# Living a Vision at Hillerman Hotels

Cathy A. Enz

*Cornell University*

David L. Corsun

*University of Nevada, Las Vegas*

Sitting in the fashionable Cafe Lupe, an upscale restaurant owned by the company Carl Gregg worked for, were the company's owners, investors, and top corporate personnel. Hillerman Hotels, a wholly owned subsidiary of the parent Hillerman Enterprises, was headquartered in Phoenix, Arizona, with a portfolio of over a dozen midscale and upscale hotels and three trendy upscale restaurants. The hotel group was gathered for one of its irregular, informal celebrations of success. As Gregg, the executive vice president of operations, raised his glass to join in the merriment, he wondered to himself whether his facial expression gave away the feelings he was suppressing. Gregg was torn—earlier in the day this same group discussed the possibility that the Westward Hilton and Towers, the only property in the Hillerman portfolio he had personally ever run as a general manager, might be sold. An inquiry from a REIT (real estate investment trust1) as to the property's availability had prompted the discussion.

The Hillerman Hotels subsidiary owned and managed all of its hotels, branding them with a variety of different midpriced and upper-priced hotel franchisers. The portfolio had grown over a 12-year period to around a dozen properties at any given time. The number wasn't stable because the corporate strategy was to take advantage of opportunities to buy undervalued, underperforming properties and turn them around. Each hotel was operated as a frilly self-sufficient operation. When the opportunity to sell a property at healthy profit presented itself, Hiller- man's management team had, in the past, generally taken advantage of the market opportunity. With the exception of a second Phoenix property managed as an independent (unbranded) hotel and acquired in 1995 to be the group's flagship, no property was supposed to be untouchable. Perhaps coincidentally, since Gregg had moved into his corporate position back in 1992, only one Hillerman property had been sold. The portfolio had remained relatively stable, and its owners or investors had never broached selling the Westward. The investors were reaping healthy benefits from the portfolio.

Gregg knew that Kerry Glenn, whose money was behind Hillerman Hotels, felt as strongly about the Westward and the people who worked there as he did. Kerry owned the largest share of Hillerman Hotels as well as a major share of the parent company. Her visibility in the local community as a patron of the arts and civic leader was legendary. Although Kerry was attached to the Westward, Gregg also understood that it was impossible for every decision to equally benefit owners, customers, and employees. He knew there were times when decisions had to be made that had an obvious ill effect on one group of stakeholders. Was the possible sale of the Westward Hotel one of those decisions? Was he too attached to this particular hotel because he had been its general manager when Hillerman bought it out of bankruptcy at the end of 1989? Gregg's thoughts drifted back nearly 10 years to the year before he arrived in Phoenix.

**Project Perspective**

Carl Gregg grew up in the hospitality industry. He worked as a teen in his family's restaurant in Buffalo, New York. Through his 20s and 30s, Gregg used his restaurant experience to move into the hotel side of the industry, starting out in the food and beverage area. Over the course of about 20 years, he worked his way across the eastern half of the country, gaining the experience required to be a hotel general manager (GM). Prior to joining Hillerman, Gregg had over 5 years of experience as a GM. When Hillerman hired Gregg in 1988, he was brought on in a consulting role. Specifically, Gregg did project work for Hillerman in the midwest, solving previously identified business problems.

Project work gave him an opportunity to view an operation from a very different vantage point from when he was a GM. Being removed from the day-to-day operation, Gregg was able to see aspects of the business that might be less clear to the manager occupied with running the entire operation. The short-term nature of his project assignments and their focus on specific problems with everything else removed from consideration allowed Gregg the liberty of a broader, big-picture perspective. He attributed two previous projects and experiences to radically shaping his feelings about the business when he entered the Westward.

The first project was a small Chicago hotel in which the employees were considering unionization. When Gregg arrived, he found an all-white management staff and an almost all-black employee population and no interaction between the two. On his first visit, he went to the cafeteria and listened to employees. Through informal conversations, he learned which issues bothered the employees. The problems were mostly small things that could easily be remedied—things like the quality of employee meals. However, the senior management of the hotel was unaware of these employee issues because they had separated themselves from employees and formed a tightly knit group. The management never ate in the employee cafeteria and spent very little time in communication with the staff. Gregg did not make radical changes at this hotel, but he did listen carefully to the employees and spent time with them. In describing this experience, Gregg said it "taught me that managers devalue others when they overvalue themselves. I discovered the importance of creating a work environment that celebrates, nurtures, and values people. It is important to create a business environment in which every job and every employee is treated with dignity and respect. People want to care, but this work environment forced the workers to hide themselves."

The impact the work environment has on the individual came home to Gregg one evening when he drove past a school yard and spotted one of the hotel's employees playing basketball. As he watched the game, he noticed that this worker who Gregg knew to be slow, uncooperative, and lacking initiative was leading a group of his friends in a fast-paced and cooperative team effort. Gregg wondered how this person could be so different outside the workplace. Perhaps, he thought, it's because the work environment doesn't give the worker permission to be himself. This thought stuck with Gregg. Before he left this hotel several months later, new management had been brought in and the union drive was defeated by a vote of 72-2. Gregg elected to move on rather than serve as the new general manager, although the job was offered to him.

Gregg's second experience taught him to truly value the guests' perspective and experiences. Living for 90 days in a hotel plagued with quality problems, Gregg was a guest of sorts himself, and he spoke with other guests daily. During this assignment, he rediscovered what he knew from childhood about committing to the satisfaction of the guest. "I grew up in the restaurant business, and my parents taught me to be close to the customer. It seems that when you become a manager you start to focus on how to manage versus how to live a commitment to customers." Rather than viewing guest concerns as problems, he discovered through interaction with customers that one could trust their experiences and get something valuable and satisfying from responding to their concerns. He also noticed that most customers were present in the hotel at very specific times in the morning and evening, and these were the times it was most important for the manager to be available to talk with guests. An everyday commitment to listening to guests was one powerful way of committing to their satisfaction.

These projects gave Gregg a new way of thinking and feeling about the hotel business. He began to feel his way toward a new management philosophy, but the quality of his personal life was suffering. After a year of living on the road and away from his family, Gregg wanted a stable position. However, to become a general manager again was not very appealing to him. As a GM, he had grown tired of the frustrations that came with the job. He was tired of the long hours, the constant people problems, and the cyclical nature of the business. In bad times, even when he worked very hard, the overleveraged and overbuilt industry had conspired to make him feel badly about his performance. The main people problems were high turnover and a lack of commitment from staff who were not into what they were doing. He had felt frustration at his inability to get employees excited or committed in the past. Gregg learned a great deal from the project work that occupied his time, and he also knew he needed to make a change. His children and his wife needed him to be more present in their lives, too.

**Arriving at the Westward**

The Westward Hilton was bought out of bankruptcy when the previous owner was forced to sell the property. For nearly 5 years, the hotel had been operating at a loss, and the property and the people who worked in it were depressed. The physical plant was in bad shape, and no capital had been devoted to renovation and upkeep. When Hillerman purchased the hotel, Gregg was given the opportunity to become the Westward's general manager. Mostly because of his desire to settle in one place for awhile, he took the assignment. Gregg also thought he might take advantage of this opportunity to put his evolving management philosophy into practice.

During his first visit to the hotel—prior to becoming GM—none of the managers greeted him. Gregg was placed in a Towers level (one of the three floors of rooms with a private concierge and other special services) suite with "a lot of stuff." He got chocolates, cheese, and a vast array of amenities, but not a note or phone call from the management. His first impression was that the management of the hotel was not sensitive to what the guest might want, but had automatically assumed that more amenities in the sleeping room would satisfy the customer. "They were thinking more and more stuff rather than sincere and genuine care." Gregg observed that the Westward s management had a traditional command and control style. In addition, their beliefs statement was borrowed from Ritz Carlton Hotels, a chain of highly regarded luxury hotels (Exhibit 1). In Greggs opinion, the hotel was trying to be something it was not, and the beliefs were not genuine.

Gregg arrived at the Westward with a deep belief that all hotel companies and their managers have a moral obligation to make the work experience a positive one. Throughout his career, he had experienced the dark side of the hotel business in which generations of negative conditioning and abusive behaviors justified managers' willingness to undervalue the people who clean rooms and sweep floors for a living. The managers in Chicago reminded him by their bad example that he must break down these beliefs. Deep inside, after years of experience in the business, he was convinced that caring about employees could be profitable.

> *I didn't arrive at the Westward with a strategic plan, just a new feeling. My project work taught me to get close to the customer and value the employees. I was determined to start by making a real emotional commitment to the hotel.*

**The Westward Hilton and Towers**

The Westward Hilton was a 9-year-old, 13-story, full-service hotel built in 1980. The hotel tower and attached lobby sat on 8.5 acres of land on a city block at the southeast corner of Camelback Drive and Northern Avenue in Phoenix. The hotel contained approximately 151,000 square feet, occupied by 300 guest rooms, board and conference rooms, executive offices, a fitness center, and the main lobby area. The exterior of the hotel was reflective glass over a structural steel frame. The main lobby area was situated in a single-story, attached building that included the main entrance to the hotel, reception desk, guest services area, a lobby lounge, and a gift shop.

After several years of Hillerman's ownership, and substantial renovations, the hotel had 13,000 square feet of flexible meeting space, including 14 salons and 3 ballrooms. The gift shop was leased on a month-to-month basis to a third-party lessee. The hotel also included a free-standing 8,000-square-foot restaurant. The interior finish of the lobby area primarily consisted

| **EXHIBIT 1** | The Ritz Carlton Gold Standards |
|---|---|
| The Credo | The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest mission.<br>We pledge to provide the finest personal service and facilities for our guests, who will always enjoy a warm, relaxed, yet refined ambiance.<br>The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests. |
| Motto | We are Ladies and Gentlemen serving Ladies and Gentlemen. |

*Source:* Ritz-Carlton. This information is printed by corporate headquarters on a small, laminated card that can be folded and placed in a wallet.

of inlaid terrazzo pavers and a combination of painted drywall and vinyl wall coverings with recessed and track incandescent lighting. A landscaped courtyard led to the Hiltons outdoor pool, hot tub, and sun deck. Directly off the lobby was a bright and airy southwestern-style atrium finished in rich earth tones.

Each guest room included a full bath, a king or two queen beds, a chaise lounge chair and ottoman, a work desk, an armoire, one or two night stands, and three or four lamps. The standard guest rooms featured 24-hour in-room dining, free cable channels with HBO, coffee/tea maker, minibar, alarm clock radio, card key access, PC phone line, modem hookup, oversized desk, and complimentary newspaper. Executive business rooms also included a facsimile/copier machine, a desk jet printer, VCR, two private phone lines with speakerphone, and a calculator. The top three Towers floors offered complimentary continental breakfast buffet every morning, hors d'oeuvres every evening, exclusive registration and checkout, business services, a cocktail honor bar, and videophone. Morning and evening maid service and nighty turn-down service were also provided on these floors.

**The Vision Thing**

"What does this hotel want to be?" was a critical question for Gregg. He felt the previous management tried to make the hotel something it was not. But what was this hotel to become? This was clearly a critical question. By imitating the Malcolm Baldridge award-winning Ritz Carlton Hotels' beliefs, the previous management was not focused on how to position this hotel. For Gregg's first 3 or 4 months, during their meetings the managers talked unendingly about the successful large convention hotel across the street. This hotel had a lounge and a constant flow of leisure and convention customers. The conversations all seemed to be variations of a "Gee, if we were only like them" theme.

Finally, Gregg had enough. The turning point came in one staff meeting when he told his staff the following:

*Let's not focus on what we are not. Focus on what we are. We don't have to be that hotel. Let's stop wishing we were that and start being this. Look, we are a small hotel—we don't want lots of groups. We should be providing a different product and service to a different customer. Look at all the problems they have. It is a noisy hotel with long lines. Do we want that? No! We can become the number-one corporate FIT (frequent individual traveler) hotel in Phoenix. We are a small hotel, we can be warm and friendly, let's use what we have and make it work. Stop focusing on them. Focus on what we are and what we can become. We are going to take the high-end guest, focus on the FIT through uncompromising superior quality and extraordinary service. We are going to actively listen to guests and employees, anticipate market needs, liberate ourselves from old ways of doing things, and provide a wonderful employee experience.*

The job of envisioning a new future for this hotel was made possible by years of capital investments and support from the new owners. Capital was needed to position the hotel above the competition. The repositioning would not have been possible if Hillerman's owners had not been willing to invest in fully renovating the hotel with a clean, modern, and comfortable look. Exhibit 2 provides a summary of the capital improvement costs.

The restaurant was redesigned and reconstructed in 1991, three years after the hotel's purchase. The renovation was done at a cost of $1,800,000 (including furniture, fixtures, and equipment). It was expanded from its original structure and leased to an independent restaurant group that raised the visibility and prestige of the food and beverage operation. Gregg believed the restaurant operation was a powerful tool in repositioning the hotel.

**EXHIBIT 2** Renovation and Capital Improvements

| Year | Capital Improvement Costs |
|---|---|
| 1991 | $4,300,000.00 |
| 1992 | $2,800,000.00 |
| 1993 | $1,000,000.00 |
| 1994 | $ 200,000.00 |

The equal value and appreciation of the interests and needs of owners, customers, and employees was the foundation for the vision creation process, according to Gregg. Uninterrupted owner support, continued affiliation with a well regarded hotel brand like Hilton, and management with a commitment to guest, employee, and owner satisfaction were essential.

The vision emerged in discussion with the senior management staff, but was not written down initially. According to Gregg, it was a change in thinking, first and foremost.

*We were going to become the best corporate hotel positioned at the top end, but I approached this vision by doing three things: living my values, constantly talking about* *our vision, and modeling the vision every day. The plan was shockingly devoid of systems or procedures. 1felt it and was deeply into it. The hotel needed an identity in the minds of the employees, and my job was to bring a deep belief in what this hotel could become to these people. Leadership in my opinion is about believing so deeply that people don't doubt. I was more a Civil War leader than a World War II general. My agenda? Focus and model, focus and model. I just did what seemed right at the time.*

Gregg's vision of what the Westward aspired to become was the precursor to the formal corporate vision of Hillerman Hotels, and the foundation for the guiding principles that would follow. It was not until 1995, almost 6 years later and well into Gregg's tenure as corporate executive vice president of operations, that he formally fashioned the set of guiding principles that explicitly conveyed the essence of Hillerman Hotels and the Westward Hilton. The principles were taught companywide. Managers, upon successfully completing their initial training and orientation, were given a daily planner with a 22-page insert tided "Our Daily Compass: Hillerman Hotels, Inc. Guide to Leadership and Management." Among other things, including the corporate vision and mission, the insert included the guiding principles.

1. Dignity—We value everyone equally and highly.
2. Values—We insist that values like honesty, trust, integrity, respect, and fairness determine our decisions.
3. Focus—We establish priorities and concentrate on doing the most important things first.
4. Achievement—We all give our best effort to ensure team success.
5. Balance—We strive to maintain a balance among employees, customers, and owners.

Back in 1989, Gregg also arrived at the simple statement, *the friendliest place to visit.* This was a vision that remained with him and came to guide all the hotels in the portfolio. Gregg explained the meaning of the vision as follows:

*In the future, our customers and peers will say that we are the friendliest place to visit. The relationship between our employees and our guests should resemble that of the relationship between two friends; this is the hospitality experience we wish to provide. We will achieve this vision when the customer experiences a total commitment from all of us to the friendliest customer service anywhere.*

The mission statement, which followed from the vision, was captured in the phrase *"Making people's lives better through business."* Gregg noted that:

*We will achieve our vision by making our employees, ' customers, ' and owners' lives better. Employees' lives are made better by treating them with dignity, rewarding and recognizing their contributions to our success, and providing a safe, secure, flexible, and fun working environment. Customers' lives are made better by providing a safe environment, excellent service, friendliness, and that extra thoughtfulness that makes visiting the Westward like visiting a friend. Finally, we make our owners' lives better by* *ensuring that the hotel is a leader in return on investment, [a] positive influence on the local community, and successful on a long-term basis. We aspire to be a role model for other companies in the service industry: admired for the support we provide to our employees, the friendly experience we provide to our customers, and the exceptional rewards and satisfaction we provide to our owners.*

Gregg was determined that his vision would become more than the platitudes of a GM, neither acted on by subordinates nor lived by the executive in charge. He wanted to live his principles and pass them on to his management team to help guide their actions. It was his desire that all the employees of the Westward share the vision, mission, and principles. He wanted to make being a part of the Westward Hilton a different work experience. For Gregg, the mutual success of owners and employees was dependent upon the acceptance and practice of the vision. But Gregg knew that good practice required more than inspiration: it required good strategic thinking.

**Strategic Planning**

“What’s possible?” is the question Gregg used to guide the strategic planning process. He was insistent that the major question for strategic thinking was to focus on what could be. “Identifying and removing the barriers between what is and what’s possible” is how he proceeded to develop the plan.

*Our strategic plan allowed us to dream, ponder, and wonder what could be. Most planning is from today forward in a process of increases over a 5-year period to get to a point. This is “present-forward” thinking. In this approach, you rely on “the plan" and history to drive your thinking.*

In contrast, Gregg introduced a future-backward thinking approach in which one creates an almost impossible future position and determines what needs to be done to achieve this target.

*Our strategic planning forced us to change our operation by setting objectives that seemed impossible. By thinking about the future and backing into implementation it was quite clear that we couldn’t get to what is possible by doing what we already approach could easily backfire if failure to reach the target resulted in getting the crap kicked out of you. Trust was critical and made possible by having all targets and incentives at levels below the strategic plan.*

Gregg did not confuse strategic planning with making budget. There was no penalty for failure.

*Sure there was tension. We wanted to create that. It’s okay if they felt like they failed. It’s not okay if they felt I felt like they failed. The difference is important. We seduced them into a future, but not at their expense.*

Gregg willingly admitted that he had no idea of how to get the hotel to the possible targets. “All I knew was that we could only achieve these targets if we became more skilled and did things differently.”

Reports, forecasts, and analysis were the hallmarks of this strategic thinking system. In housekeeping, for example, daily labor costs were tracked and scheduling of labor was carefully synchronized with forecasts. Revenue information was assembled on customer segments and product/service offerings were bundled to provide a carefully targeted customer with the products she or he desired to produce loyalty and retention. Gregg did not believe in yield management, a system in which pricing adjusts were based on projected occupancy and proximity to the desired reservation date in order to fill the hotel. He believed in establishing relationships with guests and focusing on rates that were consistent and of high value.

After setting a vision and defining the target guest, the Westward s business mix changed with a decrease in group business and an increase in the business transient segment. Mini profit and loss statements were created for each department so they could keep track of expenses as each day passed. Gregg believed that daily accountability versus monthly accountability was a key to enabling the staff to carefully and intelligently manage the business.

**Close to the Customer**

Even 5 years later, many employees remembered Gregg for his vigilance—standing in the lobby Monday through Friday from 7:00—9:00 A.M. when most customers entered or exited the hotel. During his 10-hour-a-week commitment to being close to the customer, he saw and solved problems. Gregg talked with guests and got a feel for what was and what was not working.

> *If three or four guests mentioned they didn’t get a wakeup call, we could locate and solve that problem quickly. If people needed their bags carried in or employees needed a hand in performing a job, I was there to help. My job was to expedite, to help both employees and customers.*

Gregg accomplished two things by hanging out in the lobby. He had the contact with the customer he so valued and believed in, and he modeled the commitment to guest satisfaction. He also showed employees that he would and could do their jobs and that he was there to help them.

> *I decided when I arrived at the Westward that I was willing to invest 10 hours of my 50—60 hours per week to contact with the guests. The key job of a manager is to lead, to set an example and to focus on real problems and activities.*

Greggs actions were important, but getting others to live the vision required improving business practices, too. He started by taking the existing customer comment card questions provided by the corporate staff of Hilton and using them somewhat differently. At the time, the typical approach in the industry was to have customer comment cards in the sleeping rooms, with very few customers ever responding. When customers did respond, the hotel or guest mailed the cards directly to the brand corporate headquarters, where the brand corporate staff provided a tracking service as part of the fees attached to brand affiliation. Problem issues were then identified, and monthly or quarterly reports passed back to the GM, management company, or owners of an individual hotel. General managers then chose to send a letter or call the dissatisfied customer and apologize or offer some form of service recovery. Some hotel chains responded from the corporate headquarters, and the individual hotels never received the comment card information.

At the Westward, Gregg made small but significant modifications in the existing system. First, customers were asked to complete the cards at checkout, substantially increasing the completed responses from 2 to 3 percent when he became GM to 75 percent of all guests. A core of 40 questions was put into 10 sets of 4 questions, with one set per comment card. The cards were randomly distributed so all 40 questions were responded to by multiple guests. Because they included only 4 questions, scored on a 7-point scale where 1 = poor and 7 = excellent, the guests completed the cards in 10 to 15 seconds while waiting for their folios to print. The cards were then entered and tracked through the property management system, and reports were created daily. The customer tracking report was provided to management, but also posted in the employee gathering places for all employees to view. A sample of the report is shown in Exhibit 3. Daily huddles, or brief 5- to 10-minute meetings at the beginning or end of a shift, were used to share the survey results with employees. As Gregg noted,

> *We had been doing the survey for some time, but didn't realize the quantum improvement in the guest experience until we began sharing the guests' feedback with the people who were actually doing the work. Once we started showing people the results of the survey, they started making changes on their own. The improved scores were a direct reflection of team performance and they all wanted to succeed. The sharing of information tapped into the employees' basic desire to be whole and good. They wanted to fill the gap, and we did not need a program or process. It was magic. We gave people the information they needed to know and they did what needed to be done. There was no structure or guide. Just a belief that you give people information and they will set about fixing the problems. People love to close gaps. Evidence of our success lies in the data—96 percent of the guests indicated their intent to return and the repeat rate was 50 percent.*

**Value Others**

> *Another strong powerful part of our management philosophy was that you need to be willing to do what you ask of others. You can't expect the people to care anymore than you do. People watch what you do. You lose ground if people can't trust you.*

**EXHIBIT 3** Guest Comment Daily Report

| Today's Performance Metrics | | | | Period to Date (PTD) Performance | | |
|---|---|---|---|---|---|---|
| Today's % Cards/W Rm#S | = | 45.6% | **Westward Hilton** | Ptd Check Out | = | 1401 |
| Today's Check Out | = | 68 | **Guest Comment** | Ptd Total Cards | = | 549 |
| Today's Total Cards | = | 35 | **Daily Report** | Ptd % Of Return | = | 39.2% |
| Today's % Of Return | = | 51.5% | **Date: 1-26-97** | Ptd Rio Charges | = | 23249 |
| Today's Rio Charges | = | 1384 | | Ptd Rio Per Occ Rm | | $3.70 |
| Today's Rio Per Occ Room | = | $4.86 | | | | |

| Return Again As % | Today Total Score | Ptd Total Score 94.92% | Goal | Diff |
|---|---|---|---|---|
| **Critical Services** | | | | |
| Overall Responsiveness | 6.36 | 6.48 | 6.50 | (0.02) |
| Will Return Again | 6.54 | 6.64 | 6.50 | 0.14 |
| Rate This Hilton Overall | 6.48 | 6.26 | 6.5 | (0.24) |
| **Friendliness** | | | | |
| Reception Staff Friendliness | 6.57 | 6.51 | 6.50 | 0.01 |
| Departure Desk Friendliness | Err | 6.75 | 6.50 | 0.25 |
| Lobby Lounge Friendliness | 4.00 | 6.19 | 6.50 | (0.31) |
| Operator Friendliness | 6.50 | 6.48 | 6.50 | (0.03) |
| Room Service Friendliness | 7.00 | 6.60 | 6.50 | 0.10 |
| Banquet Friendliness | Err | 6.52 | 6.50 | 0.02 |
| Total | 6.25 | 6.52 | 6.50 | 0.02 |
| **Cafe Tijera Restaurant** | | | | |
| Dining Experience | 6.00 | 5.96 | 6.50 | (0.54) |
| Breakfast F&B Quality | Err | 6.27 | 6.50 | (0.23) |
| Breakfast Staff Service | 5.50 | 5.78 | 6.50 | (0.72) |
| Dinner Staff Service | 6.00 | 6.10 | 6.50 | (0.40) |
| Dinner F&B Service | 6.67 | 6.00 | 6.50 | (0.50) |
| Total | 6.14 | 6.03 | 6.50 | (0.47) |
| **Room Service** | | | | |
| Prompt Service | 7.00 | 6.09 | 6.50 | (0.41) |
| Friendly Service | 7.00 | 6.60 | 6.50 | 0.10 |
| Food-Beverage (F&B) Quality | 7.00 | 6.44 | 6.50 | (0.06) |
| Overall Experience | 5.83 | 6.18 | 6.50 | (0.33) |
| Total | 6.30 | 6.33 | 6.50 | (0.17) |
| **Banquet Event** | | | | |
| Prompt Service | 6.80 | 6.55 | 6.50 | 0.05 |
| Friendly Service | Err | 6.52 | 6.50 | 0.02 |
| Food-Beverage Quality | 6.00 | 6.27 | 6.50 | (0.23) |
| Total | 6.50 | 6.43 | 6.50 | (0.07) |
| **Towers** | | | | |
| Will Return Again | Err | Err | 6.50 | Err |
| Towers Lounge Overall | Err | 6.61 | 6.50 | 0.11 |
| Total | Err | 6.61 | 6.50 | 0.11 |
| **Lobby Bar** | | | | |
| Prompt Service | 6.33 | 6.37 | 6.50 | (0.13) |
| Comfort & Decor | Err | 6.11 | 6.50 | (0.39) |
| Lobby Staff Friendliness | 4.00 | 6.19 | 6.50 | (0.31) |
| Total | 5.40 | 6.22 | 6.50 | (0.28) |

| Total Score | Today Score | Ptd Total | Goal | Diff |
|---|---|---|---|---|
| **Reception** | | | | |
| Reception Staff Friendliness | 6.57 | 6.51 | 6.50 | 0.01 |
| Check-In Efficiency | 6.33 | 6.45 | 6.50 | (0.05) |
| Door/Bell Staff Assistance | Err | 6.45 | 6.50 | (0.05) |
| Total | 6.50 | 6.47 | 6.50 | (0.03) |
| **Departure** | | | | |
| Front Desk Friendliness | Err | 6.75 | 6.50 | 0.25 |
| Check-Out Efficiency | 7.00 | 6.77 | 6.50 | 0.27 |
| Bell Staff Promptness | 6.75 | 6.52 | 6.50 | 0.02 |
| Total | 6.80 | 6.68 | 6.50 | 0.18 |
| **Services** | | | | |
| Tele Operator Friendliness | 6.50 | 6.48 | 6.50 | (0.03) |
| Mail–Message Delivery | 6.00 | 6.46 | 6.50 | (0.04) |
| Laundry–Dry Cleaning | 7.00 | 6.70 | 6.50 | 0.20 |
| Fitness Center | 7.00 | 6.05 | 6.50 | (0.45) |
| Total | 6.50 | 6.41 | 6.50 | (0.09) |
| **Accommodations** | | | | |
| Room Cleanliness | 5.67 | 6.45 | 6.50 | (0.05) |
| Room Comfort & Decor | 6.00 | 6.61 | 6.50 | 0.11 |
| Room TV–Radio Quality | 6.33 | 6.09 | 6.50 | (0.41) |
| Price/Value Of Room | 5.00 | 6.33 | 6.50 | (0.17) |
| Total | 5.75 | 6.39 | 6.50 | (0.11) |
| **Bathroom** | | | | |
| Bathroom Cleanliness | 6.25 | 6.51 | 6.50 | 0.01 |
| Bathroom Amenities | 7.00 | 6.48 | 6.50 | (0.02) |
| Public Bathroom Cleanliness | 6.00 | 6.38 | 6.50 | (0.12) |
| Total | 6.29 | 6.47 | 6.50 | (0.03) |
| **Efficiency** | | | | |
| Check-In Efficiency | 6.33 | 6.45 | 6.50 | (0.05) |
| Check-Out Efficiency | 7.00 | 6.77 | 6.50 | 0.27 |
| Total | 6.50 | 6.61 | 6.50 | 0.11 |
| **Total Overall Rpt W/O Rio** | 6.38 | 6.47 | 6.50 | (0.03) |
| **Total Overall Report** | 6.37 | 6.44 | 6.50 | (0.06) |

Westward Hilton & Towers
Guest Comment
Daily Report
'97

| | | |
|---|---|---|
| Total Occupied Rooms | = | 285 |
| Calcards With Room #'s | = | 31 |
| Today's Check Out | = | 68 |
| Today's Total Cards | = | 35 |
| Today's % Of Return | = | 51.37% |
| Total % Cards W/Rm #'s | = | 45.59% |
| Total Cafe Tijera Changes | = | 1383.88 |

| | | |
|---|---|---|
| Ptd Occupied Rooms | = | 6289 |
| Ptd Ttl Cards W/Room Number | = | |
| Ptd Check Out | = | 1401 |
| Ptd Total Cards | = | 549 |
| Ptd % Of Return | = | 39.19% |
| Ptd Rio Charges | = | 23249 |

| Today's Performance | Today's Total | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Total Points | Today's Score | Ptd Total Points | Ptd Total | Ptd Total Comment |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Efficient Check-In | 3 | | | | | 1 | | 2 | 19 | 6.33 | 303.00 | 6.45 | 47 |
| Guest Rm Comfort & Decor | 3 | | | | | 1 | 1 | 1 | 18 | 6.00 | 304.00 | 6.61 | 46 |
| Exp. Of Room For Price Paid | 3 | | | | 1 | 1 | 1 | | 15 | 5.00 | 285.00 | 6.33 | 45 |
| Overall Dining Exp. At Cafe Tijera | 1 | | | | | | 1 | | 6 | 6.00 | 143.00 | 5.96 | 24 |
| Overall Responsiveness To Needs | 11 | | | | 1 | | 4 | 6 | 70 | 6.36 | 1433.00 | 6.48 | 221 |
| Efficient Room Service Delivery | 1 | | | | | | | 1 | 7 | 7.00 | 201.00 | 6.09 | 33 |
| TV Prog/Reception Quality | 3 | | | | | | 2 | 1 | 19 | 6.33 | 286.00 | 6.09 | 47 |
| Banquet Staff Friendliness | 0 | | | | | | | | 0 | Err | 137.00 | 6.52 | 21 |
| Rm Service Staff Friendliness | 1 | 1 | | | | | | 1 | 7 | 7.00 | 264.00 | 6.60 | 40 |
| Bathroom Amenities & Towels | 1 | | | | | | | 1 | 7 | 7.00 | 311.00 | 6.48 | 48 |
| Efficient Check-Out | 1 | | | | | | | 1 | 7 | 7.00 | 318.00 | 6.77 | 47 |
| Guest Room Cleanliness | 3 | | | 1 | | | | 2 | 17 | 5.67 | 613.00 | 6.45 | 95 |
| Cafe Tijera Dinner Staff Service | 1 | | | | | | 1 | | 6 | 6.00 | 177.00 | 6.10 | 29 |
| Lobby Lounge Staff Friendliness | 2 | | | | | | 1 | | 8 | 4.00 | 198.00 | 6.19 | 32 |
| Guest Room Bath Cleanliness | 4 | | | | | | 3 | 1 | 25 | 6.25 | 332.00 | 6.51 | 51 |
| Room Service F&B Quality | 2 | | | | | | | 2 | 14 | 7.00 | 218.00 | 6.44 | 34 |
| Lobby Lounge Staff Promptness | 3 | | | | | | 2 | 1 | 19 | 6.33 | 242.00 | 6.37 | 38 |
| Rate This Hilton On Overall Basis | 21 | | | | | 3 | 5 | 13 | 136 | 6.48 | 1686.00 | 6.26 | 289 |
| Arrival–Front Desk Friendliness | 7 | | | | 1 | | | 6 | 46 | 6.57 | 384.00 | 6.51 | 59 |
| Overall Room Service Experience | 6 | | | 1 | 1 | | | 4 | 35 | 5.83 | 247.00 | 6.18 | 40 |
| Banquet Staff Responsiveness | 5 | | | | | | 1 | 4 | 34 | 6.60 | 144.00 | 6.55 | 22 |
| Fitness Center | 2 | | | | | | | 2 | 14 | 7.00 | 116.00 | 6.05 | 19 |
| Telephone Operator Friendliness | 6 | | | | | 1 | 1 | 4 | 39 | 6.50 | 259.00 | 6.48 | 40 |
| Mail/Message Delvery | 4 | | | | | 1 | 2 | 1 | 24 | 6.00 | 181.00 | 6.46 | 28 |
| Cafe Tijera Breakfast F&B Quality | 0 | | | | | | | | 0 | Err | 163.00 | 6.27 | 26 |
| Departure–Front Desk Friendliness | 0 | | | | | | | | 0 | Err | 297.00 | 6.75 | 44 |
| Public Bathroom Cleanliness | 2 | | | | | 1 | | 1 | 12 | 6.00 | 217.00 | 6.38 | 34 |
| Banquet F&B Quality | 3 | | | | | 1 | 1 | 1 | 16 | 6.00 | 163.00 | 6.27 | 26 |
| Cafe Tijera Breakfast Staff Service | 2 | | | | | 1 | 1 | | 11 | 5.50 | 133.00 | 5.78 | 23 |
| Laundry/Dry Cleaning Services | 2 | | | | | | | 2 | 14 | 7.00 | 67.00 | 6.70 | 10 |
| Cafe Tijera Dinner F&B Quality | 3 | | | | | | 1 | 2 | 20 | 6.67 | 192.00 | 6.00 | 32 |
| Departure–Prompt Bellman Assist. | 4 | | | | | | 1 | 3 | 27 | 6.75 | 274.00 | 6.52 | 42 |
| Arrival–Prompt Bellman Assist. | 0 | | | | | | 3 | | 0 | Err | 213.00 | 6.45 | 33 |
| Lobby Comfort & Decor | 0 | | | | | | | | 0 | Err | 275.00 | 6.11 | 45 |
| Towers Lounge Overall | 0 | | | | | | | | 0 | Err | 238.00 | 6.61 | 36 |
| Likelihood You Will Return | 35 | | | 1 | | 2 | 8 | 24 | 229 | 6.54 | 3641.00 | 6.64 | 548 |
| | | | | | | | | | | | | | 0 |
| Totals Without Cafe Tijera | 138 | 0 | 1 | 3 | 4 | 12 | 33 | 85 | 880 | 6.38 | 13846 | 6.47 | 2140 |

Gregg spent plenty of his time in the employee cafeteria and in the lobby with customers. These were lessons that his project days had brought home, and he put his learning to the test in his own hotel.

Gregg's human resource approach was deeply rooted in a belief in the dignity of all employees regardless of position or background. In describing his approach he said:

> *Human dignity was the most important principle for managing. My philosophy was that everyone must be treated with respect and given opportunities to learn and grow. A manager's highest priority is to treat her or his employees with dignity. Employees, customers, and owners are all linked together and excellent service and exceptional facilities are essential to compete, but something more is required to truly win. That something extra is the realization that keeping the customer is entirely in the hands of the employees. Each job and task and each person in the hotel is important and deserving of respect. I believe in nurturing the entrepreneurial spirit in everyone—whether the general manager, valet attendant, kitchen steward, or front desk. All people in the workplace perform better when treated with dignity.*

Gregg realized that, in the Phoenix market, good service and quality facilities were a minimum expectation of customers. Excellent service was taken for granted, and the competition could deliver just as easily as the Westward could. Given this competitive environment, the question was, what could the Westward do to attract and retain customers over time? For Gregg, the answer was to build a strong system of rewards for the employees. "The opportunity for advancement and bettering oneself must be available to each employee. Satisfied employees create satisfied guests, and satisfied guests return and remain loyal."

The philosophy behind the design of the wage and benefit system fit with Gregg's notion that dignity was important. He said:

> *Wages had to be competitive and fair, but based on the position held, not seniority. We surveyed the market to determine what fair and competitive wage rates should be. By doing job analysis, we determined the worth of each position and then compensated on the worth of the job. I don't believe in individual performance—based pay because I can't figure out how to accurately measure individual performance. I'm better off not trying to reward performance when there is no good way to measure it. That's why all merit pay was based on the performance of the hotel.*

Fifty percent of employee bonuses were tied to customer comment scores. In a simple and understandable bonus system, managers as well as hourly employees, both part-time and full-time, received quarterly bonuses based on customer scores, house profit, and employee turnover. The details of the bonus plan are shown in Exhibit 4. "Performance appraisal was separate from salary review. Discussion of pay and performance together is confusing. Instead we used performance appraisals to discuss future development and acknowledge contributions."

**EXHIBIT 4** Bonus Program

**Hillerman Hotels, Inc.**
**1994 Quarterly Bonus Program**
**Westward Hilton**

**General Manager**

A. All employees are eligible unless they have had written disciplinary action during the quarter. You must be employed at the end of the quarter to be eligible for a bonus. The base salary on the attached schedule will be used, for any vacant positions, in determining bonuses. Employees hired during the quarter will receive a prorated bonus based on the following:

| | |
|---|---|
| Hired any time during the first month of the quarter | 66% |
| Hired any time during the second month of the quarter | 33% |
| Hired any time during the last month of the quarter | 0% |

"Bonus Quarters" are as follows:

| | |
|---|---|
| 1st Quarter | December, January, February |
| 2nd Quarter | March, April, May |
| 3rd Quarter | June, July, August |
| 4th Quarter | September, October, November |

This is an optional program designed to reward employees for performance above the average. This program may be altered or discontinued at any time at the sole discretion of Hillerman Hotels, Inc.

B. A prerequisite to payment of any bonuses will be the achievement of at least the minimum/maximum levels stated below for all three criteria as follows. Budgeted house profit may be adjusted from published numbers to compensate for unusual or unbudgeted events or material time differences.

| | | Min/Max |
|---|---|---|
| Employee turnover (annualized) | | 37.3% |
| Customer comment card score | | 6.25 |
| House Profit – | 1st quarter | $589,000 |
| | 2nd quarter | $735,000 |
| | 3rd quarter | $598,000 |
| | 4th quarter | $697,000 |

C. Quarterly bonuses are based on the Hillerman triangle as follows:

| Triangle Stakeholder | Measurement |
|---|---|
| Employee | Employee turnover during the quarter, annualized |
| Customer | Customer comment card quarterly weighted average score |
| Owner | House profit |

**Year 6 Quarterly Bonus Program**
**Westward Hilton–General Manager**
The criteria for receiving bonuses will be as follows:

| | | **Level 1** | **Level 2** | **Level 3** | **Level 4** |
|---|---|---|---|---|---|
| Employee turnover (annualized) | | 34.8% | 32.3% | 29.8% | 27.3% |
| Customer comment card score | | 6.30 | 6.35 | 6.40 | 6.45 |
| House profit– | 1st quarter | $639,000 | $689,000 | $739,000 | $789,000 |
| | 2nd quarter | $785,000 | $835,000 | $885,000 | $935,000 |
| | 3rd quarter | $648,000 | $698,000 | $748,000 | $798,000 |
| | 4th quarter | $747,000 | $797,000 | $847,000 | $797,000 |

The basis for calculation of the bonus will be a percent of the employee's quarterly base salary as follows:

| | **Level 1** | **Level 2** | **Level 3** | **Level 4** |
|---|---|---|---|---|
| Employee turnover (annualized) | 2.66% | 5.66% | 8.66% | 11.66% |
| Customer comment card score | 2.66% | 5.66% | 8.66% | 11.66% |
| House profit | 2.66%+A | 5.66%+A | 8.66%+A | 11.66%+A |

A. 3.25% of the first $50,000 over minimum house profit for the level achieved.

*Selection, Orientation, and Training*

Gregg felt that getting the "right" people for the Westward culture was the key to implementing the hotel's vision, but an intuitive and values based process.

> *We didn't do anything special. We looked for fit versus skill when we hired people. Did they share our values? After several years, we began to use a management committee consensus-process approach. Mostly we tried to talk people out of coming to work for us. We were different, and if you couldn't buy into our values, or you didn't want to live with these principles, we didn't want you. Our values were not negotiable. We didn't have a formal orientation either. You picked up the values from everyone in the hotel. It wasn't necessary for top management to tell everyone— the people you worked with told you. We … saw training as a last resort. Training should be for helping people get over the hump once they've exhausted their own resources. If a person needed a skill, then they were provided training to handle that need. We were committed to filling the gaps, but we don't have a formal training program. We supported cross-training to help build employee opportunities.*

In the last couple of years, Hillerman invested in the Stephen Covey training in *The Seven Habits of Highly Effective People* to help managers and line employees live the company's vision and were pleased with the results. Carl Gregg, along with a manager from each property, was certified as a Covey trainer so they were able to do this training in-house.

## Communication

Gregg expressed that "providing information to people is a form of respect. Information not only flows to employees, but from them as well." All employees met once per quarter at a property-wide meeting to discuss and review quarterly results of the hotel. The meeting included a question and answer period and the distribution of quarterly bonuses. Department meetings were held once a month, and at daily huddles managers and line employees reviewed customer service issues. Surveys were used to obtain feedback from employees as well as guests and owners. Cross-department task forces were assembled and disassembled quickly to respond to special problems. Plus, the company communicated in many one-on-one, personal ways. Key to all the information exchange was managements emphasis on listening and praise.

*Culture*

In discussing the culture he and his team created at the Westward and were attempting to inculcate throughout Hillerman, Gregg stated that:

> *We had a family environment and were dedicated to one another and to high levels of customer service. I believed that managers should figure out what employees value and value that. We started to do a back-to-school function for employees because we knew how important the family and education was for our workers. We invited the families to the party and distributed school supplies. It made everyone feel good. We did a*

*Christmas party, too—focused around the family with gifts to all the kids from Santa Claus. I think our culture is strong because we have a sense of community and a sense of purpose outside of the job.*

*I think we created a business environment where people could be themselves. They wanted to care. In the typical work environment, people must hide their true selves. I think we gave people permission to be themselves, to be different. I think our low levels of turnover were critical to our culture. Lots of people like to argue that low turnover is essential because of the costs, but I think high turnover does more damage because it assaults the culture.*

*We had a high level of trust and also a level of tolerance and forgiving that I think are unique. We had an older woman in the laundry area who was with the hotel from the beginning who took two 15-minute naps each day. Can you imagine how most hotels would deal with an employee who sleeps on the job? I think we may have less talent, but we leverage it by being stronger as a whole. It's like a basketball team that doesn't have one superstar, hut a whole group of average players who together do extraordinary things.*

*Success helps too. We started to see some dramatic positive results from our efforts at the Westward, and that certainly lifted people's spirits. Good news feeds the emotional psyche. When we got into the Westward, it had good people in it, but the culture was dominated by a traditional command and control management that didn't let the hard-working and caring employees contribute the way they could. The culture flourished with our guiding principles, and I don't think management can easily change it. But sure, it could go back to that. You bring in bad management, good people leave, turnover increases, and suddenly the work environment is different. Nothing lasts forever.*

**But Did it Make Money?**

Living a vision is in the details. "It is a slow and continuous process, and you must stick with it," reflected Gregg. But the ability to do so with the performance pressures of owners and the demands of customers is an ongoing battle. The results at Westward were dramatic support for the Carl Gregg vision. For 6 years, the Westward Hilton performed at or near the top of the Phoenix market, as indicated by the market penetration index show in Exhibit 5. According to the PKF Advisory, the Westward Hilton outperformed the Phoenix market by over 10 occupancy points and $15 in average daily rate in 1996. Exhibit 6 shows the Hilton's position among its primary market competitors, the upscale chain market, the Phoenix market, and the Phoenix North markets. This performance was due in part to the redirection of the hotel's marketing efforts away from groups and more toward transient corporate travelers. According to recent investor reports, the above-average penetration was caused by the hotel's chain affiliation with Hilton Hotels and its highly visible location. Westward Hilton was in the top 10 of all Hilton Hotels, with an increase in profitability of 400 percent over the 1989—1996 period. House profit increased from the takeover (1989) figure of $798,895 to $4,025,254 (1996). Exhibit 5 shows the changes in house profit, guest comment scores, and employee turnover in addition to market penetration. The hotel's revenue per available room (REVPAR, calculated by dividing room revenue by the number of available rooms) rose from a rate of $30.30 in 1991 to a 1996 rate of $97.96. Exhibit 6 shows the Westward's market penetration based on market data from Smith Travel Research. Exhibit 7 provides abbreviated summaries of profit and loss statements for the hotel for the 5 years from 1992—1996, and the market mix of business.

## New General Managers Arrive

As one subordinate noted, Gregg had a clear employee emphasis—he was a caring person and people felt good working for him. This employee indicated that Gregg was a master at showing interest in people's work. He noticed the small things, and acknowledged everyone with a friendly greeting. He fostered a work environment that was trusting, not intimidating, informal, and responsive. The guide for behavior was "do the right thing." His focus was always on the questions "how does it impact our employees, customers, and owners?" and "are all three parties taken care of?" He would be a hard act to follow, and for some at the property the managers who followed were simply not up to the task.

A total of five general managers came and went from the Westward Hilton in the 5 years after Gregg moved into his corporate position. Although the departures of the managers were for a variety of reasons, Gregg blamed himself for being too controlling as the executive vice president of operations of Hillerman Hotels. Even after his promotion to the position of supervising the general managers of several hotels, he was still deeply involved in the life of the Westward. His presence was everywhere in the hotel and remained strong. "I didn't trust it would continue to work. I was not confident in those that followed me and I was afraid that what we had built would not last." But last it did, and the results continued to be positive.

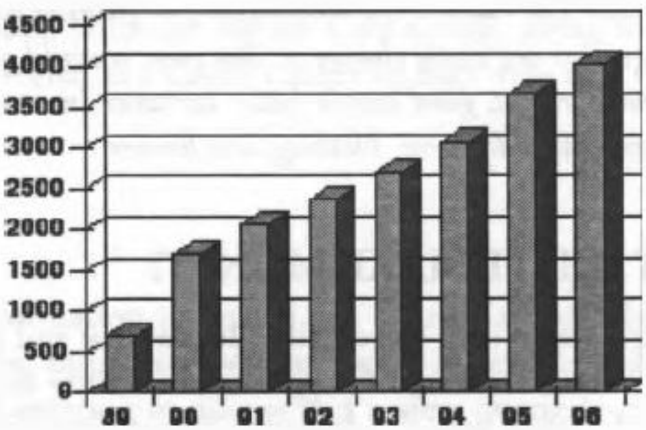
## Why Sell?

Bringing his thoughts up to the present, Gregg thought it might be the right time to sell—Hillerman had a good 7-year run at the Westward. Plus, it truly was a sellers' market, as the very high offering price for the hotel indicated. The offer had exceeded the company's ROI requirements and competition was beginning to heat up. New products had come on board in the Phoenix market and the hotels performance might have peaked. Phoenix was experiencing explosive growth in new hotel room supply, with projections of around 3,000 new rooms for 1997. Growth was particularly strong within the upper economy and mid-market segments. Much of the new hotel development was being undertaken by REITs and other public lodging companies, which were establishing or expanding their portfolio or brands according to E & Y Kenneth Leventhal Real Estate Groups National Lodging Forecast. The overall supply growth in 1996 was 4 percent, while demand growth was 3.6 percent. All market segments experienced healthy ADR (average daily rate) growth. Approximately 28 hotels were under construction and an additional 25 in permit stages for a total of 53 projects under development. The long-term

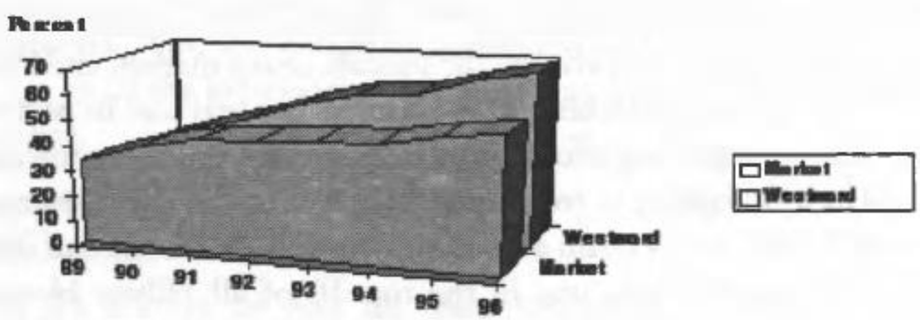
**FIGURE 4** House Profit, Market Penetration, Guest Comment Scores, and Employee Turnover 1989–1996

## Westward Hilton & Towers
## House Profit (GOP)

- 1989-$ 978,895
- 1990-$1,841,015
- 1991-$2,056,394
- 1992-$2,341,836
- 1993-$2,843,474
- 1994-$3,105,544
- 1995-$3,815,195
- 1996-$4,025,254




## Westward Hilton & Towers
## Market Penetration



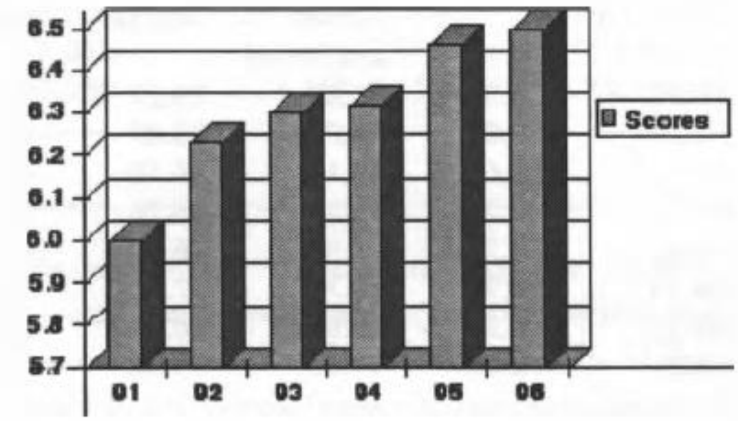

| | RevPar Market | RevPar Westward | Yield | | RevPar Market | RevPar Westward | Yield |
|---|---|---|---|---|---|---|---|
| 89 | $33.04 | $30.30 | 91.6% | 93 | $46.83 | $56.82 | 121.4% |
| 90 | $40.16 | $38.23 | 95.2% | 94 | $47.14 | $58.55 | 123.4% |
| 91 | $44.01 | $44.40 | 100.8% | 95 | $51.30 | $65.33 | 127.3% |
| 92 | $45.29 | $51.72 | 114.3% | 96 | $54.25 | $68.93 | 127.0% |

FIGURE 4 continued

## Westward Hilton & Towers
## Guest Comment Scores

- 1991-6.00
- 1992-6.23
- 1993-6.30
- 1994-6.32
- 1995-6.46
- 1996-6.50

Scale is 1-7




## Westward Hilton & Towers
## Employee Turnover

- 1989-145%
- 1990-110%
- 1991-86.4%
- 1992-22.6%
- 1993-35.8%
- 1994-38.1%
- 1995-14.8%
- 1996-29.8%

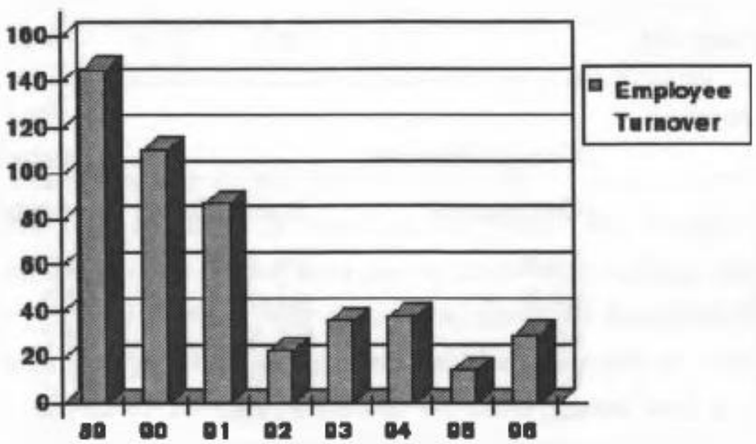


**EXHIBIT 6** Westward Hilton Market Penetration Compared to Total Phoenix Market, North Phoenix Market, Competitive Set, and the Yavapi Convention Center and Hotel 1989–1996

**Westward Hilton Market Penetration**

| | Westward Hilton | | | | | |
|---|---|---|---|---|---|---|
| | Rev | Yield | Yavapi | Phoenix | North | Competitive |
| Year | Par | Index | Convention Center and Hotel | Total Market | Phoenix Market | Set |
| 1989 | 30.30 | 103.50 | 33.09 | 29.27 | 39.40 | 33.04 |
| 1990 | 38.23 | 109.00 | 41.77 | 35.07 | 46.96 | 40.16 |
| 1991 | 44.40 | 121.60 | 46.15 | 36.50 | 49.57 | 44.01 |
| 1992 | 51.73 | 140.70 | 45.31 | 36.76 | 48.88 | 45.29 |
| 1993 | 56.82 | 154.70 | 43.95 | 36.79 | 49.73 | 46.83 |
| 1994 | 58.55 | 154.70 | 40.76 | 37.85 | 51.18 | 47.14 |
| 1995 | 65.33 | 168.20 | 50.85 | 38.83 | 52.73 | 51.30 |
| 1996 | 68.93 | 172.80 | 51.90 | 39.90 | 53.95 | 54.25 |

**Market Share Report**
**Room Sales Percentage**

| Westward Hilton % of . . . | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|---|
| Phoenix Market | 0.9 | 0.9 | 1.2 | 1.2 | 1.3 | 1.3 | 1.3 |
| Luxury Market | 1.7 | 1.9 | 2.4 | 3.6 | 5.3 | 4.1 | 3.9 |
| Upscale Chain | 5.5 | 6.2 | 4.9 | 5.2 | 5.6 | 6.1 | 5.8 |
| Phoenix North Market | 3.6 | 4 | 3.7 | 4.2 | 4.5 | 4.8 | 4.8 |
| Competitive Set | 11.6 | 12.5 | 13.9 | 13.7 | 13.9 | 15.2 | 15.5 |

**Market Analysis**

| | Competitive Set | | Westward Hilton | |
|---|---|---|---|---|
| | Occupancy | Room Rate | Occupancy | Room Rate |
| 1989 | 58.9 | 56.14 | 53.1 | 57.06 |
| 1990 | 64.9 | 61.9 | 62.3 | 61.37 |
| 1991 | 66.2 | 66.53 | 63.7 | 69.66 |
| 1992 | 63.9 | 70.89 | 67.3 | 76.92 |
| 1993 | 64.2 | 72.94 | 71.5 | 79.48 |
| 1994 | 62.4 | 76.04 | 72.2 | 81.08 |
| 1995 | 66.0 | 77.7 | 77.4 | 84.36 |

**Major Competitors Figure**

| Competitive Set Includes | Rooms |
|---|---|
| Marriott Northside | 500 |
| Radisson Suite Hotel | 175 |
| Holiday Inn Select | 335 |
| Yavapi Convention Hotel | 635 |
| Embassy Suites | 255 |
| Hilton North | 165 |
| Hilton Southwest | 295 |

**Market Performance**

| Market Segment | Occupancy | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
| Westward Hilton | 43.20% | 49.20% | 51.50% | 56.20% | 56% | 72.20% | 77.40% |
| Luxury | 52% | 54.20% | 51.90% | 52.30% | 53.20% | 66.70% | 69% |
| Phoenix Market | 48.40% | 51.80% | 47.20% | 50.80% | 49.20% | 62.90% | 62.10% |

**EXHIBIT 6** continued

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Phoenix North** | 51.40% | 53.80% | 49.60% | 50.40% | 52% | 64.60% | 65.10% |
| **Upscale Chain** | 55.30% | 57.10% | 57.30% | 48.90% | 48.60% | 68% | 69.50% |
| **Competitors** | 50.60% | 49.80% | 51.20% | 52% | 62.40% | 66% | |

**Market Sample 1989–1995**

| | Census Rooms | Sample Rooms | Sample Percentages |
|---|---|---|---|
| **Phoenix** | 35,871–38,709 | 26,638–32,054 | 74.3%–82.8% |
| **Luxury** | 12,483–7,632 | 9,688–7,565 | 77.6%–99.1% |
| **Upper Tier** | 18,746–2,530 | 14,217–2,530 | 75.8%–100% |

*Source:* Smith Travel Research.

outlook for Phoenix was strong with its 300 days of sunshine, good transportation support, natural wonders, and abundance of golf courses.

Hillerman Hotels, though, wasn't exactly desperate for the money. The rest of the portfolio was performing well—with the exception of one recently acquired property, all were profitable—and the parent company, which owned and operated a bank and several other businesses, was profitable. Further, all the Hillerman businesses were privately held, with Kerry Glenn being the majority shareholder in all. Thus, there was little of the short-term performance pressure to which publicly held companies are subject.

Gregg knew that at their next formal meeting, the seven people in the management/ ownership group he was drinking and laughing with now would make a decision that, one way or another, would affect peoples lives at the Westward. Perhaps selling would even have an impact on the way Hillermans employees at the other properties would feel about the company. On the other hand, because of his small equity stake in the hotel, Gregg stood to benefit handsomely from the sale.

Gregg thought to himself,

*My one regret is that I didn't prepare people for this possibility. I don't believe we can protect people, we can only tell them it may not last forever. We should have prepared them. We should have made it clear that this is not forever—it's an investment and we should try to enjoy it for as long as we can. Everyone benefited from being involved with that property—-from being part of a place that was so positive.I just worry that selling will catch people flat-footed. We have created such a high trust level that people didn't even ask questions when we had investors visit the property. It embarrasses me that I didn't prepare them.*

**EXHIBIT 7** Abbreviated Profit and Loss Statements for the Westward Hilton Years 1992–1996

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| **Average Room Rate** | 76.87 | 79.47 | 81.08 | 84.45 | 89.87 |
| **Available Rooms** | 111,300 | 107,380 | 107,380 | 107,380 | 107,380 |
| **Occupied Rooms** | 74,324 | 78,221 | 79,790 | 84,703 | 84,105 |
| **Revenue** | | | | | |
| Tot Rev/Avail Rooms | 74.01 | 82.4 | 83.37 | 92.24 | 97.96 |
| Total Hotel Sales | 823,7533 | 895,6357 | 8,951,885 | 9,904,653 | 10,518,539 |
| **Total Room Revenue** | 5,713,321 | 6,216,092 | 6,469,286 | 7,153,322 | 7,558,599 |
| **Total Food Revenue** | 1,755,529 | 1,755,340 | 1,530,531 | 1,831,253 | 1,967,293 |
| **Total Beverage Rev.** | 289,027 | 267,369 | 221,814 | 264,812 | 286,811 |
| **Room Expenses** | | | | | |
| Salaries/Benefits | 928,398 | 1,031,178 | 989,548 | 1,041,332 | 1,070,538 |
| Operating Expenses | 486,914 | 532,679 | 562,225 | 543,406 | 574,986 |
| **Food Expenses** | | | | | |
| Cost of Sales | 497,479 | 412,231 | 346 | 431,682 | 477,152 |
| Salaries/Benefits | 733,792 | 667,220 | 584,787 | 633,299 | 698,491 |
| Other Expenses | 157,970 | 143,462 | 101,962 | 128,100 | 102,552 |
| **Beverage Expenses** | | | | | |
| Cost of Sales | 70,469 | 61,430 | 55,724 | 61,698 | 65,652 |
| Salaries/Benefits | 90,543 | 66,081 | 53,344 | 57,642 | 60,129 |
| Other Expenses | 23,562 | 18,702 | 17,117 | 15,091 | 12,266 |
| **Admin. and General Exp.** | 830,125 | 734,436 | 750,262 | 770,521 | 858,796 |
| **Sales Dept. Expense** | 512,092 | 723,359 | 609,725 | 589,576 | 608,293 |
| **Franchise Expense** | 360,274 | 417,790 | 430,171 | 493,294 | 596,234 |
| **Utilities Expense** | 506,720 | 521,620 | 565,720 | 500,879 | 540,489 |
| **Maintenance and Repair** | 515,866 | 538,472 | 525,691 | 553,707 | 562,017 |
| **House Profit** | 2,341,836 | 2,817,977 | 3,105,544 | 3,815,195 | 4,025,254 |
| Taxes, Ins. and Leases | 560,922 | 545,531 | 502,153 | 420,155 | 432,599 |
| Employee Incentives | 112,613 | 83,339 | 112,505 | 280,244 | 198,619 |
| Corporate Charges | 323,012 | 322,022 | 316,127 | 314,506 | 316,100 |
| Interest/Financing | 1,194,690 | 1,297,496 | 1,145,475 | 1,094,002 | 1,407,831 |
| Other Gains Losses | 13,690 | 25,405 | 50,280 | 77,130 | 76,960 |
| **Income Before Non Cash** | 149,229 | 594,994 | 1,079,563 | 1,783,418 | 1,747,064 |
| | | **Mix of Business** | | | |
| **Business Mix of Occupied Rooms** | | | | | |
| **Individuals** | 47,283 | | | | 54,800 |
| Regular Rack | | 1,630 | 2,014 | 2,465 | |
| Corporate | | 14,519 | 12,352 | 7,599 | |
| Spec. Corp. and Secr. | | 32,873 | | | |
| Gov't, Military | | 1,660 | 1,157 | | |
| Long Term 5-29 | | 947 | | 473 | |
| Via | | | 30,476 | 38,071 | |
| Good Neighbor | | | 4,253 | 6,292 | |
| Subtotal Individ. | 47,283 | 51,629 | 50,252 | 54,900 | 54,800 |

| EXHIBIT 7 continued | | | | | |
|---|---|---|---|---|---|
| **Groups** | 10,253 | | | | 19,292 |
| Corporate | | 7,581 | 8,876 | 11,894 | |
| Gov't, Military | | 345 | | | |
| Other | | 5,264 | 18 | 1 | |
| Smerf | | | 4,934 | 5,134 | |
| Associates | | | 2,207 | 2,721 | |
| Subtotal Groups | 10,253 | 13,190 | 16,035 | 19,750 | 19,292 |
| **Package/Discount** | 16,788 | | | | 10,013 |
| Weekend | | 6,949 | 7,375 | 7,332 | |
| Limited, Club | | 6,453 | 6,128 | 2,721 | |
| Subtotal Pkg./Disc. | 16,788 | 13,402 | 13,503 | 10,053 | 10,013 |
| **Total Rooms Occupied** | 74,324 | 78,221 | 79,790 | 84,703 | 84,105 |

Gregg lifted his glass and smiled sadly as he thought of his friends and colleagues at the Westward. He took a long swig of his martini and muttered to himself, “I just don’t know for sure what the right thing to do is.” He was glad to have the weekend ahead to think about his vote and, if he decided to vote to hold, how he would try to convince the others, especially Kerry, to hold the property.

**Endnote**

1. Real estate investment trusts are corporations that pay no income tax on their earnings (similar to a mutual fund) so long as they pay 95 percent or more of their profits to shareholders. REITS provide the advantages of corporate ownership to shareholders but also offer tax advantages. As a result, REITs have become very attractive to many investors.