.[[25]](#endnote-25) This initiative focused on connectivity and cooperation between Eurasian and Pacific countries with a collection of interlinking trade deals and infrastructure projects. The scope of OBOR extended well beyond infrastructure construction to include efforts to promote greater financial integration and use of Chinese currency (renminbi) in foreign countries. To support these efforts and OBOR in general, new regional institutions such as the Asian Infrastructure Investment Bank and the New Silk Road Fund were created.[[26]](#endnote-26)

**JINJIANG’S EXPANSION STRATEGIES**

The 13th Five-Year Plan for Economic and Social Development of the PRC stipulated that China needed to undertake structural reforms in its hotel industry and develop independent hotel brands to constantly enhance the competitiveness and global influence of China’s hotels.[[27]](#endnote-27) In response to this aspect of the national plan, Yu intended to make Jinjiang a world-famous Chinese brand.

To fulfil the Going Global and OBOR strategies, Jinjiang began to expand into the United States in 2010 (for example, by investing in Interstate Group, as outlined above), and later shifted its focus to Europe in 2015. Since 2015, Jinjiang had made a series of investments and restructuring moves in response to the Chinese government’s call for the structural reform of state-owned companies, including its acquisitions of French Louvre Hotels Group in Europe, Chinese hotel firm Plateno Group Limited (Plateno), and Vienna Hotel Group Limited (Vienna Hotel Group).[[28]](#endnote-28) After these acquisitions, Jinjiang became more focused on the importance of Internet applications in the hotel industry and on creating a new business model.[[29]](#endnote-29)

**Acquisition of Louvre Hotels Group**

The Paris-based Louvre Hotels Group (LHG) was established in 1976 and acquired by American investment firm Starwood Capital Group in 2005. In 2009, Golden Tulip Hospitality BV, which had head offices in the Netherlands and Switzerland, joined LHG,[[30]](#endnote-30) thereby extending LHG’s presence in Europe. In 2015, LHG had more than 1,100 hotels in more than 40 countries, and was ranked 14th as a hotel group worldwide in terms of number of hotels.[[31]](#endnote-31) In 2017, the company had six strong hotel brands, ranging from one- to five-star options (see Exhibit 2).

In late 2014, nearly 10 years after purchasing LHG, Starwood Capital Group (which also had extensive operations, with 240 hotels in China) decided to sell LHG, which had grown to become the second-largest budget hotel chain in Europe.[[32]](#endnote-32) Jinjiang defeated bidders, such as private equity firms PAI Partners and Oaktree Capital Management and the AccorHotels Group, and acquired 100 per cent of LHG’s shares for approximately $1.5 billion. Jinjiang completed payment of the cash deal in the first quarter of 2015, after borrowing euros from Chinese state-owned bank Industrial and Commercial Bank of China Limited.[[33]](#endnote-33)

Jinjiang’s acquisition of LHG made perfect sense for several reasons. Jinjiang had already created a commercial partnership with LHG in 2011 to co-brand some of Jinjiang’s hotels in China and France. The CEO of LHG, Pierre-Frédéric Roulot, thought that the partnership was very successful and the combination of the two groups would increase the potential and opportunities for both.[[34]](#endnote-34) Yu knew that there were strong complementarities between LHG and Jinjiang in terms of brand portfolio, geographic footprint, and customer base. Before 2015, most of Jinjiang’s operations were in China, whereas LHG’s operations covered more than 40 countries.[[35]](#endnote-35) Such extensive coverage could help accelerate Jinjiang’s international operations, especially in Europe.

According to Zhenggang Lu, the CEO of Jinjiang Hotels, the integration of the two groups would create economies of scale through shared customer sources and cost benefits in joint procurement. In particular, the potential linkage of back-end management systems between the two hotel groups included the membership club, centralized reservations, and front desk functions, as well as financial services, procurement, and human resources. Jinjiang would also restructure and set up two centres for regional operations: one for China (Asia Pacific) and one for Europe.[[36]](#endnote-36)

Furthermore, travelling overseas had become increasingly popular among Chinese citizens, with over 100 million trips occurring per year, and France was one of the top destinations for these travellers. By including LHG in its hotel portfolio, Jinjiang could better target non-Chinese cities with a Chinese community or with a demand from Chinese tourists. According to LHG, the acquisition would stimulate the exchange of tourism and hotel business between China and France, as well as the globalization of certain hotel brands.[[37]](#endnote-37) Jinjiang announced plans to introduce its Metropolo and Jinjiang Inn hotel brands just before acquiring LHG, while LHG repositioned its Golden Tulip and Campanile brands in China after the acquisition.

**Acquisition of Plateno**

In October 2015, Jinjiang announced another big move: the company was buying China-based Plateno for about $1.3 billion in cash.[[38]](#endnote-38) With this acquisition, Jinjiang became one of the top five hotel groups in the world. Instead of buying 100 per cent of the firm’s shares (as in the case of acquiring LHG), Jinjiang bought only 81 per cent of Plateno’s shares, while the two founders of Plateno, Nanyan Zheng and Boquan He, continued to hold 19 per cent of the shares.

Plateno had experienced astonishing success. Zheng had an educational background in information technology and work experience in hotel software management. After obtaining venture capital investment, he had established the budget hotel chain 7 Days Inn in 2005. By 2007, Plateno had 100 hotels, and by 2009, it was listed on the New York Stock Exchange. After only six years of operations, in 2011, Plateno had 1,000 hotels and over 300 million members (see Exhibit 3). However, in 2013, 7 Days Inn was delisted from the New York Stock Exchange and privatized by Plateno through the same founder in order to diversify the group’s brands by entering the high- and middle-end hotel markets.[[39]](#endnote-39)

Before its acquisition by Jinjiang, Plateno was operating at a loss, but Jinjiang recognized the group’s diversified portfolio, strong membership platform, and good hotel chain management system as valuable resources. For example, in May 2015, Plateno Group had created a strategic alliance with a leading Chinese online travel service provider, eLong.com, to share members and implement co-marketing.[[40]](#endnote-40) Most importantly, in September 2015, the Chinese government had released a reform program to encourage state-owned enterprises to “mix” with private companies for the purpose of sharing resources and improving internal management culture.[[41]](#endnote-41) Yu hoped that cultivating this mix would help Jinjiang innovate, leverage more foreign capital, and realize its goal of ranking in the top three largest hotel groups in the world.

After the acquisition, the total number of client members of Jinjiang (mainly business people and travellers) would be more than 100 million. During the integration stage, Jinjiang and Plateno created a shared central booking and customer relationship management system to strengthen their data analysis and offer better value and services to members on their shared online platform.[[42]](#endnote-42)

**Other Mergers and Acquisitions**

In March 2016, Jinjiang increased its share in AccorHotels Group to 11.7 per cent, strengthening its position as the group’s largest shareholder.[[43]](#endnote-43) In April 2016, Jinjiang acquired 100 per cent of Chinese Vienna Hotel Group’s shares for ¥1.7 billion, which strengthened Jinjiang’s position in the middle-end hotel market and helped Vienna Hotel Group optimize the layout of its hotels in more than 300 Chinese cities.[[44]](#endnote-44)

**CHALLENGES**

Before its many acquisitions starting in 2014, Jinjiang was seen as relatively conservative regarding pursuing direct investments.[[45]](#endnote-45) Although the acquisitions made Jinjiang one of the largest hotel groups in the world, the company continued to face many challenges. Jinjiang’s management was aware that size did not necessarily mean strength in the hotel industry.

**Changing Market and Technological Environment**

The overall hotel industry in China was declining due to a slump in the domestic economy. The central government’s increasingly stringent policies regarding public expenditures (for example, President Xi Jinping’s anti-corruption policy) directly reduced Jinjiang’s revenues because the group served important political figures and foreign guests. Furthermore, the development of new technology (especially Internet applications) had changed the ways that consumers purchased hotel services, as well as consumers’ needs. As a result, traditional hotels with old business models found it difficult to respond to and compete in this dynamic market environment.[[46]](#endnote-46)

**Fierce Competition**

Competition in the Chinese hotel industry was frantic, as Chinese business groups rushed to buy overseas hotel groups to create economies of scale. For example, in October 2014, China’s Anbang Insurance Group bought New York City’s Waldorf Astoria hotel for $1.95 billion—the most expensive purchase in the history of the U.S. hotel industry.[[47]](#endnote-47) At the same time, the tourism industry in China was booming, which could bring additional opportunities for the country’s hotel industry. According to the World Tourism Organization, China was expected to become the world’s largest travel destination and the world’s fourth-largest source country by 2020.[[48]](#endnote-48)

Jinjiang was facing threats from both Chinese competitors, such as Homeinns Hotel Group and HNA Group Co., Ltd. (HNA), and renowned international competitors. Founded in 2001, the first Chinese budget hotel chain, Homeinns Hotel Group, was listed on the Nasdaq Stock Market in October 2006. In 2015, the group’s Home Inn brand was ranked first in China based on number of hotels, with more than 2,100 in operation (see Exhibit 4). In April 2016, another state-owned hotel group, Beijing Tourism Group, acquired Homeinns Hotel Group. HNA was a Chinese conglomerate with operations in the aviation, real estate, financial services, tourism, and logistics sectors, among others. It owned China’s fourth-largest airline, Hainan Airlines.[[49]](#endnote-49) HNA was actively buying foreign assets. In 2016, it bought 100 per cent of Carlson Hotels, Inc., one of the largest family-held corporations in the United States.[[50]](#endnote-50) In the same year, it also bought 25 per cent of the shares in Hilton Hotels for $6.5 billion from the Blackstone Group, making HNA the largest shareholder of Hilton Hotels.[[51]](#endnote-51)

The hotel industry saw several large international acquisitions in 2015 and 2016. Although Jinjiang’s position among worldwide hotel groups had advanced from 10th to 5th after its acquisitions during this period, Marriott International Inc.’s acquisition of American group Starwood Hotels and Resorts Worldwide LLC made the firm a strong international market leader. Hilton Worldwide, InterContinental Hotels Group PLC, and Wyndham Hotel Group were also still ranked before Jinjiang (see Exhibit 5).

**Post-Acquisition Financial and Integration Issues**

Like many poorly performing firms acquired by other Chinese companies in high-profile acquisitions, LHG and Plateno were operating at a loss before they were acquired. Starwood Capital Group had acquired LHG for $3.2 billion in 2005; however, in 2014, the group sold LHG to Jinjiang for $1.5 billion, a price less than half of what it paid in 2005. Thus, Starwood Capital Group might have stripped LHG of its best assets before selling it to Jinjiang. Further, Jinjiang and LHG’s different management cultures and values could present another challenge. LHG had a long history as a European firm with a French corporate culture that focused on employees, while Jinjiang was a state-owned company embedded with a traditional Chinese corporate culture that prioritized the company’s needs.[[52]](#endnote-52)

Moreover, after Jinjiang acquired Plateno, its debt-to-asset ratio increased from 68 per cent to 73 per cent, while its net debt ratio rose from 69 per cent to 120 per cent. In fact, Jinjiang had begun to raise funds with medium-term notes in 2012. The company used almost all the funds raised to pay back its bank loans.[[53]](#endnote-53) In particular, most of the secured bank borrowings were pledged by the bank deposits (¥4,723,560,000) and the ownership of some subsidiaries of the group, and guaranteed by Jinjiang.[[54]](#endnote-54) Plateno and Jinjiang Hotels had a similar market positioning (both focused on the middle- and low-end market), and both were facing a decline in the budget hotel market in China. Therefore, their larger combined size might not help these two firms improve their overall operating performance.[[55]](#endnote-55)

**Negative Image of Foreign State-Owned Companies**

Cross-border acquisitions by state-owned companies were not always viewed in a positive light. Regulators, the public, or other stakeholders in host countries often regarded these companies as “agents of their home country governments, pursuing political agendas and implementing government strategies that are outside of normal business considerations.”[[56]](#endnote-56) Most companies pursuing cross-border acquisitions had politically connected persons in their management teams and received subsidies in various forms from their home governments—practices that conflicted with free-market principles and fair competition. The lack of transparency in their corporate governance could also make the acquisition of local firms less desirable. Thus, after any merger, state-owned companies still faced the challenge of gaining the approval of local and other concerned regulatory institutions.

Jinjiang was not exempt from this negative political image. Politicians in France and Germany had expressed concerns about the rapid expansion of Chinese companies in Europe, with French president Francois Hollande confirming his hesitancy about Jinjiang gaining control of the French AccorHotels Group.[[57]](#endnote-57) Political concerns in Europe and the United States were triggered by the purchase of over $200 billion of foreign assets by many fully or partially state-owned Chinese companies between January 2015 and June 2016. Some policymakers in Europe and the United States had raised concerns that such cross-border acquisitions might pose national security risks, prompting concerned authorities to scrutinize and even block business deals in certain cases.

**LOOKING TO THE FUTURE**

Jinjiang realized the importance of Internet applications in its worldwide sales and operations, and invested ¥1 billion in select well-known Chinese companies, such as UnionPay on the WeHotel platform in December 2016.[[58]](#endnote-58) This platform was a global hotel-sharing platform that allowed member users to book travel services via a large and convenient financial payment system. As part of the push to reform China’s hotel industry, WeHotel would consolidate resources to build an ecosystem of tourism services for almost 100 million members at over 6,000 hotels around the world.[[59]](#endnote-59) Therefore, this platform would promote the transformation and upgrading of traditional hotel services, boost the cross-border integration and development of the hotel industry, and build a travel service ecosystem.

Although they had been acquired by Jinjiang, LHG, Plateno, and Vienna Hotel Group would all keep their own brand names and management teams going forward.[[60]](#endnote-60) How could Jinjiang realize potential synergies during the post-acquisition integration with these groups? Would the company be able to achieve its ultimate goal of making Jinjiang an internationally recognized brand that China could be proud of? How could it compete in the wave of mergers and acquisitions following the declining market trends and fierce competition in the domestic hotel industry? Were there new strategies (other than acquisitions) that Jinjiang could pursue to achieve its strategic goals? Finally, how could Jinjiang overcome the negative image that state-owned companies had in many host countries to build a reputable international brand?

**Exhibit 1: MAJOR BUSINESS SEGMENTS OF JINJIANG INTERNATIONAL GROUP**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Public Shareholders (25%) | |  | Jinjiang International  (75%) | |  |  |  |  | |
|  |  |  |  |  |  |  |  |  |  |  |  | |
| Jinjiang Group | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  |  |  |  |  |  |  |  |  | Selected Service Hotels  Jinjiang Metropolo | | |
|  |  |  | Full Service Hotels | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | |
|  |  |  |  |  |  |  |  |  |  | Selected Service Hotels  GDL | | |
|  |  |  | Selected Service Hotels and Food and Restaurant Chains | |  | Jinjiang Hotels Development | |  |  |
|  |  |  |  |  |  |  |  | |
|  |  |  |  |  |  |  |  | |
|  |  |  |  |  |  | Selected Service Hotels Plateno Group | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  | Passenger Transportation Logistics | |  | Jinjiang Investment | |  |  |  |  | |
|  |  |  |  |  |  | Selected Service Hotels Vienna Hotels | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  | Travel Agency | |  | Jinjiang Travel | |  |  |  |  | |
|  |  |  |  |  |  |  |  | |
|  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  |  | Other Businesses | |  | Finance Company, etc. | |  |  |  |  | |
|  |  |  |  |  |  |  |  | |

Source: Shanghai Jinjiang International Hotels (Group) Company Limited, *Annual Report 2016*, 3, accessed December 20, 2017, www.jinjianghotels.com.cn/UploadFiles/E\_JJ16\_AR.pdf.

**Exhibit 2: LOUVRE HOTELS GROUP’S BRANDS AND MARKET POSITIONing**

|  |  |
| --- | --- |
| **Hotel Brand** | **Market Positioning** |
| Première Classe | Hotels that offered contemporary spaces as well as essential products and services at an affordable budget price |
| Campanile | Hotels that offered more than just a room to provide a lively and cheerful experience with comfort, conviviality, and especially enjoyment |
| Kyriad | Hotels with strong European roots and with modern, relaxing, and comfortable facilities that were inspired by great travellers and ancestral places |
| Tulip Inn | Hotels with uncomplicated comfortable rooms, friendly services, and convenient locations |
| Golden Tulip | Hotels with a playful outlook on life, work, and travel, and enriched by local cultures |
| Royal Tulip | 5-star hotels that combined luxury, elegance, and ultramodern facilities and services |

Source: Created by the case authors based on “Our Brands,” Louvre Hotels, 2015, accessed December 20, 2017, www.louvrehotels.com/en/our-brands.

**Exhibit 3: GROWTH OF PLATENO GROUP**

|  |  |
| --- | --- |
| **Timeline** | **Events** |
| 2005 | 7 Days Inn was established. |
| 2007 | 7 Days Inn operated over 100 hotels with wireless and SMS reservation system. |
| 2009 | 7 Days Inn was listed in the New York Stock Exchange (NYSE). |
| 2011 | 7 Days Inn operated over 1,000 hotels with more than 30 million members. |
| 2013 | The Plateno Group was founded after successfully privatizing 7 Days Inn. The group also launched several hotel brands offering different experience. |
| 2014–2017 | The group built its larger portfolio of different hotel brands, while partnering with other hotel groups and travel companies and creating hotel booking websites and e‑commerce. The year 2015 also marked the strategic investment from Jinjiang, which moved up the combined group to be ranked in the world’s top five largest hotel groups. In 2017, the combined group had effective client membership exceeding 100 million. |

Source: Created by the case authors based on “Development History,” Plateno Hotel Group, accessed December 20, 2017, http://www.platenogroup.com/pages/group/.

**Exhibit 4: TOP CHAIN HOTELS (BY NUMBER OF HOTELS) IN CHINA IN 2015**

|  |  |  |  |
| --- | --- | --- | --- |
| **Hotel Brand** | **Hotel Group** | **# of Hotel Rooms** | **# of Hotels** |
| Home Inn | Homeinns Hotel Group | 233,518 | 2,135 |
| 7 Days Inn | Jinjiang | 193,529 | 2,085 |
| Hanting Hotel | Huazhu Hotels | 172,341 | 1,648 |
| Jinjiang Star | Jinjiang | 102,136 | 815 |
| GreenTree Inn | GreenTree Inns Hotel Mngmt. | 96,759 | 1,087 |
| Motel | Homeinns Hotel Group | 53,699 | 402 |
| Jinjiang Hotel | Jinjiang | 38,000 | 125 |
| Vienna Hotel Group | Jinjiang | 29,712 | 178 |

Source: Created by the case authors based on Juan Luo, “Competition Analysis in the Chinese Hotel Industry [in Chinese],” Prospect Industry Research Institute, April 7, 2016, accessed December 20, 2017, www.qianzhan.com/analyst/detail/220/160406-43dcc845.html.

**Exhibit 5: Top 10 hotel groups worldwide (BY # OF HOTELS), before and AFTER MERGERS AND ACQUISITIONS (2015–2016)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Hotel Group | 2015 | | 2016 before M&A | | 2016 after M&A | |
| Rank | # of Rooms | Rank | # of Rooms | Rank | # of Rooms |
| Marriott + Starwood |  |  |  |  | 1 | 1,108,852 |
| Hilton Worldwide | 2 | 708,268 | 1 | 751,350 | 2 | 751,350 |
| Marriott International | 3 | 701,899 | 2 | 746,523 |  |  |
| InterContinental Hotels | 1 | 710,295 | 3 | 744,368 | 3 | 744,368 |
| Wyndham Hotel Group | 4 | 660,826 | 4 | 678,042 | 4 | 678,042 |
| Jinjiang/Plateno/Vienna Hotel Group |  |  |  |  | 5 | 572,340 |
| AccorHotels + FRHI Hotels & Resorts |  |  |  |  | 6 | 554,517 |
| AccorHotels | 6 | 482,296 | 5 | 511,517 |  |  |
| Choice | 5 | 504,808 | 6 | 507,483 | 7 | 507,483 |
| Homeinns Hotel Group | 9 | 296,075 | 8 | 321,802 | 8 | 321,802 |
| Starwood Hotels & Resorts | 7 | 346,599 | 7 | 362,329 |  |  |
| Best Western | 8 | 302,144 | 9 | 311,870 | 9 | 311,870 |
| Huazhu |  |  |  |  | 10 | 278,843 |
| Jinjiang (including Louvre Hotels) | 10 | 241,910 | 10 | 296,703 |  |  |

Note: M&A = mergers and acquisitions.

Source: Created by the case authors based on MKG Group, “Global Hotel Ranking—Top 10: What Does the Future Hold after the Marriott-Starwood Merger,” Hotel Online, April 14, 2016, accessed December 20, 2017, www.hotel-online.com/press\_releases/release/global-hotel-ranking-top-10-what-does-the-future-hold-after-the-marriott-st.

**endnotes**

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Jinjiang International (Group) Company Limited or any of its employees. [↑](#endnote-ref-1)
2. All currency amounts are in US$ unless otherwise specified; MKG Group, “Global Hotel Ranking—Top 10: What Does the Future Hold after the Marriott-Starwood Merger,” Hotel Online, April 14, 2016, accessed December 20, 2017, www.hotel-online.com/press\_releases/release/global-hotel-ranking-top-10-what-does-the-future-hold-after-the-marriott-st. [↑](#endnote-ref-2)
3. Xiao Yu and Lei Jiao, “Strategic Overview of ‘Going Global’ [in Chinese],” Overseas Chinese Affairs Research, 2011, accessed December 20, 2017, http://qwgzyj.gqb.gov.cn/yjytt/159/1743.shtml; “Action Plan on the Belt and Road Initiative,” The State Council, The People’s Republic of China, March 30, 2015, accessed December 20, 2017, http://english.gov.cn/archive/publications/2015/03/30/content\_281475080249035.htm; “Jinjiang Took over Hongqiao Sheraton Brand, ‘Let the Chinese Hotel Open All over the World,’” NetEase Finance, March 24, 2017, accessed December 20, 2017, http://money.163.com/17/0324/08/CG9FH8D8002580S6.html#from=keyscan. [↑](#endnote-ref-3)
4. ¥ = RMB = Chinese yuan renminbi; US$1.00 = ¥6.202490 on January 1, 2015; Shanghai Jinjiang International Hotels (Group) Company Limited, “Announcement: Connected Transaction—Establishment of Joint Venture WeHotel,” December 5, 2016, accessed August 9, 2017, www.jinjianghotels.com.cn/UploadFiles/E\_200620161205001.pdf. [↑](#endnote-ref-4)
5. Macabe Keliher and Hsinchao Wu, “How to Discipline 90 Million People,” *Atlantic*, April 7, 2015, accessed August 11, 2017, https://www.theatlantic.com/international/archive/2015/04/xi-jinping-china-corruption-political-culture/389787/. [↑](#endnote-ref-5)
6. Jing Li and Jun Xia, “State-Owned Enterprises Face Challenges in Foreign Acquisitions,” *Columbia FDI Perspectives*, no. 205 (July 31, 2017): 1–3, accessed December 20, 2017, http://ccsi.columbia.edu/files/2016/10/No-205-Li-and-Xia-FINAL.pdf. [↑](#endnote-ref-6)
7. “Corporate Structure [in Chinese],” Jinjiang International (Group) Company Limited, accessed December 20, 2017, www.jinjiang.com/about/. [↑](#endnote-ref-7)
8. “Jinjiang International Holdings Co., Ltd.,” Louvre Hotels, 2015, accessed December 20, 2017, https://www.louvrehotels.com/en/jin-jiang. [↑](#endnote-ref-8)
9. “Jinjiang International Group Detailed Information [in Chinese],” Ifeng, accessed December 20, 2017, http://finance.ifeng.com/company/data/detail/2137.shtml. [↑](#endnote-ref-9)
10. “Corporate Profile [in Chinese],” Jinjiang International (Group) Company Limited, accessed December 22, 2017, www.jinjiang.com/about/introduction/. [↑](#endnote-ref-10)
11. Huiyuan Gu, “Jinjiang Hotel: The Witness of History [in Chinese],” China Papers Network, accessed December 20, 2017, www.xzbu.com/1/view-5238854.htm. [↑](#endnote-ref-11)
12. Siqi Gu, Lan Zheng, and Qian Yin, “Introduction to the Development of Jinjiang Group,” Baidu Library, accessed December 20, 2017, https://wenku.baidu.com/view/57150f6048d7c1c708a14572.html. [↑](#endnote-ref-12)
13. Jie Chen and Mingyang Zhang, “Jin Jiang Acquiring American Interstate Group [in Chinese],” *Beijing Business Today*, May 9, 2016, accessed June 15, 2016, www.bbtnews.com.cn/2016/0509/147670.shtml. [↑](#endnote-ref-13)
14. “Corporate Profile,” Jin Jiang International (Group) Company Limited, op cit. [↑](#endnote-ref-14)
15. “Jinjiang Ranks among the Top Five Global Hotel Groups,” Jinjiang International, accessed June 15, 2017 www.jinjiang.com/about/memorabilia/show/15836. [↑](#endnote-ref-15)
16. “Fairmont Peace Hotel,” Trip Advisor, accessed June 15, 2017, https://cn.tripadvisor.com/Hotel\_Review-g308272-d303020-Reviews-Fairmont\_Peace\_Hotel-Shanghai.html. [↑](#endnote-ref-16)
17. “Jinjiang Group,” Louvre Hotels, 2015, accessed June 11, 2017, https://www.louvrehotels.com/en/jin-jiang; “Corporate Profile,” Jinjiang International (Group) Company Limited, op. cit. [↑](#endnote-ref-17)
18. “About Us,” Jinjiang International (Group) Company Limited, accessed December 22, 2017, http://hotels.jinjiang.com/aboutUS. [↑](#endnote-ref-18)
19. “Corporate Profile,” Jinjiang International (Group) Company Limited, op. cit. [↑](#endnote-ref-19)
20. “Main Functions,” The State-Owned Assets Supervision and Administration Commission of the State Council (SASAC), accessed June 14, 2017, <http://en.sasac.gov.cn/n1408028/n1408521/index.html>;“JJ Group Regulations,” Static Jinjiang, December 13, 2007, accessed December 20, 2017, http://static.jinjiang.com/opt/static//jjgroup-regulations.pdf. [↑](#endnote-ref-20)
21. “Jinjiang Group—About Us,” accessed December 19, 2017, www.jinjianghotels.com.cn/en/Aboutus.aspx?cid=20&id=4; “Shanghai Jin Jiang Intl Ho-H,” Bloomberg, accessed December 19, 2017, https://www.bloomberg.com/research/stocks/people/person.asp?personId=46250000&capId=35188141&previousCapId=118762864&previousTitle=LEE%20%26%20MAN%20HANDBAGS%20LTD; The Party Committee Secretary was the leader of the Communist Party of China (CPC) organization in a province, city, or other administrative region. The term was also used for leadership positions within Communist Party organizations in state-owned enterprises. [↑](#endnote-ref-21)
22. Emily Feng, “Xi Jinping Reminds China’s State Companies of Who’s the Boss,” *New York Times*, October 13, 2016, accessed August 21, 2017, https://www.nytimes.com/2016/10/14/world/asia/china-soe-state-owned-enterprises.html?mcubz=3; “Yu Min Liang Stresses Strategic Focus on ‘Global Layout and Multinational Management’ [in Chinese],” Jin Jiang International Hotels, July 4, 2017, accessed December 22, 2017, www.jinjiang.com/about/foreign/show/17018. [↑](#endnote-ref-22)
23. Yu and Jiao, op. cit.; Karl P. Sauvant and Michael D. Nolan, “China’s Outward Foreign Direct Investment and International Investment Law,” *Journal of International Economic Law* 18, no. 4 (2015): 893–934. [↑](#endnote-ref-23)
24. Tim Bajarin, “How a Chinese Company Became a Global PC Powerhouse,” *Time*, May 4, 2015, accessed August 9, 2017, http://time.com/3845674/lenovo-ibm/; Chris V. Nicholson, “Chinese Carmaker Geely Completes Acquisition of Volvo from Ford,” *New York Times*, August 2, 2010, accessed August 9, 2017, www.nytimes.com/2010/08/03/business/global/03volvo.html; Ankit Ajmera and Denny Thomas, “China's HNA Group Buys $6.5 Billion Stake in Hilton, Extends Hotels Push,” Reuters, October 24, 2016, accessed August 9, 2017, www.reuters.com/article/us-hilton-wrldwide-stake-hna-group-idUSKCN12O1GM. [↑](#endnote-ref-24)
25. J.P., “The Economist Explains: What Is China’s Belt and Road Initiative?,” *Economist*, May 15, 2017, accessed August 9, 2017, www.economist.com/blogs/economist-explains/2017/05/economist-explains-11. [↑](#endnote-ref-25)
26. “Where Will China’s ‘One Belt, One Road’ Initiative Lead?,” Knowledge@Wharton, March 22, 2017, accessed December 20, 2017, http://knowledge.wharton.upenn.edu/article/can-chinas-one-belt-one-road-initiative-match-the-hype/. [↑](#endnote-ref-26)
27. “Jinjiang Took over Hongqiao Sheraton Brand, ‘Let the Chinese Hotel Open All over the World,’” NetEase Finance, March 24, 2017, accessed December 20, 2017, http://money.163.com/17/0324/08/CG9FH8D8002580S6.html#from=keyscan. [↑](#endnote-ref-27)
28. Starwood Capital Group, “Starwood Capital Group Completes the Sale of Groupe du Louvre and Louvre Hotels Group to Shanghai Jin Jiang International Hotels Development Co., Ltd.,” PR Newswire, March 1, 2015, accessed August 9, 2017, www.prnewswire.com/news-releases/starwood-capital-group-completes-the-sale-of-groupe-du-louvre-and-louvre-hotels-group-to-shanghai-jin-jiang-international-hotels-development-co-ltd-300043264.html. [↑](#endnote-ref-28)
29. “Shanghai State-Owned Assets Through ‘Mixed Reform’ Made Another Big Move, Strategic Investment of 81% of Stakes in Plateno Group [in Chinese],” Jinjiang International, September 18, 2015, accessed December 20, 2017, www.jinjiang.com/about/memorabilia/show/15836. [↑](#endnote-ref-29)
30. Starwood Capital Group, “Investments,” accessed August 9, 2017, http://starwoodcapital.com/investments/; “Golden Tulip Hospitality Group,” Hospitality Industry, accessed June 16, 2017, www.hospitality-industry.com/index.php/directory/comments/golden\_tulip\_hospitality\_group. [↑](#endnote-ref-30)
31. Starwood Capital Group, op. cit. [↑](#endnote-ref-31)
32. Michael Cole, “China’s Jin Jiang to Buy French Hotel Group for Over $1.49B,” *MingTianDi*, November 16, 2014, accessed June 16, 2017, www.mingtiandi.com/real-estate/outbound-investment/chinas-jin-jiang-to-buy-french-hotel-group-for-over-1-49b/. [↑](#endnote-ref-32)
33. ZiChen Guan, “Jin Jiang’s Joy and Worry of Acquiring Louvre Hotels Group,” *Beijing Business Today*, April 2, 2015, accessed December 20, 2017, www.bbtnews.com.cn/2015/0402/89018.shtml. [↑](#endnote-ref-33)
34. “Jinjiang Group to Buy LHG in Early Next Year with Over Euro 1.2 Billion [in Chinese],” Sina Finance, November 23, 2014, accessed August 20, 2017, http://finance.sina.com.cn/chanjing/gsnews/20141123/104820895416.shtml; Terence Baker Patrick Mayock, “Shanghai Jin Jiang Agrees to Buy Louvre Hotels,” Hotel News Now, November 12, 2014, accessed June 16, 2017, http://hotelnewsnow.com/Articles/24387/Shanghai-Jin-Jiang-agrees-to-buy-Louvre-Hotels. [↑](#endnote-ref-34)
35. Sina Finance, op. cit. [↑](#endnote-ref-35)
36. “Jinjiang Group Acquires Louvre Group in Bid to Expand to Europe,” ChinaTravelNews, January 23, 2015, accessed June 16, 2017, www.chinatravelnews.com/article/88511. [↑](#endnote-ref-36)
37. “Jinjiang International Holdings Co., Ltd.,” Louvre Hotels, 2015, accessed December 20, 2017, https://www.louvrehotels.com/en/jin-jiang. [↑](#endnote-ref-37)
38. “Jin Jiang Hotels acquires Plateno Group for US$1.3 billion,” ChinaTravelNews, October 29, 2015, accessed December 19, 2017, www.chinatravelnews.com/article/96589. [↑](#endnote-ref-38)
39. “Development History,” Plateno Hotel Group, op. cit. [↑](#endnote-ref-39)
40. “Plateno and eLong First Set up Distribution Alliance to Break the OTA in Hotel Industry,” ChinaNet.cn, August 12, 2016, accessed June 19, 2017, http://chuangxin.haiwainet.cn/n/2016/0812/c348217-30195110.html. [↑](#endnote-ref-40)
41. Reuters, “China Unveils Plan for Partial Privatisations as Economy Cools,” *Guardian*, September 13, 2015, accessed December 19, 2017, https://www.theguardian.com/business/2015/sep/13/china-partial-privatisations-economy-cools. [↑](#endnote-ref-41)
42. “Shanghai Jin Jiang Ranks First among the Top 5 of Hotel Groups [in Chinese],” Jinjiang International, September 18, 2015, accessed June 19, 2017, www.jinjiang.com/about/memorabilia/show/15836. [↑](#endnote-ref-42)
43. Jie Chen and JingYuan Zuo, “Jin Jiang Increased Its Share in Accor Group to 11.7% [in Chinese],” *Beijing Business Today*, March 3, 2016, accessed June 17, 2017, www.bbtnews.com.cn/2016/0303/140721.shtml. [↑](#endnote-ref-43)
44. “The Deal is Done: Jin Jiang Bought Vienna with 1.7 Billion Yuan Only for 80%?,” *yiou*, April 28, 2016, accessed June 17, 2017, www.iyiou.com/p/26530. [↑](#endnote-ref-44)
45. Huang Shu-hui Ren Mingjie, “Jinjiang’s Shares Jumped upon the Merger with Plateno: ‘Dance of the Elephant Agitated the Hotel Industry [in Chinese],’” Travel China, September 29, 2015, accessed December 20, 2017, www.china.com.cn/travel/txt/2015-09/29/content\_36706993.htm. [↑](#endnote-ref-45)
46. Ping Jiang, “Analysis on Prospect of Chinese Hotel Industry in 2015 [in Chinese],” Prospect Industry Research Institute, January 11, 2015, accessed December 20, 2017, http://bg.qianzhan.com/report/detail/361/150109-01c5cbb9.html. [↑](#endnote-ref-46)
47. Ben Rooney, “Waldorf Astoria Sold to Chinese Company for $1.95 Billion,” CNN Money, October 6, 2014, accessed June 19, 2017, http://money.cnn.com/2014/10/06/news/waldorf-astoria-hotel-sale/index.html. [↑](#endnote-ref-47)
48. “China Tourism,” Travel China Guide, accessed December 19, 2017, https://www.travelchinaguide.com/tourism/. [↑](#endnote-ref-48)
49. Henry Sanderson, “China’s HNA Group Aims to Do More Deals,” Financial Times, July 4, 2016, accessed December 20, 2017, https://www.ft.com/content/8f2b7338-3e05-11e6-8716-a4a71e8140b0. [↑](#endnote-ref-49)
50. Geniuskaka, “Big Move of HNA! It Acquired Carlson Hotels Group! [in Chinese],” Travel After Work, April 27, 2016, accessed June 19, 2017, https://travelafterwork.com/2016/04/27/hna-tourism-group-buys-carlson-hotels/. [↑](#endnote-ref-50)
51. “HNA Became the Largest Shareholder of Hilton Hotels—Why [Is] HNA Doing Many Overseas Acquisitions?,” *xiejing.com*, October 25, 2016, accessed June 19, 2017, http://biz.xiejing.com/observe/0cGqZE.html. [↑](#endnote-ref-51)
52. “Corporate Profile,” Jinjiang International (Group) Company Limited, op. cit. [↑](#endnote-ref-52)
53. Shanghai Jin Jiang International Hotels (Group) Company Limited, *Annual Report 2016*, 3, accessed August 10, 2017, www.jinjianghotels.com.cn/UploadFiles/E\_JJ16\_AR.pdf. [↑](#endnote-ref-53)
54. Shanghai Jin Jiang International Hotels (Group) Company Limited, *2015 Final Results Announcement* [in Chinese], 35, accessed December 20, 2017, www.jinjianghotels.com.cn/UploadFiles/C\_200620160331001.pdf. [↑](#endnote-ref-54)
55. Xiaohui Xiong, “‘Big Doesn’t Mean Strong’—Jin Jiang May Acquire Plateno,” EastMoney.com, July 20, 2015, accessed December 20, 2017, http://finance.eastmoney.com/news/1354,20150720528874644.html. [↑](#endnote-ref-55)
56. Li and Xia, op. cit. [↑](#endnote-ref-56)
57. Michelle Price, “Chinese State-Owned Companies Face Greater Scrutiny of EU Deals after Ruling,” Reuters, June 13, 2016, accessed August 9, 2017, www.reuters.com/article/us-china-eu-m-a-idUSKCN0YZ00U. [↑](#endnote-ref-57)
58. Shanghai Jin Jiang International Hotels (Group) Company Limited, “Announcement: Connected Transaction—Establishment of Joint Venture WeHotel,” op. cit. [↑](#endnote-ref-58)
59. Rhett Butler, “Jin Jiang & Plateno Launch 100 Million Loyalty Platform,” Argophilia, January 25, 2017, accessed August 9, 2017, www.argophilia.com/news/jin-jiang-plateno-launch-100-million-loyalty-platform/217351/. [↑](#endnote-ref-59)
60. “Jinjiang Group: Acquiring Plateno Group to Become Economic Hotel Giant [in Chinese],” stock.p5w.net, September 22, 2015, accessed August 20, 2017, www.p5w.net/stock/gpyb/ggjj/201509/t20150922\_1204526.htm; “Jinjiang Group’s Vice President Meng Yu: Hotel Industry ‘Going Out’ in Four Ways [in Chinese],” *Yicai*, February 15, 2016, accessed August 20, 2017, http://m.yicai.com/news/4749649.html; “Jinjiang Group: Acquiring the Leading Mid-Range Hotel Vienna Group for Opportunities in the Disney Area, [in Chinese]” China Network, May 3, 2016, accessed August 20, 2017, www.sohu.com/a/73169945\_116897. [↑](#endnote-ref-60)