A Study of Recent Business Management Strategies at the Hilton Hotel: Towards Future Competitiveness in the Hospitality Industry

Jhonny Jim* & Michael**

*Instructor, Business Management, Brunel University, London. E-Mail: jim_jhonny11@gmail.com
**Assistant Professor, Business Management, Brunel University, London. E-Mail: Michael_20el@gmail.com

Abstract--- Owned by the Blackstone Group, Hilton is an American global hospitality firm. The private equity company began in 1919 when Conrad Hilton bought the Mobley. Notably, the latter was located in Texas' Cisco region. Conrad proceeded to build and buy hotels in the rest of Texas. Some of these notable developments included the opening of Dallas Hilton in 1925, the El Paso Hilton in 1930, and Waco Hilton in 1928, as well as the Abilene Hilton in 1927.

Keywords--- Business Management Strategies, Hospital Industry, International Operation.

I. Background

OWNED by the Blackstone Group, Hilton is an American global hospitality firm. The private equity company began in 1919 when Conrad Hilton bought the Mobley. Notably, the latter was located in Texas' Cisco region. Conrad proceeded to build and buy hotels in the rest of Texas. Some of these notable developments included the opening of Dallas Hilton in 1925, the El Paso Hilton in 1930, and Waco Hilton in 1928, as well as the Abilene Hilton in 1927.

Beyond Texas, Conrad built the first hotel in New Mexico's Albuquerque, achieved in 1939. Today, the latter hotel is referred to as Hotel Andaluz (Chen 214). By March 2014, the number of Hilton brands operating globally was documented to be 4,112 while the number of countries housing these brands was 91. Similarly, the global hotel brand was affirmed to contain more than 680,117 rooms (Tourism Report 5).

The international arm of Hilton Hotels Corporation constitutes locations in regions such as Singapore, Hong Kong, Turkey, Belgium, Egypt, Ireland, England and Australia.

Whereas the company is publicly traded, the chain has been led by the Hilton family's members since 1919. Global premium hotels formed a majority of the firm's chains in the late 1940s while the 1960s saw the company sell a majority of its international operations, concentrating on franchising and management contracts (Phalippou 11).

Through the creation of innovative joint-venture arrangements, a standard industry practice was established. Afterwards, the company established casino-hotels that would become prime sources of revenue.

With gaming introduced in 1971, an eighteen-year period that followed witnessed gaming account for over 44 percent of income at Hilton (Chen 217). Overall, Hilton has been keen to engage in the internationalization of its products and services while seeking to not only achieve a strategic position but also retain its competitive advantage.

II. Management Structure

At Hilton, a top-down communication process dominates. Members in the higher level of the hierarchy include the general manager and the executive assistant manager. This group is followed by the personnel, accounting, marketing and sales, engineering, and purchasing groups. Other members below the executive assistant manager include the rooms division and the food and beverage section.

On the one hand, the marketing and sales team is in charge of convention and reservation services. On the other hand, the rooms division plays the roles of front office, security, housekeeping, uniformed service, and telephone services. Regarding the food and beverage personnel, operations include the room service, banquet and catering, bars, restaurants, and food production. A summary of this structure is shown in the figure below.

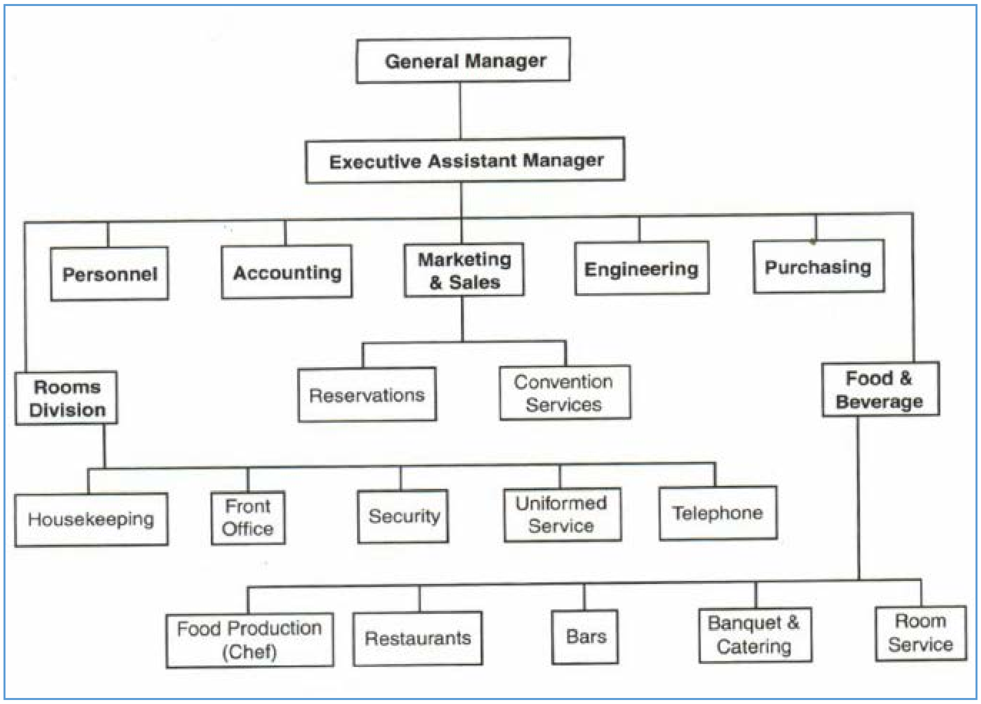

Figure 1 - The Management Structure at Hilton

Source: Chen (2011)

III. Financial Strategy

Debt Strategy

Hilton has been documented to be committed to the reduction of its high debt levels. To achieve this objective, the company has been paying approximately $200 million in every quarter. The constant effort has been attributed to the use of company proceeds from locations such as Hilton Sydney to pay out additional and quarterly loans. Five years ago, the organization's net debt to EBITDA was 10.5X. Currently, the value stands at 3.7X. It is also worth highlighting that the company is determined to bring the debt level to a lower value of 3.5X in the next two quarters (Tourism Report 3). Indeed, efforts to bring down the debt levels at Hilton have been associated with its quest to form an investment-grade firm. A summary of this trend is shown in the figure below.

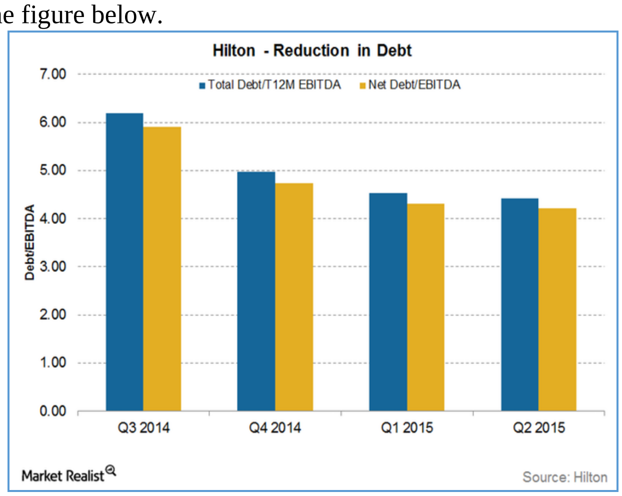

Figure 2 - Trends Illustrating Hilton's Debt Strategy

Equity Strategy

In the business arena, equity refers to the value of shares that a company issues. The implication is that an equity strategy entails some of the mechanisms that an organization puts in place in ensure that the value of its shares grows or remains high (Phalippou 18).

To achieve equity, Hilton has introduced a global brand identity whose design seeks to reflect the firm's continuous evolution as a leader in the hospitality industry.

With a new graphic identity system introduced, an aggressive marketing strategy has been heralded at Hilton. The eventuality has been an enhancement of the company's brand equity beyond the new millennium. Indeed, the worldwide identity system has arisen from alliances between Hilton International CO and Hilton Hotels Corporation.

The historic marketing agreement has ended up forming a symbol of the firm's global commitment to meeting the expectations of guests for enriching and special experiences in each location.

Through brand identity communication, the worldwide identity system has been complemented by the pride of team members, professionalism, and the distinctiveness of Hilton hotels.

Overall, Hilton hotels have achieved brand equity by forming special places reflecting local cultures of geographical situation.

The eventuality has been an excellent service that combines each of Hilton properties' uniqueness with commitment.

IV. Financial Statements

Income Statement

Fiscal year is January-December. All values USD millions.	2011	2012	2013	2014	2015
Sales/Revenue	8.780B	9.280B	-	10.50B	11.270B
Cost of Goods Sold (COGS) incl. D&A	7.370B	7.660B	-	8.340B	8.890B
COGS excluding D&A	6.810B	7.110B	-	7.710B	8.20B
Depreciation & Amortization Expense	564.0M	550.0M	-	628.0M	692.0M
Depreciation	323.0M	290.0M	-	313.0M	351.0M
Amortization of Intangibles	241.0M	260.0M	-	315.0M	341.0M
Gross Income	1.410B	1.610B	-	2.160B	2.390B

Source: Tourism Report (2010)

Business Strategy

To achieve company goals and objectives, Hilton relies on a capital-light strategy. The strategy, which refers to the separation of ownership from operations, has been paramount in assuring Hilton's service provision anywhere in the world. With the goal lying in the effort to win everywhere, the capital-light strategy has ensured that a relatively inexpensive expansion is realized while adding the net rooms.

Therefore, the capital-light model has driven the executives to divest a majority of the leased and owned hotel assets (Chen 217).

Company Financial Statement

Fiscal year is January-December. All values USD millions.	2011	2012	2013	2014	2015
SG&A Expense	416.0M	460.0M	-	416.0M	611.0M
Research & Development	-	-	-	-	-
Other SG&A	416.0M	460.0M	-	416.0M	611.0M
Other Operating Expense	-	-	-	75M	-
Unusual Expense	20.0M	54.0M	-	(24.0M)	-
EBIT after Unusual Expense	975.0M	1.10B	-	1.70B	-
Non-Operating Income/Expense	(2.0M)	38.0M	-	39.0M	255.0M
Non-Operating Interest Income	11.0M	15.0M	-	10.0M	19.0M
Equity in Affiliates (Pretax)	(145.0M)	(11.0M)	-	19.0M	23.0M
Interest Expense	643.0M	569.0M	-	618.0M	575.0M
Gross Interest Expense	649.0M	574.0M	-	622.0M	578.0M
Interest Capitalized	6.0M	5.0M	-	4.0M	3.0M
Pretax Income	196.0M	573.0M	-	1.150B	1.50B
Income Tax	(59.0M)	214.0M	-	465.0M	80.0M
Income Tax - Current Domestic	58.0M	84.0M	-	351.0M	491.0M
Income Tax - Current Foreign	70.0M	57.0M	-	100.0M	68.0M
Income Tax - Deferred Domestic	(198.0M)	65.0M	-	18.0M	(550.0M)
Income Tax - Deferred Foreign	11.0M	8.0M	-	(4.0M)	71.0M
Income Tax Credits	-	-	-	-	-
Equity in Affiliates	-	-	-	-	-
Other After Tax Income (Expense)	-	-	-	-	-
Consolidated Net Income	255.0M	359.0M	-	682.0M	1.420B
Minority Interest Expense	2.0M	7.0M	-	9.0M	12.0M
Net Income	253.0M	352.0M	-	673.0M	1.40B
Extra-ordinaries & Discontinued Operations	-	-	-	-	-
Extra Items & Gain/Loss Sale Of Assets	-	-	-	-	-
Cumulative Effect - Accounting Chg	-	-	-	-	-
Discontinued Operations	-	-	-	-	-
Net Income After Extra-ordinaries	253.0M	352.0M	-	673.0M	1.40B
Preferred Dividends	-	-	-	-	-
Net Income Available to Common	253.0M	352.0M	-	673.0M	1.40B
EPS (Basic)	0.260	0.290	-	0.680	1.420
Basic Shares Outstanding	984.620M	984.620M	-	985.0M	986.0M
EPS (Diluted)	0.260	0.290	-	0.680	1.420
Diluted Shares Outstanding	984.620M	984.620M	-	986.0M	989.0M
EBITDA	1.560B	1.70B	-	2.30B	2.470B

Source: Tourism Report (2010)

Future Prospective

The future of Hilton is projected to be dominated by a better business model and new brands. The firm has continually developed new brands such as Canopy and Curio. These developments are likely to add to Hilton's already impressive top line performance. Given that the company focuses on a shift from the franchising model, it is expected that its future business model will be less capital intensive. In turn, the firm might experience better cash flows while garnering higher margins. Given the strong track record of growth in times of solid rooms in existence and those under construction, Hilton has the capacity to exert a strong hold on the future's total market share of rooms. It is further expected that Hilton will utilize multiple acquisition opportunities to expand its global presence (Phalippou 21). Overall, the current aspects of globalization and technological growth suggest that the future of Hilton will be characterized by a timely delivery of services in the right manner at the right time and, in the right place.

V. Conclusion

In conclusion, Hilton hotel depicts a promising industry player whose future prospective suggests the likelihood of expanding the global presence. Some of the attributes accounting for this predicted trend include outcomes from the current income and financial statement, brand equity, strategic location, and the growing number of business and holiday travelers; target markets of Hilton. In summary, Hilton's engagement in additional promotion strategies could lead to the attraction of new customer bases while retaining the existing product and service users.

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