CASE 2

Hilton Hotels

Hilton Hotels Corporation owns, manages and/or franchises hotels, casino-hotels and inns; sells furnishings, equipment, and supplies to hotels, motels, and inns; and operates a computerized reservation system for the hotel industry. After two major takeover attempts in the early 1990s, Hilton Hotels decided that it had to change by becoming a more aggressive business operation. The result was the decision to move heavily into gambling. This change of strategic direction represented a significant shift in Hilton's business focus and marketing objectives. Already the owner of four casinos in Nevada, the Los Angeles hotelier began pushing projects in New Orleans, Chicago, Egypt, Turkey, Uruguay, and Australia.

While gaming accounted for about 34 percent of Hilton's overall sales in the early 1990s, its four casinos contributed nearly two–thirds of Hilton's operating earnings. Nevertheless, Hilton's new emphasis on gambling carried a large element of risk. Competition for the gaming dollar is intense, and the degree of investment needed to be successful is high. Hilton has had to put more than $6 million into renovating the Las Vegas Hilton to keep up with such rivals as the Mirage and the Excalibur, and it has also renovated the Flamingo Hilton to keep pace with other new places. To lure high rollers away from other casinos, the Las Vegas Hilton has had to be more generous about extending credit, resulting in bad gaming debts and reductions in operating income from gaming.

HILTON 1994 PERFORMANCE

The year 1994 was transitional for Hilton Hotels because, in a sharp reversal from the previous four years, hotels prospered while gaming struggled. This was true for Hilton and for the industry (Fig. 2–1). Hilton's net income for 1994 was $121.7 million, up 18 percent from $102.7 million in 1993 (Fig. 2–2). Total gaming revenue increased 2 percent to $889.2 million in 1994 compared with $973.5 million in 1993. Casino revenue, a component of gaming revenue, was $480.6 million in

"Hilton Hotels," by William J. McDonald, reprinted from *Cases in Strategic Marketing Management*, 1998, Prentice-Hall, Inc.

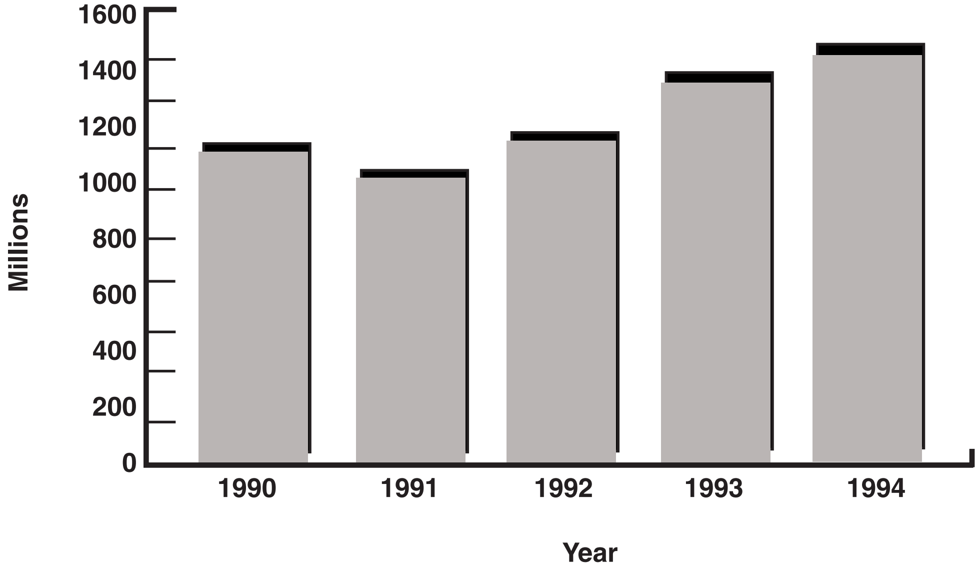

FIGURE 2–1 Hilton Hotels Total Revenues
Source: Hilton Hotels Corporation 1994 Annual Report

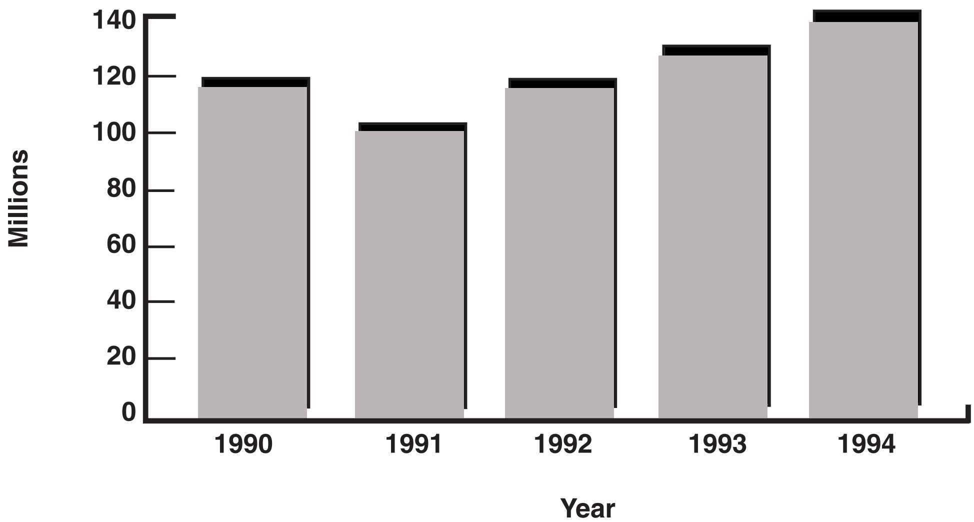

FIGURE 2–2 Hilton Hotels Corporation Net Income
Source: Hilton Hotels Corporation 1994 Annual Report

1994 compared with $502.1 million in 1993. Gaming operating income was $159.0 million in 1994, a 7 percent decline from $170.5 million in 1993. Excluding the results of the company's gaming facilities in New Orleans and Windsor, both of which commenced operations in 1994, revenue increased 1 percent and operating income decreased 12 percent from the prior year.

For 1994, Hilton hotels showed system-wide occupancy of 70 percent, a three-point increase over 1993, while the U.S. hotel industry as a whole had occupancy of 65 percent. Equally as important as the increase in occupancy was the significant improvement in average daily rate. For the year, that rate jumped 7 percent over last year.

As of the end of 1994, Hilton's gaming segment included five wholly-owned Nevada hotel-casinos, equity income and management fees from partially owned hotel-casinos in Queensland, Australia and Istanbul, Turkey, and equity income and management fees from gaming operations in New Orleans, Louisiana and Windsor, Ontario, Canada. Its Nevada gaming operations offered a diversified product and service mix, which appeals to a broad spectrum of customers. The Flamingo Hilton–Las Vegas caters to the broad Las Vegas middle market, while the Las Vegas Hilton caters to premium players and the convention market. The Flamingo Hilton–Reno focuses on middle-market activity, while the Reno Hilton targets both convention and middle-market activity. The Flamingo Hilton–Laughlin targets the budget-market segment.

UNDERSTANDING HOTEL CUSTOMERS

The abundance of spare bed capacity means that hotels need to better target the needs of customer segments and offer distinctive services. Hilton's efforts to customize hotel services by purpose of visit and origin of guest is instructive to all hoteliers who want to increase their service, and hence customer, levels. Hilton International provides a diversity of services to customers from 130 nationalities at 150 locations in more than 50 countries around the world.

To determine the optimum service for the 1990s, Hilton undertook customer and employee surveys to identify market needs and expectations, the views of employees on job-related issues and, more importantly, what employees believed that their customers wanted them to provide. This work was instrumental in shaping a program designed to create a more contemporary service-led organization It led, in part, to the Hilton Promise that every Hilton employee would give superior and distinctive service, which guests would remember and for which they would return.

Hilton's research highlighted the need for a product development approach that would enable customers to match their needs easily against a specially adapted style or area of hotel service. This led to attempts to define the concept of a service brand, which might support the kinds of innovation fundamental to Hilton's planned growth. The adopted approach was to consider different service clusters that combined, would provide key benefits to customers. The underlying assumption is that, if the majority of customers feel comfortable with the hotel service environment, that leads to additional guest satisfaction and to new business.

THE HOTEL INDUSTRY FOCUSES ON GAMING AND ENTERTAINMENT

By mid-1994, Las Vegas operators had spent some $3.2 billion on the concept of packaging gaming with theme entertainment to create a destination resort. The same amount or more is likely to be committed by the year 2000. While this extends the Las Vegas tradition of having entertainment in show rooms as a sideline, these new offerings represent a significantly different concept and greater expenses.

Yet, despite huge investments, some casino operators are offering entertainment as a central attraction without much success. Some of these projects have been successful, while others were misconceived and perform below optimum levels. Part of the reason for this uneven performance is the disparate nature of entertainment and games and the difficulty in making them work together. However, the cost of providing entertainment is justified by its effectiveness in attracting people to the gaming tables and machines.

The diverse nature of games and entertainment does not automatically guarantee successful combinations because each serves different consumer needs and requires different management strategies. Based on the Las Vegas experience, some types of entertainment constitute a better complement to gaming than others. For example, location-based entertainment such as revues and circuses are good complements, as is shopping. However, interactive video and feature films are poor complements because they provide experiences similar to the games themselves.

Gaming and entertainment evolved independently and serve customers in very different ways. Games, including commercial casino games, have recreational value only when people actively engage in them. Playing a game involves behaving according to the rules of the game. In contrast, entertainment is not usually defined by formal rules and is not normally interactive. Commercial entertainment is presented to consumers in a finished, ready-to-be-enjoyed form. Because games and entertainment are leisure pastimes, many casino operators seem to assume that gaming is just another form of entertainment. The distinction between games and entertainment is particularly nebulous in Nevada because games have been packaged as fantasy and presented in conjunction with spectacular floor shows; inexpensive or free food and alcoholic beverages; and outdoor recreation such as golf courses, swimming pools, and tennis courts. The core purpose of entertainment at gaming locations is to attract people to the games and any entertainment that detracts from that purpose is a bad fit.

PURSUING MARKETS

What strategies would you advise Hilton to pursue in the hotel and gaming markets? What specific price, distribution, promotion, and product elements would you propose and why? How would you deal with the growth in competition from other gaming and hotel concerns? What balance would you strike between hotel and gaming operations and why?

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