HILTON WORLDWIDE LUXURY BRAND SITUATIONAL ANALYSIS

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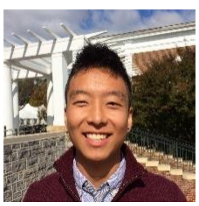
BIOGRAPAHICAL SKETCHES

Helen Ardila is a student at the McIntire School of Commerce at the University of Virginia where she plans to pursue concentrations in Accounting and Information Technology. Helen is originally from Sterling, Virginia. After graduation, Helen plans to earn her CPA certification. At UVA, Helen is a member of Third Year Council and the Homecomings Board.

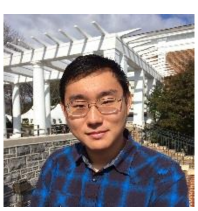
Holly Dodd is a third year student at the McIntire School of Commerce at the University of Virginia. Holly intends to graduate in May 2016 with a double concentration in Finance and Marketing. Holly is from McLean, Virginia. She worked as an Investment Banking Summer Analyst for The McLean Group this past summer. At UVA, Holly is a mentor in the McIntire Women's Business Forum and House Chairman of the Kappa Kappa Gamma sorority.

Max Goupit is a student at the McIntire School of Commerce at the University of Virginia. Max plans to graduate with a concentration in Finance accompanied by the Real Estate and Entrepreneurship tracks. Max is from Brooklyn, New York. Outside of the classroom, Max is a member of the Virginia Men's Club Lacrosse team, as well as the Pancakes for Parkinson's student-run fundraiser. After graduation, Max plans on pursuing a career in investment banking.



Brendan Kim is a third year student at the McIntire School of Commerce at the University of Virginia, where he is pursuing a concentration in Finance and Management with a Business Analytics track. He was born and raised in McLean, Virginia, but maintains a tight relation to his heritage in South Korea. At UVA, Brendan is an executive member of the University Guide Service, a co-founder of TEDxUVA, and a daily practitioner of Ashtanga Yoga.

Alex Russell is a third year student at the McIntire School of Commerce at the University of Virginia. He plans to graduate in May 2016 with a concentration in Finance and a second major in Environmental Sciences. Alex was raised in Vienna, Virginia. This past summer, Alex studied sustainable business solutions in Denmark and worked as a bioenergy markets intern at the Nature Conservancy. On Grounds, Alex leads sustainability projects across multiple organizations.



Bill Su is a Chinese international student at the McIntire School of Commerce at the University of Virginia. He is a third year Commerce and Foreign Affairs double major intending to concentrate in Marketing and IT with Entrepreneurship and Business Analytics tracks. He is the president of Virginia Chess Club and a member of the UVA's Model United Nation team. He is also the CEO's assistant and marketing consultant for Quzi Health & Weight Loss, a health and spa chain based in China.

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EXECUTIVE SUMMARY

Hilton Worldwide is a global hospitality company with 12 distinct brands. This report specifically focuses on markets within the United States. The conclusions of the report are: 1) U.S. lodging industry is moderately attractive, 2) Hilton Worldwide has a strong position in the industry, and 3) the luxury hotel category offers promising opportunities for growth. This executive summary will briefly analyze the U.S. lodging industry, Hilton Worldwide, and Hilton luxury brands and then recommend strategic changes for Hilton's luxury brands.

Macro-environmental trends indicate favorable conditions for the U.S lodging industry

The U.S. lodging industry is moderately attractive and has a positive outlook. Despite threats from the labor market and possible substitutes, including videoconferencing, positive macroeconomic trends, such as increased disposable income, and technology-enabled opportunities will increase hotel development, demand, and occupancy rates.

Hilton Worldwide has a strong position in the lodging industry

Hilton's key resources and capabilities include its properties, loyalty program, and franchise model. The size and location of Hilton's properties is one of Hilton's strongest resources. Additionally, Hilton's loyalty program, Hilton HHonors, contributes to significant repeat business (Hilton Worldwide). Finally, Hilton's franchising capabilities allow the firm to achieve a capital light balance sheet.

The luxury hotel category offers promising opportunities for growth

The U.S. luxury hotel category enjoys strong benefits and opportunities. However, technology challenges the industry with peer-to-peer lodging, third-party booking websites, and video teleconferencing. The shortage of labor in the industry is also a threat. However, the industry enjoys high barriers to entry and expects an increase in demand as disposable income increases. The Waldorf and Conrad lines have opportunities for strategic improvement. Our recommendations for these two brands are:

- Pursue more fully integrated IT systems to deliver stronger customer service
- Utilize Internet of Things technologies in facility design
- Expand domestic presence

If Hilton Worldwide implements these recommendations, the company will position itself for future success in the luxury hotel industry.

Word Count: 315

Hilton Worldwide Situational Analysis

Introducing Hilton Worldwide

Hilton Worldwide is a U.S.-based, international hospitality company with 12 distinct brands, including two luxury brands. This report generates a comprehensive analysis of Hilton Worldwide's luxury category in the U.S. and recommends strategic changes for the firm. This report specifically focuses on markets within the United States.

This analysis concluded that the U.S. lodging industry is moderately attractive, Hilton Worldwide has a strong position in the industry, and the luxury hotel category offers promising opportunities for growth. First, the report breaks down the overall U.S. lodging industry by recognizing major macro-environmental trends, examining Porter's five forces for the industry, and highlighting key opportunities and threats. The second section focuses explicitly on Hilton Worldwide in the U.S. and identifies how the firm maintains a competitive advantage. The third part of the analysis delves into the strategic positioning of Hilton Worldwide's luxury category in the U.S. Finally, the report recommends strategic changes for Hilton's luxury hotels.

Macro-environmental trends indicate favorable conditions for the U.S lodging industry

Aging baby boomers will drive increased travel

The demand for travel services will increase as the baby boomer generation ages. By 2030, the number of seniors is expected to more than double with a projected population of 72.1 million (“Aging Statistics”). This trend will increase demand as baby boomers are better financed for retirement and have a higher propensity for domestic travel than previous generations (McGuckin and Lynott).

A recovering U.S economy provides a healthy environment for hotels

Macroeconomic stability and increasing amounts of disposable income provide a healthy environment for hotel growth. Presently, yearly GDP growth hovers above 3%, market uncertainty is decreasing, and the unemployment rate dipped below 6% (BEA; Credit Suisse; BLS). This positive trend will increase hotel development, demand, and occupancy rates (Vallen and Vallen). Macroeconomic prosperity is driving an increase in disposable income. Per capita disposable income is projected to be $53,869.6 in 2022, compared to $37,876.5 in 2012 (“Personal Income”). Higher amounts of disposable income support current trends of increased demand for hotel services in the U.S (Berman, Marr, and Jain).

Internet and mobile technology offer opportunities and threats for U.S hotels

As online travel agencies (OTAs) and other online intermediaries grow, lodging firms face a serious challenge. As these intermediaries increase in popularity, they may demand higher commissions and cut into hotels’ profits. Buyers also use online resources to access vast amounts of information about hotels, empowering consumers to shop around (Higley).

Technology also enables opportunities to reduce costs and personalize hospitality experiences. The automation of knowledge may lead to large backroom efficiency gains that reduce costs. Additionally, the Internet of Things and Big Data present opportunities to integrate the digital and physical hotel worlds into a more customized guest experience (Kasriel-Alexander).

Tax environment and labor legislation constrain large hotel profitability

The current tax environment and recent labor policies in the U.S. provide unfavorable conditions for large lodging groups. The U.S. federal corporate tax rate is the second highest in the world at 35%, sapping profits from U.S. firms (Bresiger). Additionally, labor costs will increase due to recent minimum wage legislation and the passage of the Affordable Care Act, which mandates that large hotels provide healthcare benefits for full-time employees (Los Angeles; Affordable Care Act).

See **Exhibit 1** for a graphical summary of macro-environmental trends.

Porter's Five Forces indicate a moderately attractive industry

An analysis of the U.S. lodging industry shows that the U.S. lodging industry is moderately attractive and has a positive outlook. This industry is defined as domestic short-term and extended-stay hotel accommodations for travelers, vacationers, and other customers. **Exhibit 2** provides a comprehensive outline of the five forces.

The threat of new entry is low but increasing. There are three high barriers to entry: 1) existing firms leverage large economies of scale for a cost advantage, 2) limited availability of profitable locations hinders expansion, and 3) entry requires large capital expenditure. However, the trend of improving communication technology has lowered marketing costs and switching costs, which may encourage new entrants (Kasriel-Alexander).

Buyer bargaining power is moderate because of two main opposing forces at work. PwC reports robust demand and an uncharacteristically low supply growth in the coming years, indicating low buyer power (Berman, Marr, and Jain). However, social communication technologies have empowered buyers by enabling them to access information and shop around. A growing hotel pipeline and increasingly widespread technology indicate that buyer power will increase.

The bargaining power of suppliers in the industry is moderate, but increasing. Labor suppliers, a crucial supplier to the hotel industry, enjoy moderate power due to a growing demand for workers. Supplier power is also increasing as the leisure and hospitality industry will need to find 1.3 million more workers between 2010 and 2020 (Watkins).

Peer-to-peer innovations and video conferencing are substitutes to the lodging industry; however, they currently pose only a small threat to the industry. Although peer-to-peer hospitality services have enjoyed a meteoric rise, the threat is limited to the low margin leisure traveler segment (Grant; “AirBnB.com Poses Only Small Threat to Hotel Industry”). Another substitute, videoconferencing, threatens to supplant business travel, but doesn’t fully perform the same function as in-person meetings. As technology advances, these substitutes are likely to gain traction and pose a greater threat to the industry.

Finally, the industry is characterized by intense competition fueled by a consolidated market, high fixed costs, and high exit barriers. The industry is mature with the top 5 firms competing for a collective 27% of industry earnings (Cheng). Additionally, fierce rivalry over scarce prime real estate and the subsequently high exit barriers and fixed costs encourage competition. Rivalry is expected to increase as markets become more saturated and information technology improves price comparisons.

Macroeconomic growth and tech-related opportunities overshadow threats

Despite threats from the labor market and recent innovations, positive macroeconomic trends and technology-enabled opportunities support an overall attractive view of the U.S. hotel industry. Macroeconomic growth is driving demand and occupancy throughout the U.S., presenting a wealth of opportunities for hotels to profit and expand ("U.S. Hotels Poised for Growth in 2014"). New technologies also present opportunities to design more personalized experiences for guests and lower costs through automation. However, technology also heightens the accessibility of hotel pricing online and adds substitutes such as videoconferencing and peer-to-peer lodging. See **Exhibit 3** for a complete SWOT analysis of Hilton Worldwide.

Hilton Worldwide has a strong position in the lodging industry

Hilton Worldwide relies on its real estate pipeline, loyalty program, and franchise model

The size and location of Hilton's properties is one of Hilton's strongest resources. As of 2013, Hilton has 4,115 locations in 91 countries (Hilton Worldwide). Of these hotels, 37% are owned, 51% are operated under a franchise model and 12% are timeshare properties (Hilton Worldwide). Hilton spends a significant portion of its funds to select valuable real estate investments and inspect the buildings to maintain their value.

Hilton's customer network and loyalty program are integral to the firm's success. Hilton Worldwide implements its loyalty program Hilton HHonors across all of its brands. As of 2013, Hilton HHonors had over 40 million members that comprised 50% of the company's system-wide occupancy (Hilton Worldwide). This resource contributes to significant repeat business and offers a consistent stream of revenue

Hilton's franchise model offers stability and cost benefits. Hilton uses a fee-based management and franchise system. Under franchise agreements, hotel owners pay Hilton for the rights to use its trademark and operating systems and Hilton inspects its franchised hotels periodically to ensure that its standards are being maintained (Hilton Worldwide). The model offers clear standards for managers and allows Hilton to enjoy significant revenues without the burden of owning and maintaining the properties. For a full list of resources and capabilities, see **Exhibit 4.**

Hilton's brand recognition and brand portfolio are valuable strengths

Hilton boasts a strong reputation domestically. A study by the Digital Luxury Group found that Hilton Worldwide was cited as the number one most sought-after firm in the U.S. Hilton's brand awareness contributes to its success and allows the firm to ride industry downturns better than lesser-known competitors.

Additionally, Hilton's diverse brand portfolio strengthens the firm's market share **(Exhibit 5).** Hilton has 12 brands that allow it to target five different market segments: luxury, upper upscale, upper midscale, upscale, and timeshare (Market Line Report). The lines operate in well-defined market segments to avoid cannibalization, but are united under the distinguished Hilton Worldwide brand.

Hilton's franchise model contains a potential weakness

While Hilton's franchise model allows the company to keep its costs down, franchising gives the company less control over daily operations. Hilton is dependent on its hotel owners to maintain the brand's high standards. If customers have one bad experience at a Hilton hotel, it could affect their perception of the overall brand.

New leadership aligns Hilton's organizational architecture with priorities

The hiring of Christopher Nassetta as CEO in 2007 was a critical turning point for Hilton's leadership. Nassetta aligned the firm under renewed goals and values. To drive performance, Hilton leadership executes three strategic critical tasks – communicate a tangible vision of hospitality, expand into new markets, and secure lifetime customers (Hilton Worldwide). The backgrounds and competencies of key executives orient Hilton for the future of the lodging industry **(Exhibit 6)**.

Hilton leadership executes its critical tasks through a congruent organizational architecture that promotes a culture of quality service and customer flexibility **(Exhibit 7).** To build customer service in its culture, Hilton's management structure communicates a tangible vision of hospitality throughout the organization. SOPs—and the passionate people—behind them put this vision into practice, which reinforces a service quality culture as Hilton expands into new markets. Meanwhile, to meet the customer's demand for flexibility, Hilton's IT systems foster operational and marketing personalization (Flack). Such personalization, along with rewards that encourage Team Member excellence, increases guest satisfaction and secures lifetime customers.

Hilton's revitalized mission, goals, and values unify the company

The 2007 strategic transformation converged the company's values, mission statements, and visions. At a two-day offsite, top executives realigned the company's value statements into one clear acronym: H-I-L-T-O-N (Hilton Worldwide). During this realignment period, Hilton also established a new mission, "To be the preeminent global hospitality company – the first choice of guests, Team Members and owners alike," and vision "To fill the earth with the light and warmth of hospitality" **(Exhibit 8)**.

Hilton adjusted its goals to meet this vision. Hilton's 2013 annual report states that its main goal is "to serve any customer, anywhere in the world, for any lodging need they have" (Hilton Worldwide). Hilton meets this need through its broad brand portfolio, which targets diverse groups of customers. However, Hilton is not the only firm to diversify. Many of its competitors have branched into multi-branding to combat the relatively concentrated nature of the hotel industry (Hazell).

Hilton also refocused its efforts on hiring and investing in employees, shifting to a capital light business model, maintaining brand integrity in a franchise model, and expanding its pipeline both domestically and globally (HiltonWorldwide). Reflecting its emphasis on teamwork, Hilton calls its employees "Team Members" and gives them ample opportunities to learn. In 2013, Hilton offered over 2,500 courses through Hilton University partnerships and conducted over five million hours of training (Hilton Worldwide).

Hilton's franchise model allows it to achieve a capital light balance sheet. The owners of the managed and franchised properties incur the capital costs related to building and operating the site (Hilton Worldwide). Since 2007, Hilton has added more than 180,000 net rooms with only $47 million in investments (Mayock). Although this model allows Hilton to operate on minimal capital investments, it risks fragmenting management and misaligning values. Hilton manages this threat by maintaining high standards for its franchised properties and reserving the right to terminate contracts (Hilton Worldwide). Additionally, the H-I-L-T-O-N acronym provides a clear value set that can be concisely communicated to franchisees.

The luxury hotel category offers promising opportunities for growth

Despite labor shortages, the luxury hotel industry is attractive

Although labor shortages present a serious challenge, increased disposable income and high barriers to entry make the luxury hotel industry attractive. Hilton's luxury brands, the Waldorf Astoria and Conrad, require a larger, more skilled staff to meet customers' expectations. Projected labor shortages will give potential employees in the U.S. more bargaining power, threatening Hilton hotels with higher costs. The high costs and long-term commitment present daunting barriers to entry in the luxury hotel industry. The construction of a luxury hotel requires prime real estate, large amounts of capital, and a commitment of 4+ years (Hilton Worldwide). The scarcity of suitable real estate is especially relevant in metropolitan cities. Furthermore, the trend of increasing disposable income will increase demand for luxury hotels and allow Hilton to take advantage of decreasing buyer power in this market segment.

Hilton relies on its locations, people, and amenities

Hilton's luxury hotels are well positioned in key business and travel hubs. Hilton's luxury brands are placed in sought-after cities that focus on savvy business travelers and leisure travelers. While the Waldorf brand has staked out traditional travel destinations, the Conrad opened hotels in the trending hubs across the U.S. (“Conrad Hotels & Resorts”). Having two high-end brands with distinct strategic focuses allows Hilton to meet the local flavor of each location better than its competitors.

Hilton focuses on its people and customer service capabilities. To meet high expectations for service, Hilton luxury hotels maintain a ratio of staff-to-customers of about 2:1 and are highly selective in their recruitment processes (Bertagnoll). Once employees are hired, they are asked for feedback, encouraged with rewards, and undergo training programs. In November 2012, Hilton complemented this personal service with technology. The Conrad Concierge app lets customers to check in early and request services (“Conrad Hotels & Resorts Introduces Luxury Segment's First Comprehensive Pre Check-In Feature through its Conrad Concierge App”).

Finally, Hilton’s luxury brands have ancillary resources and capabilities that separate them from the other Hilton brands. Most Conrads and Waldorfs have top of the line pool, gym, and spa facilities. These amenities are often the main attraction of the hotel. Furthermore, the Conrad and Waldorf brands pride themselves on their wedding and event planning capabilities. Hilton’s event planning pipeline allows it to make a meaningful impact on its customers’ lives and often provides a source of lifetime customer loyalty.

Hilton’s strategy focuses on design, quality, service, and costs

As mentioned, the Waldorf Astoria and Conrad target both affluent business and leisure travelers. Together, Hilton’s luxury brands have 47 hotels in 27 countries (Hilton Worldwide). In addition to hospitality services, these brands target wealthy consumers through their dining, meeting, and event services.

Hilton luxury hotels differentiate primarily on hotel design, quality of facilities, and services provided to customers. While both the Conrad and Waldorf brands focus on top quality, their designs differ in theme (Conrad Hotels & Resorts). The Waldorf offers a traditional and eloquent decor. Comparatively, Conrad's design is contemporary and energetic. Both hotels have state-of-the art amenities, such as spas, restaurants, banquet halls, and meeting rooms.

The Waldorf and Conrad's sleek design and high quality are complemented by personalized customer service. Both brands focus on creating a customized guest experience. The Conrad Concierge app mentioned earlier reflects Conrad's contemporary approach to customer service. The Waldorf offers a more traditional route through the "True Waldorf Service," an initiative that gives each guest their own personal concierge ("True Waldorf Service"). The concierge assists the guests through pre-arrival, their stay, and departure, creating a customized end-to-end experience. Waldorf and Conrad Hilton clients tend to be price-insensitive; as a result, Hilton's luxury brands do not differentiate significantly on pricing compared with other hotels.

Adhering to its capital light structure, Hilton franchises the majority of its Waldorf and Conrad hotels. In October 2014, Hilton sold the New York Waldorf Astoria, the only U.S. Waldorf it had full ownership of, to the Chinese Anbang Insurance Group for $1.95 billion dollars (Bagli). Anbang will pay for the historic hotel's renovations, saving Hilton huge costs. This deal exemplifies Hilton's capital light model.

Hilton's strategy in its luxury category fits its competitive environment **(Exhibit 9).** By differentiating through personalized service, Hilton's luxury brands can attract customers. In addition, as the demand for luxury hotels grows, Hilton's capital light cost structure will let it expand and capture a higher market share.

Focus on a high price, high margin, and low cost business model

The business models of Hilton's luxury brands deliver customer value by offering attractive hotel rooms in prime locations, superior hotel amenities, and personalized service. Hilton's key resources, processes, and cost structure align with this value proposition (Exhibit Business Model).

Hilton luxury brands dedicate their resources to satisfy their CVP. Hilton's people and properties are key resources (Hilton Worldwide). To improve these resources, Waldorf and Conrad invest in processes to scope out valuable properties and train their staff (Hilton Worldwide). Hilton uses customer satisfaction as a primary metric in measuring the effectiveness of its key processes ("Hotel & Motel Industry Profile").

Hilton's luxury brands profit model relies on a wealthy customer base and franchise model. It has a high price and low velocity revenue structure because of its price insensitive customers. Further contributing to a high margin cost structure, Hilton avoids high operating costs through the franchise model. The costs that these luxury brands do incur—hotel training, administration, and marketing—reflect their efforts to maximize customer satisfaction (Hilton Worldwide). Hilton uses revenue per available room, banquet revenue, and occupancy rate to measure their cost performance ("Hotel & Motel Industry Profile").

Hilton's luxury category should seize growth opportunities

While the U.S. lodging industry is moderately attractive, the luxury category enjoys stronger benefits and opportunities. High barriers to entry, as well as demographic and macroeconomic trends, offer future stability in the lodging industry. In recent years, technology has challenged the industry with peer-to-peer lodging, third-party booking websites that promote price comparisons, and video teleconferencing. The main threat facing the luxury hotels is the shortage of labor in the industry. Apart from this setback, the industry enjoys even higher barriers to entry and expects an increase in demand as disposable income increases.

The Waldorf and Conrad lines have ample opportunity for strategic improvement. The lines should aggressively pursue more fully integrated IT systems to deliver stronger customer service, utilize Internet of Things technologies in its facility design, and expand their domestic presence. While the luxury lines have begun to leverage IT capabilities such as the Conrad Concierge, they should invest in systems that create an end-to-end customer experience. Furthermore, Waldorf and Conrad can develop a savvy, tech-forward culture by installing the Internet of Things technology in their rooms and facilities. Finally, Hilton should make U.S. expansion a critical task, as the analysis shows promising future demand in the domestic luxury market.

Word Count (including citations): 3,124

EXHIBIT 1
U.S. MACRO-ENVIRONMENTAL TRENDS

Demographic & Social

Growing Aging Population: in 2013, elderly Americans (65+ years) made up 12.9% of the U.S. population. This percentage is projected to increase to 19% in 2030 (Administration on Aging).

Changing Definitions of the U.S. Family:
As of June 2012, 41.3% of women in the U.S. aged 15-50 were childless (Grant).
In 2013, 50.2% of Americans were single, compared to 36.7% in 1976 (Grant).
From 2000-2010, there was 80.4 percentage growth of same-sex couple households in the U.S. (Roberts and Stark).

Rising Racial Diversity: The increased immigration from Hispanics and Asians in the last several decades will affect the United States' racial composition. The white population is expected to decrease and make up 43% of the total population in 2060 (Taylor).

Stable Urbanization: In 2013, 82.7 million Americans lived in urban areas. This rate has remained relatively stable from 2008-2013 ("North America: Regional Profile").

Increasing Higher Education: From 2003-2013, there was a 21.5% and 28.8% increase in men and women who had earned Bachelor's degrees, respectively. The increases for men and women who earned advanced degrees were 28% and 52.2%, respectively ("Educational Attainment CPS Historical Time Series Tables").

Economic & Technological

Steady GDP outlook: Since the great recession, the annual U.S. GDP growth rate has fluctuated between 2% and 3% (World Bank). In the first quarter of 2014, GDP decreased for the second time since the recession, but in the second quarter, GDP increased at a 4.6% annual rate (Bureau of Economic Analysis). In its October 2014 World Economic Outlook, the IMF predicted that U.S. annual GDP growth will stabilize around 3% over the next 10 year.

Decreasing Unemployment Rate: In September, the unemployment rate dipped below 6% to the lowest level of unemployment since August 2008 (Bureau of Labor Statistics).

Household Income Growth: After decreasing from 2008-2012, real median household income increased slightly to $51, 939 in 2013 ("Real Median Household Income in the United States"). Per capita disposable income is expected to increase from $37,876.5 in 2012 to $53,869.6 in 2022 ("Personal Income").

Near 0% Interest Rates: In its September 2014 statement, the Federal Open Market Committee reaffirmed its accommodative monetary stance. The Committee targeted a maximum 0.25% federal funds rate (The Federal Reserve).

The Internet of Things: Over the next ten years, Big Data, sensors, and mobile technology capabilities will integrate 50 billion physical entities into online networks. The Internet of Things will automate supply chain management and provide a platform for social sector innovation ("Ten IT-Enabled Trends," McKinsey).

Automation of Knowledge Work: Complex computing will move computers into roles that thought of as human-only. Humans and machines working together will improve processes, lowering knowledge work costs that currently make up 27% of employment costs ("Disruptive Technologies," McKinsey).

Ubiquitous Online Social Matrix: Business use the online social matrix to connect to their customers and employees. Crowdsourcing solutions and cross functioning are more efficient (McKinsey).

Political & Legal

Slow Political System: Increasing size of the government, bureaucracies, slow decision-making, and inconsistent enforcement of laws is slowing down the governmental system (Fukuyama).

Increasing Tolerance of Same-Sex Marriage: Since 2009, homosexual marriage has been declared legal in 32 states including Alaska and West Virginia (Mears).

High Corporate Tax Rate: U.S. federal corporate tax rate is currently 35%, the highest in the world after Japan. Even though there is a bill on congress to lower the rate, it is uncertain when this is going to happen or whether the decrease is sufficient (Bresiger).

Affordable Care Act: In effect March, 2010, the Affordable Care Act requires big businesses to provide healthcare coverage for all its full-time employees (Affordable Care Act).

Rising Inequality: Income inequality in the United States is increasing along with poverty rate (McGregor).

Tightening Immigration Policy: After the boarder crisis mid-2014, immigration policy is expected to be stricter. Percent of people supporting path to citizenship have decreased by 5% among general public and 10% among republicans. This decease in approval rate has prevented immigration reform from taking place (Rhodan).

Rising Minimum Wage: Several major cities, including Seattle and Los Angles, have passed minimum wage increase for hotels and other related industries to as high as 15.37$ per hour

Summary:

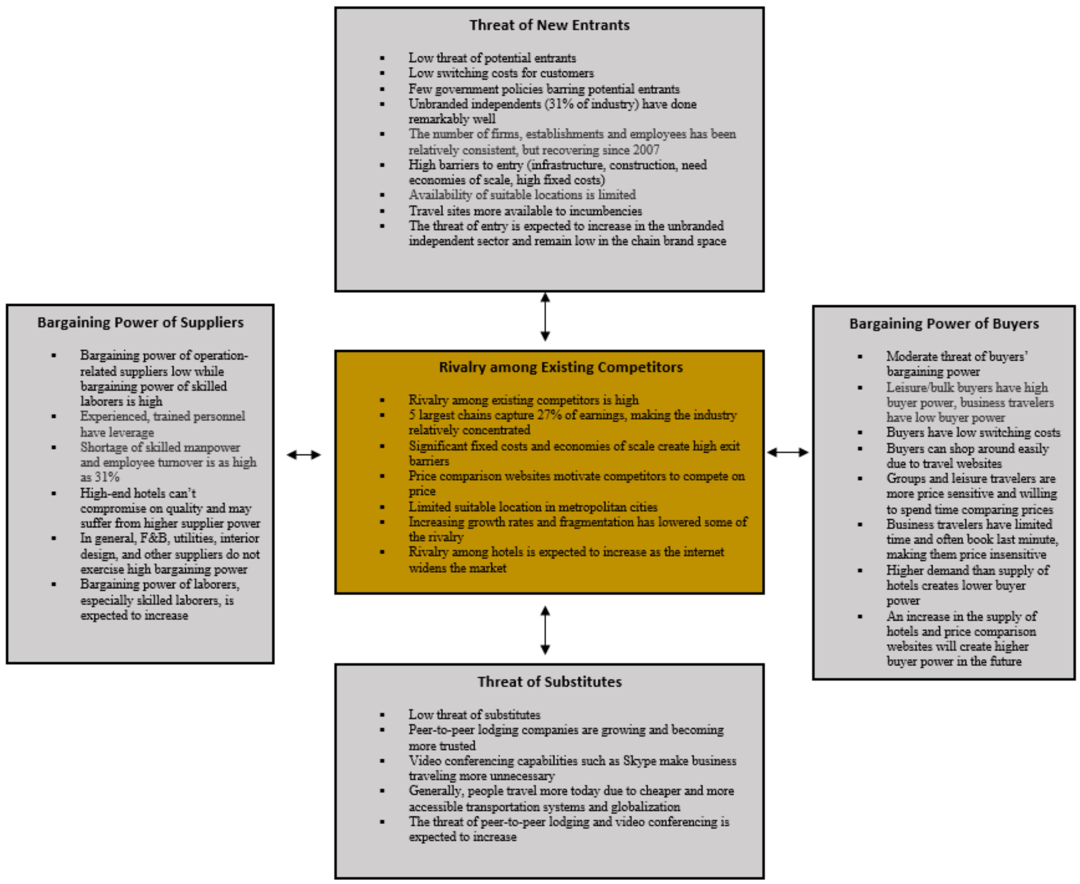
Macro-environmental trends that are likely to impact the hospitality industry include the growing aging population, increase in GDP and household income, mobile internet, the internet of things, online social matrix, automation of knowledge, high corporate tax rates, the affordable care act, and rising minimum wages.

Sources: Sources are cited within exhibit.

EXHIBIT 2

U.S. LODGING INDUSTRY ANALYSIS

Industry Definition: This industry is defined as domestic short-term and extended-stay hotel accommodations for travelers, vacationers, and other customers.



Summary:

Overall, the U.S. lodging industry is moderately attractive and future demand for hospitality services looks bright.

Sources: (Kasriel-Alexander), (Berman, Marr, and Jain), (Watkins), (Grant), and (Hilton Worldwide).

EXHIBIT 3

HILTON SWOT ANALYSIS

Strengths:	**Weaknesses:**
- Capital light business model - Prominent real-estate locations - Brand recognition - Highly diversified brand portfolio allowing access to different market segments - Loyalty programs enhancing customer satisfaction and retention - Implementation of mobile technology to create mobile check-in and the use of mobile devices for room keys - LightStay™ management program maximizing environmental efficiency and cost control	- Large dependence on the U.S. market - Less purchasing power and financial flexibility than industry competitors (Marriott International and Hyatt Hotels) - Franchise model provide less control over daily operations - Difficulties and miscommunications that arise as a result of doing business in many different countries - Subject to additional regulations and requirements as a public company
Opportunities:	**Threats:**
- Initiatives to increase presence outside of the U.S. - Increasing demand for quality hotels in emerging markets - Tourism promotion legislation in the U.S. - Increase in backroom efficiency through growth of technology - Rise of big data and data analytics to improve marketing efficiency - Expanding the number of conference facilities and ballrooms for special events	- Intense competition leading to pricing pressures - Continued regulations for timeshare business - Terrorist attacks and natural disasters - Increasing costs of employee health care - Growth of internet reservation channels and other travel intermediaries - Decrease in business travel due to the rise of virtual meetings and private teleconferencing - Cyclical volatility of the U.S. lodging industry - Oversupply of hotel rooms - Increased labor prices in U.S.

Summary:

While many factors threaten the lodging industry, Hilton's strengths will allow it to maintain a strong position.

Sources: (Market Line Report) and (Hilton Worldwide).

EXHIBIT 4

HILTON WORLDWIDE'S KEY RESOURCES AND CAPABILITIES

Hilton Worldwide Key Resources

- 12 diverse brands in portfolio
- Real estate
  - As of 2013, Hilton had 4115 locations
  - Iconic properties such as the Waldorf Astoria New York have intangible value
- Facilities with amenities
  - The amenities depend on the hotel's brand, with the higher-end brands having more elaborate amenities.
  - Notable amenities include spas, fitness centers, conference meeting rooms, and banquet halls.
- Food and beverage services
  - Restaurants, room service, etc.
- Front-line staff
- Management team
- Hilton HHonors loyalty rewards program
  - As of 2013, there were over 40 million members worldwide
- Financial capital
- Strong core values-HILTON
- History and legacy of company

Hilton Worldwide Key Capabilities

- Housing guests in its hotels
- Franchise model
- Marketing its different brands while maintaining brand unity
- Booking special events, such as weddings or corporate meetings
- Global Expansion
  - In 2013, it opened 207 properties and had 102,000 rooms under construction
  - As of 2013, Hilton had properties in 91 countries.
- Financing
- Integrating the HILTON core values into its operations
- Renovation and maintenance of hotels
- Human resources: hiring and training employees to carry out Hilton's goals
- Managing Hilton HHonors membership and reward benefits
- Streamlining information technology into its processes
  - Starting in 2014, Hilton guests could check-in and choose their room using their mobile devices for select brands and in August 2014, CEO Chris Nassetta announced plans to develop technology that would let guests use their smartphone as a room key.

Summary:

Hilton offers a wide range of services that require diverse resources and capabilities.

Sources: ("Hilton Worldwide Second Quarter 2014 Earnings") and (Hilton Worldwide)

EXHIBIT 5

HILTON WORLDWIDE'S BRAND PORTFOLIO

Summary:

Hilton Worldwide's brand portfolio is a key resource because it allows the firm to meet many different customer needs all under the distiniguished Hilton Worldwide brand.

Sources: (Hilton Worldwide Brand Portfolio).

EXHIBIT 6

HILTON WORLDWIDE KEY LEADERSHIP

	Key Executives	Background and Performance
	**Christopher J. Nassetta** President and Chief Executive Officer for Hilton Worldwide	Mr. Nassetta joined the company in 2007. Nassetta's previous CEO experience at Host Hotels & Resorts, Inc. developed industry-specific leadership values. His strong tenure at Hilton has given him the credibility to effectively communicate Hilton's unified vision of hospitality, which positions Hilton's future for global dominance.
	**Jim Holthouser** Executive Vice President of Global Brands	Mr. Holthhouser serves as the company's global leader for brand management and customer marketing across nine consumer brands for more than 4,000 hotels. With years of senior management experience at Hilton within the branding, franchising, and marketing arenas, Mr. Holthouser understands how to position Hilton's multi-brand proposition as consumer preferences shift toward personalization.
	**Simon Vincent** Executive Vice President & President, Europe, Middle East & Africa	Based in London, Mr. Vincent is responsible for almost 300 hotels across six brands with more than 47,000 team members in 49 countries. Mr. Vincent's broad international and Hilton experience spearheading the opening of over 100 Hilton hotels makes him a strong leader to drive future expansion.
 Source: "Executive Committee," Hilton website	**Martin Rinck** Executive Vice President & President, Asia Pacific	Mr. Rinck is responsible for the operations of over 90 trading hotels in the 18 countries across Asia Pacific. Mr. Rinck has a proven record of driving significant growth from his tenure as the Executive Vice President and Chief Development Officer for The Rezidor Hotel Group. His experience prepares him to increase Hilton's market share in a critical Asian lodging industry.

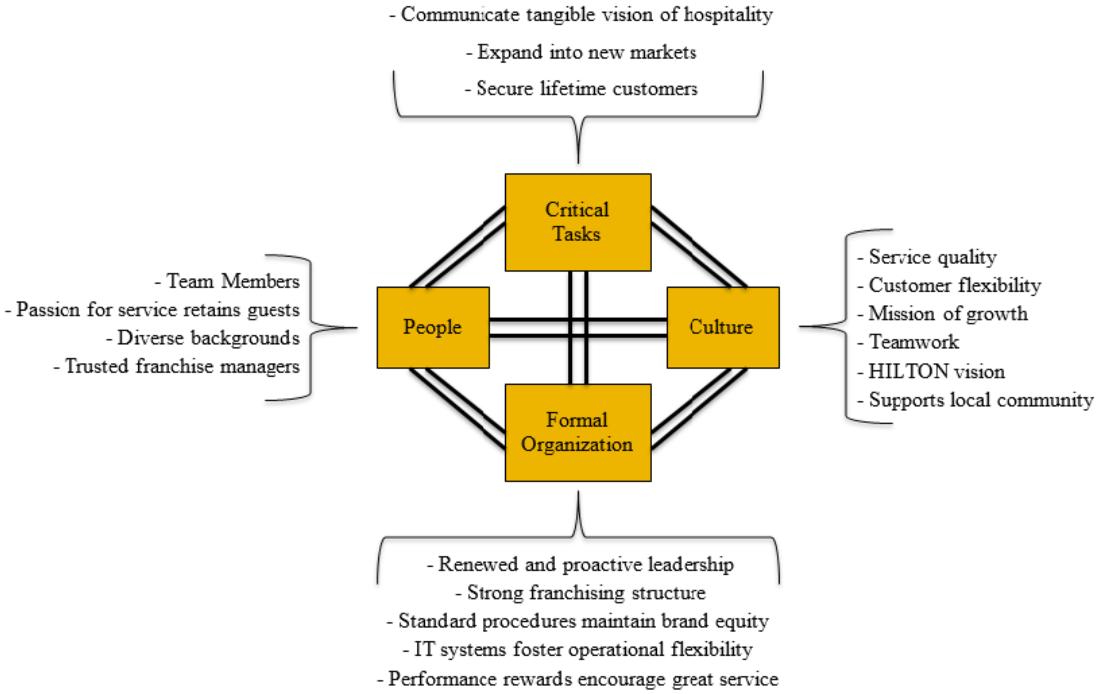
Summary:

Hilton's executives come from strong and diverse backgrounds and are focused on future strategies. Chris Nassetta has been a particularly influential leader for Hilton as he immediately refocused Hilton's values across all of the lines.

Sources: ("Hilton Leadership")

EXHIBIT 7

HILTON WORLDWIDE'S ORGANIZATIONAL ARCHITECTURE



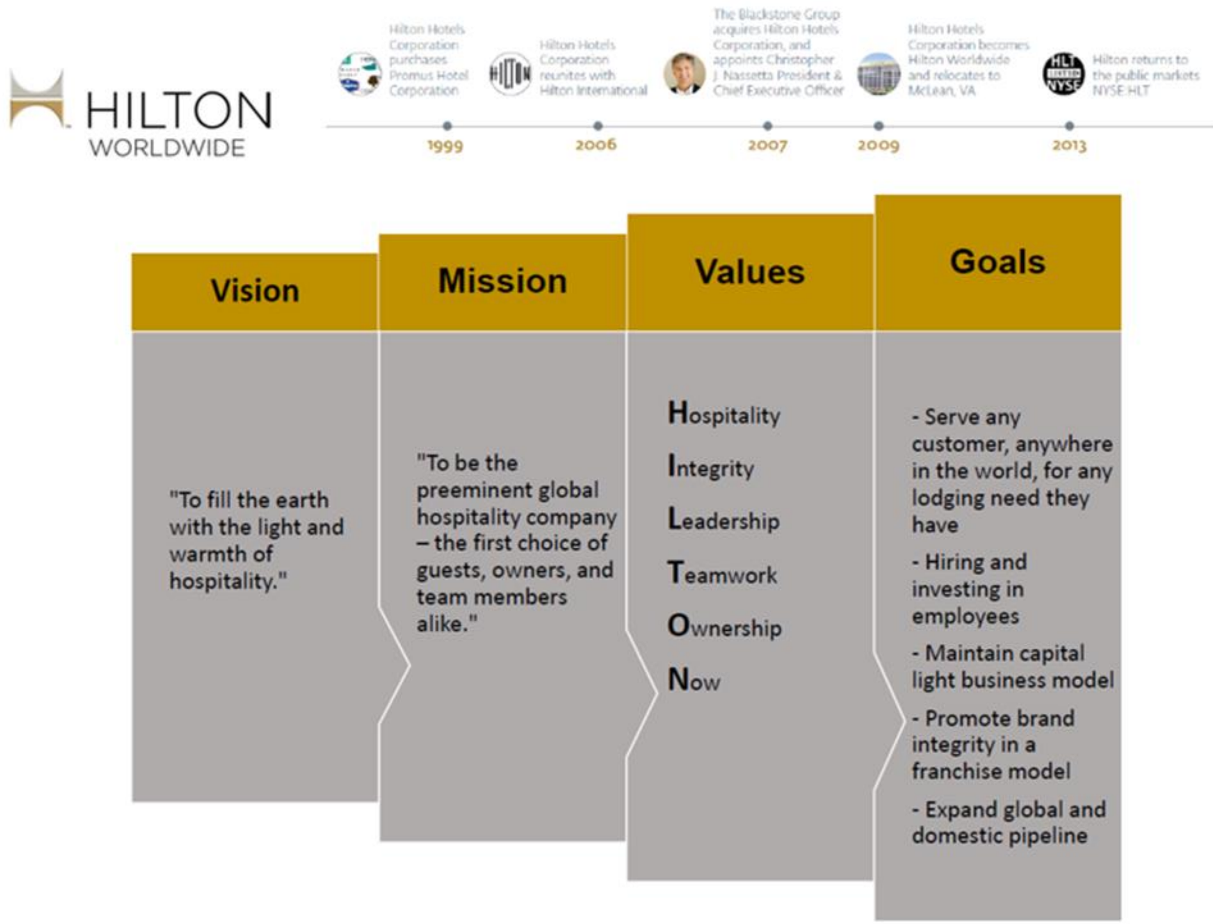
Summary:

Key components of Hilton's organizational architecture are aligned toward its critical tasks.

Sources: (Hilton Worldwide) and (Heath)

EXHIBIT 8

HILTON WORLDWIDE'S TRANSFORMED CORPORATE VISION



Summary:

Hilton's clear and concise corporate vision enables the firm to maintain high standards and brand equity across its portfolio lines.

Sources: (Hilton Worldwide)

EXHIBIT 9

HILTON LUXURY BRANDS' STRATEGY

Hilton Worldwide Luxury Brands Competitive Strategy

Market Focus

-The Waldorf Astoria and Conrad hotels target wealthy, sophisticated business and leisure travelers.

-Concentrated in major cities and attractive tourist destinations.

-These hotel chains also target upscale consumers through their dining, meeting, and social event services.

-Global market focus:
The Waldorf Astoria is located in 10 countries. The Conrad is located in 14 countries.

Differentiation

Design:
-The Waldorf Astoria and Conrad hotels have an elegant design and tend to be located in iconic buildings
-Amenities include spas, restaurants, banquet halls, and golf courses

Quality:
-High quality facilities and amenities
-High quality standards for hotels maintained through franchise/ management agreements with hotel owners.

Service
-True Waldorf Service provides Waldorf Astoria guests with a personal concierge
-The Conrad focuses on the "Luxury of Being Yourself." This personalization entails a high level of customer service, provided by staff and the Conrad Concierge App

Price
-Hilton Worldwide's luxury hotel customers tend to be price insensitive. As a result, the Waldorf Astoria and Conrad do not differentiate on price.

Cost Structure

-Hilton Worldwide keeps its fixed costs low by using a franchise/partial ownership system. It does not have full ownership of any of its U.S. Waldorf Astoria or Conrad hotels.
-In 2014, Hilton sold its Waldorf Astoria New York to a Chinese insurance company for 1.91 billion dollars

-Because Hilton Worldwide requires a high level of customer service from its luxury hotel employees, it must pay them a competitive wage.

-Hilton Worldwide's economies of scales help lower costs for its luxury hotels.

- As IT initiatives increase, there will be increased costs associated with developing and implementing the technology.
-Examples of IT initiatives include turning mobile phones into room keys and continuing personalization allowed by Conrad Concierge app.

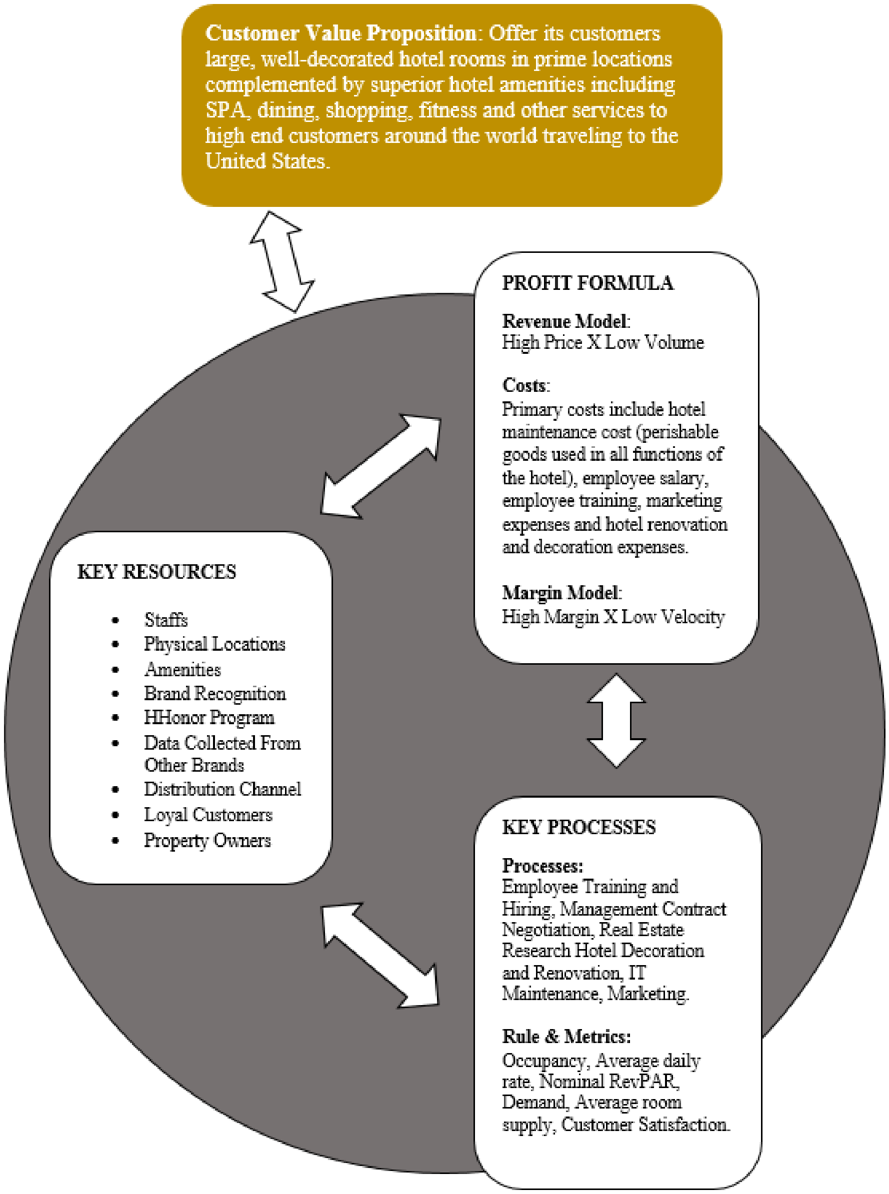
Summary:

Hilton's Worldwide luxury brand strategy 1) targets wealthy travelers, 2) differentiates on design, quality, and service, and 3) keeps costs low through a capital light model and economies of scale.

Sources: (Hilton Worldwide), (("Conrad Hotels & Resorts Introduces Luxury Segment's First Comprehensive Pre Check-In Feature through its Conrad Concierge App"), and ("True Waldorf Service").

EXHIBIT 10

HILTON LUXURY BRANDS' BUSINESS MODEL



Summary:

Hilton's luxury brand business model focuses on offering unique, personalized services.

Sources: (Hilton Worldwide)

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READABILITY STATISTICS

Executive Summary

Word Count: 315

Average Sentences per Paragraph: 4

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Strategic Analysis

Word Count: 3,124

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