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Hilton Worldwide

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# Executive Summary Rashawnda Kirkland

The purpose of this report was to identify major issues that Hilton may endure based on the way the business is operated and then come up with alternative methods and recommendations the company may implement to surpass or overcome these issues. The five major issues we identified are pricing pressures, lawsuits, Hilton’s weak market share, substitute service, and cost of labor.

 Pricing pressures are an issue for Hilton because it can cause major financial problems for the company. The pressure on prices is caused by intense competition which can eventually lead to Hilton lowering their prices and fees. Hilton has the choice to expand their niche market or offer amenities and services that will be difficult for their competitors to replicate. Either alternative could become costly for Hilton no matter which one is chosen. This is where Hilton would have to see which alternative will provide the greatest benefits for the company. Electing to offer services and amenities other companies don’t is the better option. Choosing this alternative will allow Hilton to keep its niche market and also potentially attract new customers as well as some of their competitors’ customers.

 Lawsuits are another major issue for Hilton because they can cause a financial burden to the company and they can hurt the reputation and image of the company. This may also affect whether a customer will be willing to spend money on services offered by Hilton thus moving them behind their competitors. Hilton can decide to bring it an Organizational Development Practitioner or get better legal advice from their advisors. Putting a greater focus on hiring an OD Practitioner will prove to be the better option. An OD Practitioner will help the company re-evaluate their system and keep them away from any illegal activity that could land them in court. This person will also improve quality assurance and supply chain management.

 . Hilton’s weak market share is another issue for the company because it leaves room for the competitor to expand into areas where they are not operating. Even though they are operating well in the United States, Hilton has plenty room to grow and create more revenue for the company. This room for growth will then lead Hilton to face a difficult decision when it comes to expanding into international markets. Hilton can elect to create stronger international loyalties or to create a greater capacity. Choosing to create a greater capacity is the better option for Hilton because it will allow them to serve more customers and create additional revenue for the company.

A fourth major issue for Hilton is substitute service. This can cause a problem for Hilton because of the competition they face outside of the hotel/motel sector. Hilton could handle this current issue by either adding competitive amenities or choosing to merge/acquire smaller companies outside the hotel/motel sector. Adding competitive amenities will prove to be the better option because merging/acquiring a company could get very costly. Not only would it become costly for the company, it would also mean that Hilton will have additional liabilities they would become responsible for.

 The fifth issue we found was the cost of labor. This is an issue for Hilton because the company has plans on expanding but they are currently experiencing a high employee turnover rate. With the new hotels Hilton wants to open, recruiting and training new employees can become costly. Another factor they face is an increase in labor costs. Hilton has the option to create better fringe benefits or create a turnover clause. The best alternative for Hilton is to create attractive fringe benefits for their employees. These fringe benefits can lead to employees staying longer on the job and possibly lead to a labor cost decrease because they will not have to put as much money into recruiting and training new employees.

# Mission and Vision Katelyn Cox

***Hilton Hotels & Resorts Mission Statement***

Hilton Hotels and Resorts mission statement is “to be the preeminent global hospitality company – the first choice of guests, team members, and owners alike [49]”. This is an accurate statement about Hilton Hotels and Resorts because from the start, Hilton has been a leader in the hospitality industry. Hilton is a shining example of innovation, quality, and success.

***Hilton Hotels & Resorts Vision Statement***

Hilton Hotels and Resorts vision statement is “to fill the earth with the light and warmth of hospitality [49]”. Hilton stays true to their vision statement by being passionate about providing outstanding guest experiences. Hilton operates its company with a sense of urgency, discipline, and integrity allowing them to remain a leader in the industry.

# Objectives William Christian

***Financial Objectives***

Hilton Worldwide, as an organization, realizes the importance of a strong revenue base and profitability. In order to continue their growth, the company has established a specific list of intentions to better define their future monetary target goals. The following items are the financial objectives of Hilton Worldwide.

* Hilton Worldwide forecasts an adjusted earnings from $0.78 to $0.83 per share for the year 2015 [27]. The projected annual increase in earnings per share will be between fourteen percent and twenty two percent for the current year which is a great indicator of their potential for profitability [27].
* The projected revenue per available room (RevPAR) will grow by five to seven percent for the fiscal year [25]. RevPAR, or calculated the room rate times the occupancy rate, is an important and key performance measure specifically in the hotel industry [47]. The increase in average per room rate from $110.91 to $113.02 per night will add considerably to the company profit margins [25]. The company’s strategic drive for high guest satisfaction has improved the consumer’s view of the price to value of the hotel [33]. Room rate increases are not rebuked by patrons because they feel the price of the hotel stay is comparable to the services provided by the property.
* Hilton’s adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) is expected to be between 2.79 million and 2.87 million [25]. EBITA is a widely accepted indicator of a company’s monetary success and streamlined processes [47]. An increase the EBITDA by eleven to fourteen percent is a substantial leap and thus a clear indicator to shareholders and industry leaders of their strength and success [25].

* The annual gross revenue for Hilton is expected to be 21.53 billion which is an expected increase of 7.6% for the current year [5]. The sum total income is actually an important measure for companies in the consumer retail industry as it provides a comparison of the amount of company sales relative to their competitors [45]. The increase in gross revenue signals their rise in position within the industry hierarchy. Additionally, as part of their strategic directive, Hilton is responsible for creating profits for their shareholders and team members [33]. Therefore, Hilton must ensure consistent and sustained income growth.
* Hilton Worldwide, a publicly traded company, will continue to have an increased annual shareholder value. The average stock price in 2013 was twenty-two dollars a share and the average stock price for 2015 is currently twenty-eight dollars a share [29]. As previously noted, Hilton recognizes their accountability to shareholders. Besides demonstrating an impressive upward-trending, stock price is evidence of investor confidence and adds to the company’s future growth.

***Strategic Objectives***

Hilton Worldwide’s goal is to solidify their brand as the best among the other current hospitality leaders and continue expand their chain’s presence in the market. Maintaining and improving their position while remaining competitive in the market will demonstrate their prowess and projected future success. The following items are the strategic objectives for Hilton Worldwide:

* Hilton Worldwide will tap into new markets to increase their market share by satisfying consumer demands. The company designed a new hotel chain concept called Canopy by Hilton to focus on both the leisure and business traveler [24]. Attracting new niche market consumers, this unique concept allows Hilton to remain ahead of rivals in the hospitality market place.
* Hilton offers a wider product line than its rivals. The organization currently offers four hotel brands in the focused service category, four hotels brands in the full service category, two in the luxury service category, and a new hotel brand in the lifestyle service category [23]. Hilton’s ability to satisfy a diversified client base will increase the number of customers utilizing their properties and lure customers from rival companies to their properties. Marriott, their closest rival, has only six product lines compared to Hilton’s eleven product lines. [5]. Hilton has been able to maintain its position as the world’s largest hotel chain by possessing expansive options to suit the needs of all their customers.
* In order to remain an industry leader worldwide, Hilton is set to increase their market share to 4% globally and 13.5% domestically. Although Hilton Worldwide has not provided a forecasted market share, their global market share was 3.5% and their domestic market share was 13.2% in 2014 [5 and 9]. Given that Marriott had a global market share of 3.8% and a domestic market share of 13.2% Hilton should strive to meet or exceed their rival [5 and 9]. Therefore, to exceed Marriott (their biggest competitor), Hilton should aim to increase their market share to 4% globally and 13.5% domestically This global market share growth ties into the key success factor of solidifying the Hilton brand and ensuring there is a Hilton property everywhere consumers want a hotel to be located.
* Hilton Honors, the hotel chain loyalty program, creates consistent and devoted patrons by rewarding patrons for their devotion to the company [16]. The program uses Hilton’s technological capabilities to closely track customer satisfaction. Maintaining a high standard helped them gain a greater market share of the hotel industry. Members are gifted with room upgrades, complimentary stays, and other free amenities which serve to secure the loyalty of the customers [16]. A consistent consumer base translates to increased stays which, of course, increases the company’s profitability. Additionally, as previously noted, high patron satisfaction makes consumers willing to happily pay the charged room rates which directly ties into the financial objective of increased RevPAR.
* The brand name that Hilton Worldwide has created is one of the most important parts of their strategic objectives. Word of mouth and image are the cornerstones of the hotel service industry [2]. Customers are key to any service industry and brand allegiance is the linchpin to success. Hilton has created a brand image that is unrivaled in the hotel industry. Hilton is the world’s largest hotel company with 4,265 hotels, containing 705,000 rooms in 93 countries around the world [20]. The company is using their powerful brand name to outperform their top competitors in profitability.

***Objectives Overview***

A company cannot rely solely on any one financial or strategic indictor. Financial success may appear to be the ultimate indicator of success; however, that is typically only an immediate market indicator and does not reflect the long term profitability of an organization. Although historically strategic based outcomes provide a clearer representation of a company’s market position and potential future prospects, this simple view point cannot be taken as the only indicator of success or failure in such a complex industry [47]. The two concepts are inextricably linked in Hilton’s corporate vision; therefore, each of the two different objectives feed and ties into the next. A corporation cannot be financially successful without strategic strengths and conversely it stands to reason that an organization with poor market positioning issues will ultimately suffer monetarily. Consequently, a balance of the two objectives, or balanced scorecard, serve as the best way to show current success, future potential and provide distinct direction for work effort [47]. This system of organizational management provides a more well-rounded view of a company and helps identify needed areas of improvement.

# Driving Forces William Christian

The hospitality industry is a complex interwoven system shaped by external factors on both a broad and specific level. When looking at the service industry, one must first begin by reviewing the large scale influences that direct, shape and motivate changes. Macro factors are those aspects which are pertinent to society at broad regional or national levels and affects large populations [47]. Each of the key macro level factors (political, economic, sociocultural, technological, environmental and legal) and their relation to service based industries and specifically Hilton Worldwide will be reviewed.

***Political Factors***

The political factors of a country play a major role into whether a hotel chain chooses to develop and maintain a hotel within their borders. Government stability, legal hurdles to establishing a property, and required taxes/fees are all important points to review when looking for adequate growth sites [47]. As Hilton seeks to further their presence globally, the political climate must be reviewed as part of the expansion considerations. The cost of levies, necessity of legal representation and impact of the local government are all part of the cost to benefit ratio of a new site [20]. The amenability of the local area can also influence hospitality site possibilities. In the modern age one must now strongly consider the threat of terrorism as a part of the review of local stability as it significantly affects visitor confidence and safety [20]. Travelers are not willing to travel to locations where their feel their safety is threatened or they are not welcome as visitors. The political risks have grave revenue implications as any decline in the total number of visitors greatly impacts Hilton’s profitability.

***Economic Conditions***

With financial objects serving as a bench mark for corporate success, any twists and turns in the financial sector impact everyone in the industry. Interest rates, exchange rates, inflation rates, and economic growth rates impact the hotel industry because industry executives are interested in predicting whether they can maintain high occupancy rates during prosperous and declining economic changes [47]. As previously mentioned, items such as RevPAR rates are flexible prices that respond to the demands of the market so economic trends dictate and necessitate change within the industry. Hilton must review the economic conditions of the overall industry in order to determine how to adjust their own pricing rates. Additionally, the overall economic status of the country must be reviewed in relation to any expansion efforts. Hilton Worldwide takes all past, present, and future forecasted economic conditions into consideration when deciding whether or not to expand into new markets [20]. Market economic trends are also reflected in stock market pricing. As a publically traded company, Hilton is responsible for shareholder confidence and the profitability of the company [33]. Therefore, they must keep close tabs on all economic trends and skillfully managing their practices no matter the challenges the economy presents.

***Socio-cultural Forces***

Customers are one the cornerstones of the hotel industry so hospitality corporations must be keenly in tune to the thoughts and needs of the populations they seek to serve. A population’s values, culture, and lifestyles impact their views on expenditure on entertainment and traveling [4]. The hotel industry is very interested in evolving ways to influence customer choices in where and when they spend their dollar. The changing patterns of society and their associated values have specific effects on the business performance of Hilton Worldwide [20]. Hilton’s strategic focus on their customers makes them take special note of the many sociocultural forces at work in every area of their operations. In order to keep their branding strong, Hilton must offer consistent amenities and services across the entirety of their chains; however, not adjusting to the local influences could negatively impact their revenues.

***Technological Factors***

In our ever changing modern era, technology is a driving force no industry can avoid. Hospitality is not as directly impacted by technology changes as those in other fields, but it still has an impact on the industry’s profitability. Consumer’s use technology every day and in every facet of their lives. Patrons expect access to the technologies they use in their everyday life while on property so hotels must include this amenity at their locations [4]. The cost of technology services and devices are a substantial investment for a property that must be carefully weighed against the finite window for relevance and use due to constant advances. Hilton has managed to effectively utilize technology in both their booking and loyalty programs. Patrons can easily reserve a hotel room via the Hilton Worldwide website and Hilton can use this information to track customers (their preferences and number of stays) and monitor the booking rates of their properties [20].

***Environmental Forces***

The hospitality industry is heavily criticized for negatively impacting the environment. Hotels are often centered on tourist attractions. The influx of services surrounding attractions only compounds the light, noise, chemical and air pollution of the area. For this reason, the hotel industry faces tight regulations to operate their hotel chains. Pollution can lead to implications of global warming and adhering to strict regulations directly increases the level of operational costs for Hilton Worldwide [20]. In order to recoup the cost of the regulations and boost the public image of their organization, Hilton utilizes environmentally friendly initiatives. Building with ecofriendly products, recycling, and implementing a program that encourages patrons to reuse towels to cut down on water waste from laundering helps counteract their environmental impact [20].

***Legal and Regulatory Factors***

Service industries, like that of the hotel industry, are more susceptible to regulations due to their involvement with both staffing and food. Hotel staffing requires the organization adhere to local labor and wage laws in addition to maintaining a working environment on par with occupational safety and health regulations [20]. The property’s food related amenities also require that they comply with food safety standards including storage, preparation and handling. The extent of the legal regulations vary depending on the country; however, regardless they are a costly hurdle with compliance that must be constantly monitored and maintained [20]. Hilton Worldwide’s performance, both financial and strategic, is affected by the legal factors related to consumer protection and employment laws. The cost of required wage rates and newly required healthcare laws are compounded by the fees associate with food safety inspections and maintenance [20]. Effectively managing the company requires streamlined processes to limit unnecessary expenditure; however, even in the most efficient properties these expenditures simply cannot be avoided. Each regulatory required standard cuts into Hilton’s net profits.

# Industry Key Success Factors William Christian

Business is a complex, ever changing and demanding system that requires constant attention. With so many influential factors directing and reshaping the industry it quickly becomes a convoluted web of potentially important factors. It is very difficult to tease out the cause and effect relationships and identify true key items a company needs to address in order to remain viable in their perspective market. Some concepts seem obvious but most require research, discussion and thoughtful consideration. Critical success factors deliver measured results and sustainable competitive advantage. Although addressed in a different order in this review, key success factors should be considered a part of an integrated model for performance management as they generally dictate the corporation’s objectives [47]. By correctly identifying the key success factors and choosing the right performance management framework the hotel can skillfully navigate the ever changing environment and out perform their competitors.

* **Since the hospitality industry is offering a service instead of a product, it is vital to success that customers are prioritized [33]**.

Happy patrons translate to repeat business, increase revenue and more effective branding. With the level of competition in the hotel industry, customer loyalty is getting more and more difficult to secure. Ensuring staff are multi-skilled and well trained results in high levels of guest service and satisfaction [33]. As previously mentioned, Hilton has one of the top rate loyalty programs in the industry. Maintaining the success of this program is one of their top priorities. Hilton prides itself on their accomplished team of learning and development personnel which delivers unparalleled hotel training. The training is focused on ensuring the highest level of service for their guests [33]. Patrons have come to expect a certain level of treatment while staying at Hilton properties; therefore, all company properties must be prepared to meet and exceed those expectations.

* **Companies must provide a consistently high quality service across all locations [33]**.

Customers expect certain levels of customer service when they stay at a hotel. With customer service as a priority it is essential that the property provide not only high level of service but a consistent level of service at each and every location. As part of their internal review, Hilton noted patron dissatisfaction due to experience inconsistencies across the various properties – more specifically franchised verses company own locations [33]. Branding has always been very important to Hilton Worldwide. In order to correct this deficiency, the corporation instigated a score card program that monitors each property and provide action based initiatives for each property to better align them with the Hilton Worldwide brand and satisfy the desires of their specific guests [33]. Hotels need to deliver a consistent unified training to all staff at each location and train staff on brand service expectations. Customer feedback should be closely monitored for repeated issues and measures put in place to immediately address those issues. Hilton Worldwide constantly monitors the performance of all the hotels in the Hilton Portfolio of Brands and measures them against high service and quality standards of the brand [33]. In a service industry, no one can afford to be complacent. Hilton believes that comments from the guests drive their continuous improvement efforts to exceed Hilton standards [33].

* **Word of mouth recommendations are vital to the hotel industry [2]**.

As mentioned, customers and their satisfaction are indispensable components of the hotel industry. Word-of-mouth recommendations are often “the most successful promotional tool in the hospitality industry” [2]. While contented patrons do lead to repeat business, it more importantly translates into new customers. Many customers rely on the advice of others when making a purchasing decision. Repeatedly research has shown that in the modern technology era feedback provided on a company via websites can dramatically and markedly impact business [20]. Due to the popularity and easy access to the internet, potential customers can research a property and review the documented rating and experiences others have had with that specific site. Websites like Facebook and Trip Advisor are examples of social media sites in which both negative and positive information can be read about Hilton Worldwide. As previously mentioned, Hilton views their brand reputation as a priority. By prioritizing customers and exceeding expectations Hilton both reinforces the brand and increases their positive word of mouth referrals.

* **Hotels must maintain efficient and effective technology [2]**.

In the modern era, technology’s impact is ever present and keeping up on industry and operating system improvements are not optional. There are constantly new technologies available in the hotel industry for information, promotions, bookings and reservations and general management control systems [6]. Technology allows hotels to increase their efficiency, and thus increase their revenues, by streamlining processes. Additionally, it allows hotels to monitor their reservations, room occupancy rates and identify trends. Patrons utilize technology so much in their day to day lives that they also expect access to technology items such as the internet and computers with printers during their stay. Beyond the technological devices and operating systems, it is also important to use technology and social media sites to request and monitor patron feedback [20]. Circling back to the established rule that customers are the priority and their happiness is essential to success, reviewing customer reviews provides immediate feedback to the company regarding the performance of the hotel. Hotels can identify and resolve any problems promptly instead of realizing too late that something is causing negative publicity and decreased sales [33]. Hilton is all too aware of the importance of servicing customers and addressing problems proactively. With team members fluent in multiple languages, specialized virtual Hotel Desks, and a dedicated HHonors Help Desk, Hilton is able to assist all guests with their reservations [17]. Hilton has also instituted a review of websites to monitor customer feedback. After each stay at a property Hilton Worldwide sends a link to an online survey to each customer to elicit feedback on their stay at that property – be it good or bad – and all feedback is responded to by a dedicated specialist [20]. By addressing all noted issues the company can proactively resolve problems and maintain customer satisfaction.

* **It is important for companies in the hotel industry to be located close to other businesses that offer services and products for those in the same market [2].**

Travelers are destination oriented and seek convenient options when selecting a hotel. Hotel locations offering the best proximity to popular attractions offer the greatest market opportunities for hotel development [2]. Ideally, in addition to their close location to popular destinations, the hotel will also be close to others businesses, airports, services and entertainment. Proximity and convenience they are therefore important generators of room-night demands [2]. In order to meet the customer’s needs Hilton continually seeks to expand their reach to new and up and coming locations. By the end of 2014 Hilton Worldwide had 4,322 total hotels in its chain at convenient destinations all across the globe [20]. With so many locations, convenient booking tools and excellent customer service, Hilton Worldwide stands poised to take over an even bigger percentage of the market.

# Competitive Analysis Jenna Colon

Hilton Worldwide SIC/NAICS code is 72111. Their Industry Definition is “This industry comprises establishments primarily engaged in providing short-term lodging in facilities known as hotels, motor hotels, resort hotels, and motels. The establishments in this industry may offer food and beverage services, recreational services, conference rooms and convention services, laundry services, parking, and other services [44].”

Porter's five forces analysis identifies “five competitive forces that shape every industry and every market. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The objective of corporate strategy should be to modify these competitive forces in a way that improves the position of the organization. Porter’s model supports analysis of the driving forces in an industry. Based on the information derived from the Porter’s Five Forces Analysis, management can decide how to influence or to exploit particular characteristics of their industry [44]”

**Porter’s Five Forces Analysis**

|  |
| --- |
| **Threat of New Entrants** |
| Brand Identity |
| Separation of Management/Owners |
| Capital Requirements |

|  |
| --- |
| **Rivalry Among Competitors** |
| Brand Name/Reputation |
| Price |
| Location |
| Customer Service/Customer base |

|  |
| --- |
| **Threat of Substitutes** |
| Buyers Propensity to Substitute |
| Switching Cost |

|  |
| --- |
| **Bargaining Power of Buyers** |
| Brand Name |
| Price |
| Available Substitutes |
| Impact of Quality/Performance |
| Location of Retailer |

|  |
| --- |
| **Bargaining Power of Suppliers** |
| Differentiation of Product |
| Supplier Concentration |

***New Entrants***

At Hilton Worldwide there are several barriers to entry, which can cause difficulty for smaller, less established companies to overcome. Some of these barriers to entry include: high capital costs, economies of scale, and brand recognition. Economies-of-scale is “the cost advantage that arises with increased output of a product. Economies of scale arise because of the inverse relationship between the quantity produced and per-unit fixed costs; i.e. the greater the quantity of a good produced, the lower the per-unit fixed cost because these costs are shared over a larger number of goods [13].” Also, high capital costs act as another considerable barrier to entry due to the sizeable amount of capital needed to run the day-to-day operations of the company. With there being plenty of barriers to entry, the threat of new entrants to arise in this industry is considered low.

***Substitutes***

The threat of substitution comes from a wider variety of areas than what would normally be considered. In terms of Hilton Worldwide, “It faces competition from other segments of this wider market (including RV parks, bed-and-breakfast establishments and hostels) [2]”. Customers are flocking to casinos and cruise lines as other options when considering a place to travel and stay. Hilton Worldwide has to consider what these other substitutes have to offer. Hilton has to incorporate these types of activities into their strategy to hook those customers who might pay a little less to stay at another brand hotel or consider going on a cruise instead.

The top substitute that customers are going to is Carnival [42]. Why pay all of the money to stay at a Hilton owned area when you can get an all-inclusive trip. This causes Hilton to either offer similar discounts or market to those niche customers that are willing to pay more for the name brand and austerity. The next company substitute is Marriott [42]. Marriott competes with Hilton not only in the hotel market, but also in the resort and more upscale market as well. This keeps Hilton on their toes.

There are three areas that cover generally what makes a product a good substitute:

* Comparative Price
* Comparative Quality
* Comparative Characteristics

 Not only are there specific company names that are top competitors with Hilton, but any place that there is a Hilton there are usually 2-3 other lower-end hotels that will offer a similar location for a lower price. With there being so many close comparisons to Hilton and the services and products that they provide, they end up having a very high threat of substitute.

***Rivalry within the Industry***

“In 2015, the four largest operators in the industry (Hilton Worldwide, Marriott International, InterContinental Hotels Group and Starwood Hotels and Resorts) account for an estimated 37.6% of industry revenue, providing this industry with a medium level of concentration [2].” This number is also increasing as mergers and buyouts occur due to the past economic down turn in 2008. Since the recession companies in this industry have downsized staff and customer frills significantly to stay afloat. “According to STR’s early fore-casts, the U.S. hotel industry posted a 16.7 percent drop in revenue per available room during 2009 [34].”

Although they are not cutting out things completely, they are trying to find new ways to keep their customers coming back without spending as much as they have in the past. “We’re going to spend a greater portion of our energies focusing on innovation initiatives that best differentiate our offerings [34]”.

In terms of industry revenue, Hilton Worldwide holds at 10.5 Billion out of the industry total of 163 billion [31]. Hilton has had a steady increase over the past five years to get to the point that they are at despite the recession. In comparison to Marriot, which is one of Hilton’s top competitors in the hotel industry they are not doing so well. Marriott is standing at 13.5 billion in the industry average. This may reflect the price and reputation difference that the two hold against each other and not necessarily quality and preference [36].

As of April 2014, Hilton Worldwide operates around 4,115 hotels with 3,601 of them being located in North America alone [31]. This is a huge difference in comparison with Marriott who only hold 3,539 hotels, which are exclusively located in North America only [36]. This shows the competitive behavior of Hilton and Marriott in that one is willing to move to other areas of the world to keep their customer market.

***Suppliers***

In the Hotel industry it is very clear which hotels offer quality living quarts and fancy soaps as opposed to those who may not offer any soap at all. So to be a supplier to Hilton World wide you must create contracts with those companies that are going to keep the strong reputation that your company holds to the standard that the customers expect. One of the customer markets that Hilton focuses on are those who are willing to spend more money to stay in a Hilton hotel where they know that they are going to receive a better quality experience.

Hilton has its own proprietary list of suppliers that they deal with so that you can receive a consistent level of quality in all of their properties [19]. These different suppliers go through a rigorous vetting process to be approved and added to their exclusive list [19]. Based off of this list, there are both large and small suppliers that they deal with spanning across every aspect of the company. Although, this is a general list of the suppliers that Hilton uses on a large scale, some of their properties use local venues as well to help stimulate the area that they are in as well as promote community between their brand and the locals in that area.

In general a hotel does not spend all of its money it building the property and purchasing soaps for the bathrooms, there are many other areas that must be evaluated.



The graph above (taken from Ibis) shows the breakdown of what the hotel industry earns from the different areas of their business and thus where they should and should not focus the majority of their attention [7]. With the loyal customer base that Hilton has suppliers are lining up to be chosen because they know that they will have a secure contract with the company. The bargaining power between suppliers and Hilton is low in that Hilton can choose from any local supplier or large scale one that offers the best contract.

***Customers / Buyers***

In the Hotel industry, specifically within the scope of Hilton Worldwide, the customer base can range depending on the specific service or location of the property. Hilton properties can be found all over the world and therefore offer a known name to stay with. This leads to a very loyal customer base. They also have created an even stronger loyalty with their Hilton Rewards program that they have created to give customers more incentive to stay with them frequently and to choose their brand over any other competitors.

# Competitive Strategy Katelyn Cox

According to our text, “a company’s competitive strategy deals exclusively with the specifics of management’s game plan for competing successfully – its specific efforts to please customers, strengthen its market position, counter the maneuvers of rivals, respond to shifting market conditions, and achieve a particular kind of competitive advantage [47]”. The two biggest factors in distinguishing between competitive strategies are whether a company’s target market is broad or narrow and whether the company is pursuing a competitive advantage based on lower costs or differentiation [47]. There are five generic competitive strategy options, which include a low-cost provider strategy, a broad differentiation strategy, a focused low-cost strategy, a focused differentiation strategy, and a best-cost provider strategy. Hilton Hotels and Resorts use a best-cost provider strategy.

A best-cost provider strategy gives customers more value for their money by meeting buyers’ expectations on key quality/features/performance/service attributes while offering a lower cost than rivals [47]. This option is a hybrid strategy that balances elements of differentiation and low-cost strategies, offering desirable features at a relatively low price. The target market for a best-cost provider is value-conscious buyers who are looking for a good to very good product or service at an economical price [47].

Hilton Worldwide meets customer needs by offering twelve brands, ranging from luxury to comfortable extended-stay suites and affordable focused-service hotels. Hilton Worldwide provides services and costs tailored to each hotel that reflect business complexity, size, and market environment. Their approach is to maximize cost and scale efficiencies, rapidly sharing best practice, market and trend intelligence and ensuring appropriate affordability to each hotel [17]. Hilton Worldwide uses innovative solutions and advanced technologies to drive increased business and keep cost down, without compromising quality [17].

Each brand of Hilton Worldwide offers its own array of amenities. Hilton’s luxury hotels, Waldorf Astoria and Conrad, features elegant style and comfort, unparalleled guest service, spas, culinary excellence, world-class golf, restaurants, meeting spaces, host exclusive events and special occasions [23]. Hilton’s lifestyle hotel, Canopy, is designed based on its local surroundings. Canopy features destination dining, rooftop bars, social and meeting spaces, swimming pools, free Wi-Fi, complimentary breakfast, a local welcome gift, and evening tastings of beer, wine or spirits [24]. Hilton Grand Vacations include swimming pools, some have fountains and water slides, convenience stores, fitness centers, playgrounds, restaurants, spas, and a full schedule of activities for adults and children throughout the day [23]. Hilton’s full service hotels, which include Hilton Hotels & Resorts, Curio, DoubleTree, and Embassy Suites, have amenities such as spas, business and fitness centers, restaurants, room service, lounges, meeting and banquet space, free Wi-Fi, and complimentary breakfast [23]. Hilton’s focused service hotels, which include Hilton Garden Inn, Hampton, Homewood Suites, and Home2 Suites, have amenities such as fitness and business centers, swimming pools, separate living areas, fully equipped kitchens, room service, free Wi-Fi, and complimentary breakfast [23].

# External Analysis Katelyn Cox

***Opportunities***

Strategic initiatives to increase presence outside the US- As of March 31, 2014, roughly 77% of the company’s hotel rooms were located in the United States [46]. Hilton plans to increase its percentage of hotel rooms outside of the United States as they open more hotels. The company has a total of 1,165 hotels being developed throughout 76 countries and territories, representing approximately 200,000 hotel rooms [46]. Of the 200,000 rooms undergoing development, 115,000 rooms are located outside of the United States, mainly in emerging markets like China and India [46]. Such strategic initiatives to increase hotel rooms percentage outside of the United States is likely to assist Hilton in gaining geographic presence and reduce its dependency on its domestic market, the United States.

Tourism promotion initiatives by the US government- The travel and tourism industry is one of the United States leading service segments and sources of exports. However, from 2000 to 2010, the United States market share of spending by international travelers dropped from 17% to 11% of the global market, more than a 30% decrease of its share of the global market [46].

Since the decline, the government has taken several initiatives to boost tourism, given the significance of the travel and tourism industry to the United States economy and job creation. Steady improvement has been made since 2010, when the government began the National Export Initiative and the Travel Promotion Act was signed into law. The Act requires a $10 fee for completing the essential ESTA (Electronic System for Travel Authorization) authorization for citizens of visa waiver countries to enter the United States. A part of the fee will go to fund United States tourism marketing [46]. In 2012, the United States government revealed its national travel and tourism strategy, which sets a goal of increasing the number of international visitors to the United States by 50% to 100 million by 2021. This increase would generate $250 billion in annual spends, with correlated impact of jobs and exports [46]. Therefore, the steps being taken by the United States government to enhance tourism is likely to provide Hilton with more growth opportunities.

Industry growth- Changes in consumer confidence levels influence individuals’ decisions regarding spending on entertainment and traveling. During 2015, consumer confidence index is predicted to increase [4]. Consumer spending levels also have an effect on travel demand. When consumers are in general spending more money, it is likely they will spend some of their money on traveling and lodging. Consumer spending is expected to increase at a slow rate in 2015, creating a rise in demand for hotels and motels [4]. The hospitality industry relies heavily on domestic and international tourists. The number of domestic and international trips is expected to increase in 2015, offering a potential opportunity for the industry [4].

Over the next five years, the industry is expected to experience consistent growth [3]. With domestic and international improvements in economy and falling unemployment rates, the industry will see benefits as consumers begin to spend more freely. “Consumer spending is expected to increase over the five years to 2020 at an average rate of 2.2% per year [3].” Business spending is also projected to rise, which will contribute to the growth of the hospitality industry [3].

Close proximity to key markets- Location is a big factor that guests consider when choosing a hotel. Being located in an area that has a high level of activity from business and leisure travelers increases demand [2]. Many accommodation booking service websites are linked with maps that provide consumers with information about hotel establishments, including street location, ratings, and proximity to their business, convention or holiday destination [6]. With the all of the new locations that Hilton plans to develop, they have the opportunity to make sure their establishments are strategically placed in locations that are desirable to travelers. By placing their hotels in close proximity to key markets, Hilton has the potential to grow its revenue.

Green appeal- The hospitality industry is very sensitive to economic and competitive market conditions [14]. Consumers have become increasingly interested in “going-green” practices. Due to this interest, eco-friendly offerings are being created to improve waste reduction, water and energy conservation, and environment friendly practices [14]. Innovation and additional services are essential for hotels to keep up with the fast changing pace of customer requirements.

***Threats***

Intense competition may lead to pricing pressures- The hospitality industry has a large number of competitors, many of which have a worldwide presence comparable to Hilton. Other large hotel chains similar to Hilton, such as Marriot International and Hyatt Hotels, are also expanding in emerging markets [46]. Some of Hilton’s competitors have greater financial resources, which give these companies greater purchasing power, better financial flexibility and more capital resource for growth and improvement, which allows them to compete with Hilton more efficiently [46]. Due to the rising competition in the hospitality industry, Hilton may be forced to lower its fees or prices [46].

Extensive regulations for timeshare business - Hilton develops, manages, markets and sells timeshare intervals [46]. Some of these undertakings are exposed to extensive state regulation in both the state that the timeshare property is located and the states in which the timeshare property is marketed and sold. Certain marketing practices are also subject to federal regulation [46]. Hilton provides funding to some purchasers of timeshares and also services the resulting loans. Hilton is subjected to numerous federal and state regulations due to this practice, including those that entail disclosure to borrowers regarding the terms of their loans as well as settlement, servicing and collection of loans [46]. If the company fails to obey federal, state, and local laws in association with its timeshare business, their ability to offer timeshare intervals or associated financing in certain areas may be revoked, resulting in a decline in revenues for the timeshare business.

Terrorist attacks and natural calamities- Lately, the tourism industry worldwide has been susceptible to anti-social activities like terrorist attacks. “Terrorist attacks on the World Trade Center and the Pentagon in September 2001 underscore the possibility that large public facilities or economically important assets could become the target of terrorist attacks in the future [46]. Specifically, properties that are well known or are located in highly populated business districts in major cities have a greater risk of terrorist attacks. Terrorist attacks or military conflicts could potentially cause damage to Hilton properties that may not be entirely covered by insurance to the cost of the damages [46]. In the incidence of a terrorist attack damaging one of Hilton’s highly profitable properties, company results could have a direct negative impact.

The hospitality industry also has to deal with situations resulting from natural disasters. For example, natural disasters like the earthquake and tsunami of 2011 in Japan, earthquake in China in 2008, and hurricanes like Rita and Katrina in United States, negatively affect the tourism and hotel industries [46]. Hilton properties are vulnerable to natural disasters due to the growing occurrences of natural disasters, which could potentially affect occupancy levels and impact consumer confidence.

Economic and Political Sensitivity- The hospitality industry is highly sensitive to economic and political conditions, for example travel and tourism trends, geopolitical risks, global recession, etc [14]. Factors such as these can negatively affect customers’ disposable income, confidence, and willingness to travel. Factors like political instability in countries may reduce the potential client base for hotels located in these areas.

Substitute service- The hospitality industry operates in an ever changing market. It is a large market that faces competition from not only hotels and motels, but other segments of this wide market as well. Including RV parks, bed-and-breakfast establishments and hostels. As the tourism market continues to fragment further, new needs for traveler accommodations will form [2]. Companies like Airbnb that allow people to sublet their extra space to tourists and travelers have become increasingly popular over the last several years [2]. These other accommodation options pose a threat to Hilton, as travelers may choose competitor’s services, which would have a negative impact on Hilton.

Internal Analysis Katelyn Cox

 ***Strengths***

Strong portfolio of hotel brands driving the company’s business growth-Hilton worldwide has a strong portfolio of hotel brands operating in 94 countries and territories worldwide [22]. The company has a portfolio of 12 recognized hotel brands, divided into segments such as luxury, full-service hotels and resorts, extended stay suites, focused service hotels, and timeshares. As of December 31, 2014, the company operated 4,322 hotels, resorts, and timeshare properties under these brands [22]. Hilton recognizes a significant strategic advantage with its diversified brand portfolio being able to meet customer needs in every major region and at every price point and service level. A strong portfolio of hotel brands assists Hilton in gaining brand awareness and brand recall among its customers in the majority of its key markets. Also, it helps Hilton to attract new customers, which in turn increases its customer base [46].

Loyalty programs enhancing customer satisfaction- Hilton HHonors is the company’s guest loyalty program that supports its portfolio of twelve brands and all of its properties. The program generates substantial repeat business by rewarding guests with points for each stay at any of its hotels or timeshares worldwide, which are then redeemable for free hotel nights and other rewards [46].With over 140 partnerships with airlines, rail and car rental companies, credit card providers and other retailers, members can points on everyday purchases [46]. The program provides targeted marketing, promotions and personalized guest experiences to approximately 44 million members worldwide [16]. “Hilton HHonors members represented approximately 50% of the company’s system-wide occupancy and contributed hotel-level revenues of over $12 billion during the year ended December 31, 2013 [46]”. Association with Hilton’s loyal programs encourages members to use more of their travel spending on its hotels, which leads to enhanced customer satisfaction.

Skilled workforce- Hilton Worldwide offers learning opportunities to provide each team member across the organization with the right skills, knowledge and learning experiences to be successful. Leaders and team members can use resources like on-the-job training and virtual courses, management development programs, and learning seminars to grow and develop personally and professionally [10]. Hilton has over 3,000 highly skilled and practiced sales and customer service personnel who interact with roughly 34 million guests every year [18]. Award-winning customer service is available to guests, and potential guests, 24 hours a day, seven days a week. In 2010, Hilton Worldwide won the People's Choice Stevie's Award for Favorite Customer Service, and the 2011 American Customer Satisfaction Index gave Hilton Worldwide the highest average satisfaction score amongst hotel chains [18]. Team members are fluent in over 10 languages, which allow them to communicate and connect with a broader base of customers [18]. Having a staff that provides high quality levels of service and hospitality is essential in order to meet the expectations and demands of its guests.

Technical innovations to improve customer experiences and constant upgrade of business processes- Hilton’s Global Online Services uses tools like paid search, targeted banner ads, social media, and mobile marketing to drive demand for its properties. Their goal is to be in the right place, at the right time, with the right offer [37]. Hilton has high-performance websites for each of their brands that help to make hotel operations more efficient.

Hilton’s IT solutions provides a range of services, like real-time visibility to financial data, simplifying front desk processes, and managing billing and payments [32]. IT assists in filling rooms. Hilton Worldwide room nights are sold mainly through its central reservation system, which provides hotel rates and availability to customers, via travel agencies, booking sites, and its own reservation systems, which maximizes potential revenue for the company [32]. This allows available rooms to be exposed to vast marketing and sales channels, greatly expanding Hilton’s marketing capabilities. Hilton Worldwide is one of the only company’s in the industry to track and share guest profiles, recovery information, and preferences across its entire portfolio [32]. This allows team members to give personal attention to unique guest preferences, driving guest satisfaction and loyalty. Hilton also provides high-speed Internet, data security, and in-room entertainment to ensure that its guests have a superior experience [32].

Strong supply chain- Hilton Supply Management is committed to providing the highest quality management approach, products, and service to its hotels. Hilton’s Supply Management team has negotiated with hundreds of global and regional suppliers to assure competitive value-based pricing [39]. They ensure consistency and security of supply so owners and operators can be sure orders are filled and products are delivered that meet each hotel’s needs [39]. Quality and reliability are upheld through the enforcement of strict product standards, process controls, supplier audits, supplier management, and ethics standards [39]. Hilton Supply Management can improve forecasting of inventories, costs, and budgets, making planning for the future simpler. Hilton Supply Management offers global operations support at national, regional, and local levels [39]. Hilton’s Supply Management has unmatched extensive knowledge and experience with the supply chain making it tough for competitors to compare.

***Weaknesses***

Significant dependence on the US market- While Hilton operates in diverse markets, it relies on the United States for a large portion of its revenues. In 2013, 74.6% of Hilton’s revenues came from the United States [46]. Hilton’s heavy dependence on the United States could cause its business to be vulnerable to region-specific trends. Should any unfavorable economic, regulatory, environmental or other developments occur in the United States, the risk of Hilton’s business and financial condition being affected is increased because of its geographic concentration [46]. Hilton can be affected considerably by the political or cultural changes that occur due to its geographical focus in the United States.

Lawsuits- Lawsuits and hearings held against the company may distract the attention of management and cause investors to become wary. For example, In January 2012, a class action lawsuit was filed by Keller Grover lawyers against Hilton Worldwide, alleging that it violated California’s Invasion of Privacy Act by recording all telephone calls. The Keller Grover consumer lawyers seek to recover $5,000 for every California resident whose telephone conversation was recorded by Hilton [26]. In August 2012, consumers filed a class action lawsuit against Hilton Worldwide for hotel room price-fixing [26]. Lawsuits like these have the potential to smear the brand image of the company, as well as increase financial burden by way of penalties or fines.

Smaller global market share than their main rival- Despite good brand recall, Hilton has limited market share in the global industry. Their main rival, Marriot International Inc., has a market share of 3.8%, with Hilton trailing behind with a 3.5% market share [9]. Hilton Worldwide and Marriot are the two major players in the industry, but only make up 7.3% on the global industry combined. Other hotels & resorts make up 92.7% of the industry [9]. While Hilton is the largest global hotel retailer, this low market share is considered an area of concern for them.

High labor costs- Labor is necessary in all areas of hotel operation, such as front desk, concierge, room cleaning, accounting, marketing, general management, kitchen, bars, etc. Many of these hotel jobs can be taken as a part-time or casual job, producing a high staff turnover [8]. “In 2014, IBISWorld estimates that total industry wages will account for 23.3% of total industry revenue, up from 23.1% in 2009 due to greater demand for medium- and high-end hotel and resort services and higher global labor costs, particularly in emerging economies [8]”. Considering the high staff turnover rate and Hilton’s plan to open many new hotels, there will be a constant need for recruitment and training of employees. These processes are costly for the company.

Expensive real estate- The capital investment needed to build a new hotel is high and continuing to rise because of increasing construction and wage costs [8]. There are also fewer locations to launch a new hotel or resort [8]. The limited availability of land could be due to the large number of already existing establishments, as well as competitor’s plans to expand. As discussed earlier, Hilton plans to develop 1,165 new hotels globally [46]. Considering the high and rising capital investment needed to build new hotels, this expansion will pose significant costs for Hilton.

# Financial Analysis Rashawnda Kirkland

***Earnings Per Share (EPS)***

Profits after Taxes / # of Shares of Common Stock Outstanding

The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability [12].

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 2010 | 2011 | 2012 | 2013 | 2014 |
| Hilton  | **0.36** | **-0.16**  | **-0.73**  | **0.04** | **-0.25** |
| Marriott | **1.21** | **0.55** | **1.72** | **2.00** | **2.54** |
| Industry Average | **-** | **-** | **-** | **-** | **-** |

\**No information was reported on EPS for the industry*

Hilton’s earning per share ratio was lower than Marriott’s ratio. The three years where Hilton operated at a negative EPS meant that the company was actually losing money. Often times any number below zero is reported as N/A during the years a company operated at a loss. Marriott exhibited that they were profitable over the past five years.

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***Return on Assets (ROA)***

Profits after Taxes / Total Assets

An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment [40]”.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 2010 | 2011 | 2012 | 2013 | 2014 |
| Hilton  | **-** | **0.93** | **1.29** | **1.55** | **2.55** |
| Marriott | **5.42** | **2.66** | **9.32** | **9.53** | **11.03** |
| Industry Average | **3.81** | **3.82** | **3.13** | **3.61** | **4.24** |

The net return on assets for Hilton was lower than the industry average and Marriott’s ROA. Although the ROA is increasing for Hilton, profitability still isn’t as great as it could be. Conversely, the ROA for Marriott increased tremendously between 2011 and 2012. This means that their profitability improved greatly.

***Current Ratio***

Current Assets / Current Liabilities

The current ratio is a liquidity ratio that shows a firm’s ability to pay back its short-term liabilities using its short-term assets. The higher the current ratio, the more capable the company is of paying its obligations. A ratio under 1 suggests that the company would be unable to pay off its obligations if they came due at that point [11].

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year  | 2010 | 2011 | 2012 | 2013 | 2014 |
| Hilton  | **-** | **1.37** | **1.2** | **1.11** | **1.11** |
| Marriott | **1.35** | **0.52** | **0.53** | **0.71** | **0.63** |
| Industry Average | **1.08** | **1.06** | **1.03** | **1.06** | **1.06** |

The current ratios for Hilton as well as for Marriott are decreasing. A decrease in the current ratio over a period of time may suggest worsened liquidity of the company. The graph also shows that Hilton’s ratio is higher than the industry standard. Since Marriott had ratios lower than 1.0 after 2010, they ran the risk of defaulting on their obligations if they had become due during that time.

***Gross Profit Margin***

Sales – Cost of Goods Sold

 Sales

A financial metric used to assess a firm's financial health by revealing the proportion of money left over from revenues after accounting for the cost of goods sold. Gross profit margin serves as the source for paying additional expenses and future savings [15].

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year  | 2010 | 2011 | 2012 | 2013 | 2014 |
| Hilton  | **22.2** | **22.5** | **23.3** | **60.2** | **61.7** |
| Marriott | **12.62** | **10.38** | **13.42** | **13.41** | **14.25** |
| Industry Average | **21.04** | **20.62** | **20.85** | **21.15** | **23.25** |

The gross profit margin ratio for Hilton has been higher than the industry average for the last five years. Marriott has showed a trend where they operated below industry average. A high gross profit margin suggests that Hilton will be able to pay for its fixed cost.

***Operating Margin***

Sales – Operating Expenses

 Sales

A ratio used to measure a company's pricing strategy and operating efficiency. Operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc. A healthy operating margin is required for a company to be able to pay for its fixed costs, such as interest on debt [38].

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year  | 2010 | 2011 | 2012 | 2013 | 2014 |
| Hilton  | **6.9** | **11.1** | **11.9** | **11.3** | **15.9** |
| Marriott | **5.9** | **4.3** | **8** | **7.7** | **8.4** |
| Industry Average | **4.46** | **4.73** | **3.79** | **3.51** | **4.38** |

The operating margin for Hilton is higher than the industry average and Marriott’s ratio. A high operating margin means that a company is earning more per dollar of sales. This ratio gives analysts an idea of how much a company makes (before interest and taxes) on each dollar of sales [38].

# Analysis of Major Issues Katelyn Cox

***Pricing Pressures***

The hospitality industry has a large number of players and many of them have a global presence. As mentioned earlier in the SWOT analysis, Hilton and other large hotel chains are expanding into emerging markets. Some of Hilton’s rival companies have more capital resources, which give these companies an advantage for growth and improvement. Due to the intense competition in the industry, Hilton may face pricing pressures forcing them to lower prices and fees. Hilton should think of ways to compete with their competitors other than price, so they won’t have to lower any prices and fees.***Lawsuits***

Considering the industry that Hilton operates in, the opportunity for potential lawsuits to occur in the future is high. Hilton Worldwide’s current lawsuits are considered a weakness for the company. The lawsuits that have been brought against the company is hurting its brand image, and increasing financial burden because of penalties and fines. For example, in 2009, Starwood Hotels and Resorts filed a lawsuit against Hilton alleging that former Starwood executives that began working for Hilton stole confidential information [41]. To settle the case, it was reported that Hilton agreed to pay Starwood $75 million, along with other conditions [41]. Maintaining a good company image and reputation is important for business success, which is why it is vital for Hilton to do everything in their power to reduce the chances of having a lawsuit brought against them.

***Hilton’s Weak Market Share***

Hilton’s limited market share in the global industry is an issue for the company. Their main rival, Marriot International Inc., has a 3.8% market share, which is higher than Hilton’s 3.5% market share [9]. Other hotels and resorts make up the remaining 92.7% of the industry. This is problematic for Hilton because they want to recognize a high market share. As mentioned earlier in the SWOT analysis, there is an opportunity for industry growth, which means Hilton will have to find ways to strategically compete with rivals as well as new entrants.

 ***Substitute Service***

Hilton works in a large market that faces competition from not only hotels and motels, but other sectors of the market as well, including RV parks, bed-and-breakfast establishments and hostels. As discussed previously in the SWOT analysis, there is an opportunity for industry growth. With this growth comes the need for travelers to look for accommodations. Travelers have many options to choose from and no worries about switching costs, which puts Hilton at risk of consumers choosing competitor’s services.
***Cost of Labor***

As mentioned in the SWOT analysis, cost of labor is an issue for Hilton because of the high staff turnover rate, and the company’s plans of expansion. With all the new hotels being opened, there will be a significant increase in staffing. Recruiting and training these employees can be costly. There has also been an increase in global labor costs, especially in emerging countries where many of Hilton’s new hotels will be opening. This labor cost increase is a setback for industries requiring highly skilled workers, like the hotel industry, which is second on the list of businesses that will be notably affected by higher labor costs [43]. Hilton should consider ways to decrease employee turnover rate, which could lessen some of their costs spent on labor.

# Presentation and Analysis of Alternatives Jenna Colon

***Issue 1: Pricing Pressures***

The hospitality industry has a large number of players and many of them have a global presence. As mentioned earlier in the SWOT analysis, Hilton and other large hotel chains are expanding into emerging markets. Some of Hilton’s rival companies have more capital resources, which give these companies an advantage for growth and improvement. Due to the intense competition in the industry, Hilton may face pricing pressures forcing them to lower prices and fees. Hilton should think of ways to compete with their competitors other than price, so they won’t have to lower any prices and fees.

Alternative (1): **Expand Niche market**

Pros:

* Focusing on a specific market will not only increase the loyalty of their already strong customer base but will focus on customers that will stay with the company no matter what the cost comes to so long as the brand lives up to the standard that they expect; luxurious.

Cons:

* Focusing on one market closes out the other markets that Hilton could potentially target.

Alternative (2): Offer amenities and services their competitors can’t

Pros:

* Offering services/amenities that the other brands do not will also keep their loyal customer base coming back for years to come but may also invite those customers that are looking for a one of a kind experience which is the main reason why most people go on vacations in the first place.

Cons:

* These services cost Hilton more money and can work in reverse.

***Issue 2: Lawsuit***

Considering the industry that Hilton operates in, the opportunity for potential lawsuits to occur in the future is high. Hilton Worldwide’s current lawsuits are considered a weakness for the company. The lawsuits that have been brought against the company is hurting its brand image, and increasing financial burden because of penalties and fines. For example, in 2009, Starwood Hotels and Resorts filed a lawsuit against Hilton alleging that former Starwood executives that began working for Hilton stole confidential information [41]. To settle the case, it was reported that Hilton agreed to pay Starwood $75 million, along with other conditions [41]. Maintaining a good company image and reputation is important for business success, which is why it is vital for Hilton to do everything in their power to reduce the chances of having a lawsuit brought against them.

Alternative (1): OD Practitioner

Pros:

* Organizational development is one option that can help a company to stay on its feet and out of the court systems for negligence and other issues. These types of issues arise when there is a lack of a strong company culture and strong leadership. Bringing in an OD (Organizational Development) Practitioner to the company to re-evaluate the system will not only help your company to stray away from any potential illegal activity but will also improve quality assurance as well as supply chain management.

Cons:

* This will take away time from the day-to-day routine of the company for a short amount of time and can cost Hilton money to perform.

Alternative (2): Better Legal Advice

Pros:

* Another alternative is for Hilton to utilize their legal advisors in more processes rather than when the law shines a light upon their business. This way they can avoid many of the issues that were being presented in this case and in any other potential cases that may arise in the future.

Cons:

* This can cost Hilton more money and tire out those legal advisors by using them in more areas of the company.

***Issue 3: Hilton’s Weak Market Share***

Hilton’s limited market share in the global industry is an issue for the company. Their main rival, Marriot International Inc., has a 3.8% market share, which is higher than Hilton’s 3.5% market share [9]. Other hotels and resorts make up the remaining 92.7% of the industry. This is problematic for Hilton because they want to recognize a high market share. As mentioned earlier in the SWOT analysis, there is an opportunity for industry growth, which means Hilton will have to find ways to strategically compete with rivals as well as new entrants.

Alternative (1): Stronger international loyalties

Pros:

* Marriott only holds properties within the North Americas and nowhere else globally, so Hilton has a head start when it comes to that area.

Cons:

* Moving internationally can cause a dip in market share in that there are a lot of risks moving a company outside of the United States.

Alternative (2): Create a greater capacity

Pros:

* Hilton will be able to serve any customer, anywhere in the world, for any lodging need they may have.
* Hilton already has a portfolio which will allow them to provide a widespread of hotels that offer varying services and amenities to meet the travelers’ needs and budget.

Cons:

* International competitors already have a loyal customer base that will not be willing to try something new.

***Issue 4: Substitute service***

Hilton works in a large market that faces competition from not only hotels and motels, but other sectors of the market as well, including RV parks, bed-and-breakfast establishments and hostels. As discussed previously in the SWOT analysis, there is an opportunity for industry growth. With this growth comes the need for travelers to look for accommodations. Travelers have many options to choose from and no worries about switching costs, which puts Hilton at risk of consumers choosing competitor’s services.

Alternative (1): Adding competitive amenities

Pros:

* An alternative for Hilton to choose other than adjusting their prices when dealing with competitors in these markets is to add something that those other substitutes don’t have.

Cons:

* This can cost Hilton more money and may fizzle out.

Alternative (2): Merging/Acquiring smaller competitors

Pros:

* Another option is for Hilton to merge with those competitors and use what they already have set in place. This way Hilton doesn’t have to spend the extra money to squeeze their competitors out of the market and they have everything set up for them already.
* They could acquire a company who is already successful and add to their profits.

Cons:

* This could cause Hilton to acquire another facet that may leech off of them as a whole in the long run.
* Acquiring a company means Hilton will become responsible for any liabilities the former company had.

***Issue 5: Cost of labor***

As mentioned in the SWOT analysis, cost of labor is an issue for Hilton because of the high staff turnover rate, and the company’s plans of expansion. With all the new hotels being opened, there will be a significant increase in staffing. Recruiting and training these employees can be costly. There has also been an increase in global labor costs, especially in emerging countries where many of Hilton’s new hotels will be opening. This labor cost increase is a setback for industries requiring highly skilled workers, like the hotel industry, which is second on the list of businesses that will be notably affected by higher labor costs [43]. Hilton should consider ways to decrease employee turnover rate, which could lessen some of their costs spent on labor.

Alternative (1): Fringe benefits

Pros:

* A way that Hilton can fix this is by investing more in the fringe benefits that are offered to their employees.
* Recruiting staff and training them is very expensive and therefore can lead to a loss in service quality and a perpetual loss in employees.

Cons:

* This can cost Hilton more money and the turnover rate may still exist in the long run.

Alternative (2): Turnover clause

Pros:

* Another option is that Hilton integrate a clause into their contracts that states that they must invest a certain amount of time into the company that will keep them working and lower the turnover rate.

Cons:

* This can work in the sense that it is keeping the employees with Hilton, although every state has different laws for labor.

# Recommendations Jenna Colon

***Pricing Pressures***

Other than lowering prices and fees, which would first come to mind when faced with a threat at this magnitude, Hilton can look at other alternatives to the issue of dealing with such a large amount of players with a global presence. Two alternatives that they can consider are to expand on the niche market of those who are willing to pay more for the brand of Hilton, and offer amenities that will draw customers to Hilton as opposed to their competitors. Focusing on a specific market will not only increase the loyalty of their already strong customer base but will focus on customers that will stay with the company no matter what the cost comes to as long as the brand lives up to the standard that they expect; luxurious. The best alternative, offering services/amenities that the other brands do not, will not only keep their loyal customer base coming back for years to come but may also attract those customers that are looking for a one of a kind experience and potentially some of their competitors’ customers as well.

***Lawsuit***

Maintaining a good company image is a great way to keep up with your reputation as a brand despite the other competitors that are trying to tarnish it. Although there are other routes or alternatives that can be taken to keep a good image and stay out of the courts as well. Alternative 1 is best option that can help Hilton to stay on its feet and out of the court systems for negligence and other issues. These types of issues arise when there is a lack of a strong company culture and strong leadership. Bringing in an OD (Organizational Development) Practitioner to the company to re-evaluate the system will not only help your company to stray away from any potential illegal activity but will also improve quality assurance as well as supply chain management.

***Hilton’s Weak Market Share***

Hilton has a lot of room to grow in comparison to how strong other brands in other industries can hold a firm percentage of market shares. But they are on the right track with the way that things are going. Marriott only holds properties within the North Americas and nowhere else globally, so Hilton has a head start when it comes to that area. Moving internationally can cause a dip in market share in that there are a lot of risks moving a company outside of the United States. Although it can also open many doors from new markets and new customer bases that you can gain loyalty from as well. Alternative 2 is the better option to choose because it will allow them to serve more customers and also introduce to them a potential new way of doing things. When moving international you not only are competing against other American competitors, but also those new competitors that are local to that area. Hilton may be able to offer services and amenities that their international competitors aren’t. This can be a good thing for Hilton since they have been around for so long and have a strong culture and company infrastructure. They have a head-start when it comes to setting up a property and get it running. This can be improved even further and can help to get them ahead of those other business’ therefore adding to their success in market shares.

***Substitute Service***

The best alternative for Hilton to choose other than adjusting their prices when dealing with competitors in these markets is to add something that those other substitutes don’t have. Hilton has a huge pocket to dig into since they cover so many different areas. They can use this as a crutch while offering better services in other areas while they catch up. This way Hilton will keep that reputation that they have gained with their resorts and hotels in all aspects of the company, while still focusing on their loyal customer base and their needs.

***Cost of Labor***

The hotel industry is known for its high turnover rates and this is not any different for Hilton than it is for any of its other competitors. Recruiting staff and training them is very expensive and therefore can lead to a loss in service quality and a perpetual loss in employees. A way that Hilton can fix this is by investing more in the fringe benefits that are offered to their employees. This will help in that it will attract those better employees who will be loyal to the company for a longer amount of time and that will also do a better job than the average new hire. Although this will cost the company more money in the short-term it will leave a longer lasting benefit for Hilton in the long run. This can also work in the sense that it is keeping the employees with Hilton, although every state has different laws for labor.

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