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Building Capabilities at the Westward Hilton

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Abstract

[Excerpt] Sitting in the fashionable Cafe Lupe, an upscale restaurant owned by the company Peter Green worked for, were the company's owners, investors, and top corporate personnel. Hiller Hotels, a wholly owned subsidiary of the parent Hiller Enterprises, was headquartered in Phoenix, Arizona, with a portfolio of more than 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 Green, the executive vice president of operations, raised his glass to join in the merriment, he wondered whether his facial expression gave away the feelings he was suppressing. Green was torn—earlier in the day this same group discussed the possibility that the Westward Hilton and Towers, the only property in the Hiller portfolio he had personally ever run as a general manager, might be sold. An inquiry from a REIT (real estate investment trust) as to the property's availability had prompted the discussion.

Keywords

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Disciplines

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Comments

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Sitting in the fashionable Cafe Lupe, an upscale restaurant owned by the company Peter Green worked for, were the company's owners, investors, and top corporate personnel. Hiller Hotels, a wholly owned subsidiary of the parent Hiller Enterprises, was headquartered in Phoenix, Arizona, with a portfolio of more than 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 Green, the executive vice president of operations, raised his glass to join in the merriment, he wondered whether his facial expression gave away the feelings he was suppressing. Green was torn—earlier in the day this same group discussed the possibility that the Westward Hilton and Towers, the only property in the Hiller 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 Hiller 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 a healthy profit presented itself, Hiller'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 2006 to be the group's flagship, no property was supposed to be untouchable. Perhaps coincidentally, since Green had moved into his corporate position back in 2004, only one Hiller 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.

Green knew that Karen Connor, whose money was behind Hiller Hotels, felt as strongly about the Westward and the people who worked there as he did. Connor owned the largest share of Hiller 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. While Connor was attached to the Westward, Green also understood that it was impossible for every decision to equally benefit owners, customers, and employees. He knew there were times when decisions would have 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 Hiller bought it out of bankruptcy at the end of 2000? Green's thoughts drifted back nearly 10 years to the year before he arrived in Phoenix.

Project Perspective

Peter Green grew up in the hospitality industry. He worked as a teen in his family's restaurant in Buffalo, New York. Through his twenties and thirties, Green 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 Hiller, Green had more than five years of experience as a GM.When Hiller hired Green in 2000, he was brought on in a consulting role. Specifically, Green did project work for Hiller 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, Green was able to see aspects of the business that might be less clear to the manager, who was 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 Green 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 Green arrived, he found an all-white management staff and an almost all-black employee population and no interaction between the two groups. 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, like the quality of employee meals, that could easily be remedied. 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. Green 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, Green 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 Green one evening when he drove past a schoolyard and spotted one of the hotel's employees playing basketball. As he watched the game, he noticed that this worker, whom Green knew to be slow, uncooperative, and lacking initiative at work, was leading a group of his friends in a fastpaced and cooperative team effort. Green 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 Green. 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. Green elected to move on rather than serve as the new general manager, although the job was offered to him.

Green's second experience taught him to truly value the guests' perspective and experiences. Living for 90 days in a hotel plagued with quality problems, Green 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 Green 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 fife was suffering. After a year of living on the road and away from his family, Green 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 bad about his performance. The main people problems were high turnover and a lack of commitment from staff, who were not invested in what they were doing. He had felt frustration at his inability to get employees excited or committed in the past. Green 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 fives 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 five 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 Hiller purchased the hotel, Green was given the opportunity to become the Westward's general manager. Mostly because of his desire to settle in one place for a while, he took the assignment. Green 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. Green was placed in a Towers level suite (one of the three floors of rooms with a private concierge and other special services) 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.” Green 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 (see Exhibit 1). In Green’s opinion, the hotel was trying to be something it was not, and the beliefs were not genuine.

Green 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. He said, “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.”

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. We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed, yet refined ambiance. 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 information that is printed by corporate headquarters on a small, laminated card that can be folded and placed in a wallet.

The Westward Hilton and Towers

The Westward Hilton was a 13-story, full-service hotel built ini992. The hotel tower and attached lobby sat on 8.5 acres on a city block at the southeast corner of Camelback Drive and Northern Avenue in Central 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 Hiller's ownership, and substantial renovations, the hotel had 13,000 square feet of flexible meeting space, including 14 salons and three ballrooms. The gift shop was leased month-to-month to a third party. The hotel also included a freestanding 8,000-square-foot restaurant. The interior finish of the lobby area primarily consisted of inlaid terrazzo pavers, a combination of painted drywall and vinyl wall coverings, and recessed and track incandescent lighting. A landscaped courtyard led to the Hilton's 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 and ottoman, a work desk, an armoire, one or two nightstands, and three or four lamps. The standard guest rooms featured 24-hour in-room dining, free cable channels with HBO, a 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 fax/copier machine, inkjet printer, VCR, two private phone lines with speakerphone, and a calculator. The top three Towers floors offered a complimentary Continental breakfast buffet every morning, hors d'oeuvres every evening, exclusive registration and checkout, business services, a cocktail honor bar, and video phone. Morning and evening maid service and nightly turndown service were also provided on these floors.

The Vision Thing

"What does this hotel want to be?" was a critical question for Green. 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 Baldrige Award-winning Ritz Carlton Hotels' beliefs, the previous management was not focused on how to position this hotel. For Green's first three or four 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, Green 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 wondefful 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 Hiller'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 2003, three years after the hotel's purchase. The renovation was done at a cost of $2,200,000 (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. Green believed the restaurant operation was a powerful tool in repositioning the hotel.

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 Green. 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.

Exhibit 2: Renovation and Capital Improvements

Year	Capital Improvement Costs
2002	$5,225,622
2003	$3,399,842
2004	$1,260,606

The vision emerged in discussion with the senior management staff, but was not written down initially. According to Green, 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. I felt 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 IIgeneral. My agenda? Focus and model, focus and model. I just did what seemed right at the time.*

Green's vision of what the Westward aspired to become was the precursor to the formal corporate vision of Hiller Hotels and the foundation for the guiding principles that would follow. It was not until 2007, almost six years later and well into Greens tenure as corporate executive vice president of operations, that he formally fashioned the set of guiding principles that explicidy conveyed the essence of Hiller Hotels and the Westward Hilton. The principles were taught companywide. Managers, upon completing their initial training and orientation, were given a daily planner with a 22-page insert tided "Our Daily Compass: Hiller Hotels, Inc. Guide to Leadership and Management." Among other things, including the corporate vision and mission, the insert included the following 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 2001, Green also arrived at the simple statement, *the friendliest place to visit.* This was a vision that remained with him and came to guide all of the hotels in the portfolio. Green 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." Green 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.*

Green was determined that his vision would become more than the GM's platitudes, 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 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 Green, the mutual success of owners and employees depended on the acceptance and practice of the vision. But Green knew that good practice required more than inspiration; it required good strategic thinking.

Strategic Planning

"What's possible?" is the question Green used to guide the strategic planning process. He insisted that the major issue 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 five-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, Green 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 were. Future-backward thinking forced the staff to rethink what they do. This 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.

Green 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.

Green willingly admitted that he had no idea of how to get the hotel to the possible targets. "All I knew is 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. To produce loyalty and retention, 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. Green did not believe in yield management, a system in which pricing is adjusted 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. Green believed that daily accountability versus monthly accountability was a key to enabling the staff to carefully and intelligently manage the business.

Closer to the Customer

Even five years later, many employees remembered Green for his vigilance—standing in the lobby Monday through Friday from 7:00 a.m. to 9:00 a.m. when most customers entered or exited the hotel. During his ten-hour-a-week commitment to being close to the customer, he saw and solved problems. Green 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 wake-up 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.*

Green accomplished two things by hanging out in the lobby: (1) he had the contact with the customer he so valued and believed in, and (2) 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 to 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.*

Green's actions were important, but getting others to five the vision required improving business practices too. He started by taking the 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, and few customers ever responded. When customers did respond, the hotel or guest mailed the cards direcdy to the brand's corporate headquarters, where the 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 were 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, Green 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 four 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 four questions, scored on a seven-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 Daily Guest Comment Report is shown in Exhibit 3. Daily huddles, or brief five- to ten-minute meetings at the beginning or end of a shift, were used to share the survey results with employees. As Green 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.*

Valuing Others

Green stated:

> *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%	PTD CHECK CUT	= 1401
TODAY'S CHECK OUT	= 68	PTD TOTAL CARDS	= 549
TODAY'S TOTAL CARDS	= 35	PTD % OF RETURN	= 39.2%
TODAY'S % OF RETURN	= 51.5%	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 's Total Score	PTD Total Score 94.92%	Goal	Difference
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	NA	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	NA	6.52	6.50	0.02
TTL	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	NA	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)
TTL	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 QUALITY	7.00	6.44	6.50	(0.06)
OVERALL EXPERIENCE	5.83	6.18	6.50	(0.33)
TTL	6.30	6.33	6.50	(0.17)
Banquet Event				
PROMPT SERVICE	6.80	6.55	6.50	0.05
FRIENDLY SERVICE	NA	6.52	6.50	0.02
FOOD-BEVERAGE QUALITY	6.00	6.27	6.50	(0.23)
TTL	6.50	6.43	6.50	(0.07)
Towers				
WILL RETURN AGAIN	NA	NA	6.50	NA
TOWERS LOUNGE OVERALL	NA	6.61	6.50	0.11
TTL	NA	6.61	6.50	0.11

Exhibit 3: Guest Comment Daily Report (*Continued*)

Return Again as %	Today 's Total Score	PTD Total Score 94.92%	Goal	Difference
Lobby Bar				
PROMPT SERVICE	6.33	6.37	6.50	(0.13)
COMFORT & DÉCOR	NA	6.11	6.50	(0.39)
LOBBY STAFF FRIENDLINESS	4.00	6.19	6.50	(0.31)
TTL	5.40	6.22	6.50	(0.28)
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	NA	6.45	6.50	(0.05)
TTL	6.50	6.47	6.50	(0.03)
Departure				
FRONT DESK FRIENDLINESS	NA	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
TTL	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)
TTL	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)
TTL	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)
TTL	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
TTL	6.50	6.61	6.50	0.11
TOTAL OVERALL REPORT W/O RIO	**6.38**	**6.47**	**6.50**	**(0.03)**
TOTAL OVERALL REPORT	**6.37**	**6.44**	**6.50**	**(0.06)**

NA = Not Available

Exhibit 3: Guest Comment Daily Report (*Continued*)

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

	Today's Total Comment	1	2	3	4	5	6	7	Today's Total Points	Today's Score	PTD Total Points	PTD Total Score	PTD Total Comment
EFFICIENT CHECK-IN	3					1		2	19	6.33	303.00	6.45	47
GUEST RM COMFORT & DÉCOR	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	NA	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 DELIVERY	4					1	2	1	24	6.00	181.00	6.46	28
CAFE TIJERA BREAKFAST F&B QUALITY	0								0	NA	163.00	6.27	26
DEPARTURE - FRONT DESK FRIENDLINESS	0								0	NA	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	NA	213.00	6.45	33
LOBBY COMFORT & DÉCOR	0								0	NA	275.00	6.11	45
TOWERS LOUNGE OVERALL	0								0	NA	238.00	6.61	36
LIKELIHOOD YOU WILL RETURN	35			1		2	8	24	229	6.54	3641.00	6.64	548
TOTALS WITHOUT CAFE TIJERA	138	0	1	3	4	12	33	85	880	6.38	13846	6.47	2140

NA = Not Available

Green 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. Green's human resource approach was deeply rooted in his 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.*

Green 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 Green, 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 Green'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," Green said. "Discussion of pay and performance together is confusing. Instead, we used performance appraisals to discuss future development and acknowledge contributions."

Selection, Orientation, and Training

Green 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 was required.

Exhibit 4: Hiller Hotels Inc. Quarterly Bonus Program for the Westward Hilton

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 pro-rated 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 Hiller Hotels, Inc.

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	$1,380,000
2nd quarter	$1,680,000
3rd quarter	$1,440,000
4th quarter	$1,500,000

Exhibit 4: (*Continued*)

Quarterly bonuses are based on the Hiller 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	$1,430,000	$1,480,000	$1,530,000	$1,580,000
2nd quarter	$1,730,000	$1,780,000	$1,830,000	$1,880,000
3rd quarter	$1,490,000	$1,540,000	$1,590,000	$1,640,000
4th quarter	$1,550,000	$1,600,000	$1,650,000	$1,700,000

The basis for calculation of the bonus will be a percentage 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.

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

Communication

Green 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 of the information exchange was management's emphasis on listening and praise.

Culture

In discussing the culture he and his team created at the Westward and were attempting to inculcate throughout Hiller, Green stated:

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, but 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.

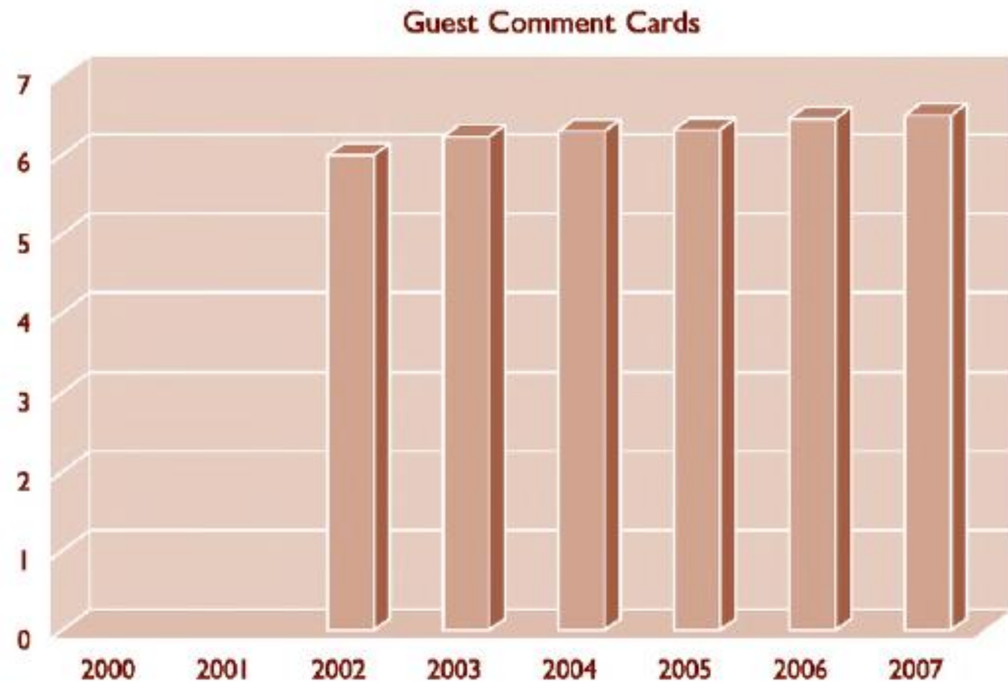
But Did It Make Money?

Living a vision is in the details. "It is a slow and continuous process, and you must stick with it," reflected Green. 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 Peter Green vision. For four years, the Westward Hilton performed at or near the top of the Phoenix market, as indicated by its occupancy percentage, shown in Exhibit 6. According to the comparative data from Smith Travel Research, the Westward Hilton outperformed the Phoenix market in 2007, although demand was gradually slipping in the city. Exhibit 6 shows the Hilton's position among its primary market competitors, the luxury and upper upscale chain markets, the Phoenix market, and the Phoenix Central 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 about 273 percent over the 2001—2007 period. House profit increased from the takeover (2001) figure of $1,817,137 to $6,769,482 (2007).

Exhibit 5 shows the changes in guest comment scores and employee turnover. The hotel's revenue per available room (REVPAR, calculated by dividing room revenue by the number of available rooms) rose from a rate of $66.65 in 2001 to a 2007 rate of $122.10. Exhibit 6 shows the Westward's market performance based on data from Smith Travel Research. Exhibit 7 provides income statements for the hotel for the seven years from 2001 to 2007. Exhibit 8 provides additional financial information, including the initial investment and estimated value of the hotel. The current value of the property if sold today is about $65 million. This value is derived from projected 2008 earnings and a terminal capitalization rate of

10.5 percent. The expected average annual asset return on this investment is 12.28 percent, and the expected average annual equity return is 30.23 percent, assuming a loan-to-value ratio

Exhibit 5: Guest Comment Scores and Employee Turnover, 2001–2007



of 60 percent. These returns are the internal rate of return (IRR) on an initial investment of the current value of the property where the property is held through the end of 2016 and then sold at that time. Exhibit 9 reports on returns from other investment opportunities, such as stocks and treasury bills.

Exhibit 6: Phoenix Market Performance, 2001–2007

				Occupancy			
Market Segment	2001	2002	2003	2004	2005	2006	2007
Westward Hilton	50.2	56.7	62.9	69.4	73.2	73	72.5
Luxury	62.2	62.2	63.8	68.6	71.4	70.9	70.9
Upscale	63.4	63.0	65.6	69.1	72.5	72.4	72.3
Phoenix Market	58.5	57.8	57.8	63.7	67.1	68.2	68.2
Phoenix Central	56.5	57.5	59.2	63.1	66.7	68.2	68.3
Competitive Set	60.5	60.6	62.4	66.6	69.9	70.3	70.3
				ADR			
Market Segment	2001	2002	2003	2004	2005	2006	2007
Westward Hilton	132.77	130.71	133.18	136.25	147.37	159.33	168.42
Luxury	166.84	155.10	150.08	154.84	165.62	180.04	190.30
Upscale	136.14	127.25	128.17	134.48	145.75	157.96	166.97
Phoenix Market	96.84	92.23	92.66	95.74	102.84	113.28	119.73
Phoenix Central	138.02	131.87	124.25	123.65	129.92	139.32	147.26
Competitive Set	141.98	133.49	130.02	133.46	142.67	154.52	163.33
				RevPAR			
Market Segment	2001	2002	2003	2004	2005	2006	2007
Westward Hilton	66.65	74.11	83.77	94.56	107.87	116.31	122.10
Luxury	103.72	96.48	95.80	106.17	118.26	127.67	134.83
Upscale	86.34	80.17	84.09	92.98	105.74	114.32	120.75
Phoenix Market	56.67	53.26	53.51	60.97	68.98	77.23	81.69
Phoenix Central	78.04	75.81	73.59	78.08	86.65	95.08	100.57
Competitive Set	85.89	80.88	81.10	88.92	99.73	108.59	114.76

Source: Smith Travel Research

Exhibit 7: Actual Income Before Other Fixed Charges, 2001–2007

Occupancy and ADR :	2001	2002	2003	2004	2005	2006	2007
Occupancy	50.20%	56.70%	62.90%	69.40%	73.20%	73.00%	72.50%
ADR	$132.77	$130.71	$133.18	$136.25	$147.37	$159.33	$168.42
Revenue and Expense:							
Revenues:							
Rooms	$7,298,234	$8,115,326	$9,172,839	$10,354,046	$11,812,295	$12,736,044	$13,370,443
Food	$2,687,639	$2,988,541	$3,377,979	$3,812,969	$4,349,982	$4,690,161	$4,923,784
Beverage	$618,494	$687,740	$777,359	$877,462	$1,001,042	$1,079,326	$1,133,088
Telecommunications	$101,208	$112,539	$127,204	$143,585	$163,807	$176,617	$185,414
Other Operated Departments	$393,587	$437,652	$494,683	$558,385	$637,027	$686,844	$721,056
Rentals and Other Income	$146,190	$162,557	$183,739	$207,400	$236,610	$255,113	$267,821
Total Revenues	$11,245,353	$12,504,355	$14,133,804	$15,953,846	$18,200,763	$19,624,104	$20,601,607
Departmental Costs and Expenses:							
Rooms	$2,260,316	$2,438,349	$2,586,486	$2,823,831	$3,185,133	$3,394,970	$3,522,875
Food	$2,395,260	$2,525,880	$2,770,226	$3,063,138	$3,439,944	$3,669,707	$3,811,297
Beverage	$393,587	$387,635	$395,747	$414,800	$418,618	$412,106	$432,634
Telecommunications	$146,190	$137,548	$127,204	$127,631	$145,606	$137,369	$123,610
Other Operated Departments	$393,587	$400,139	$367,479	$319,077	$345,814	$333,610	$309,024
Total Costs and Expenses	$5,588,940	$5,889,551	$6,247,142	$6,748,477	$7,535,116	$7,947,762	$8,199,439
Total Operated Departmental Income	$5,656,413	$6,614,804	$7,886,663	$9,205,369	$10,665,647	$11,676,342	$12,402,167

Exhibit 7: (*Continued*)

Undistributed Operating Expenses:							
Administrative and General	$1,236,989	$1,325,462	$1,356,845	$1,435,846	$1,619,868	$1,687,673	$1,751,137
Franchise Fees including Marketing Fees	$656,841	$730,379	$825,556	$931,864	$1,063,107	$1,146,244	$1,203,340
Marketing	$258,643	$287,600	$325,078	$239,308	$273,011	$255,113	$267,821
Property Operation and Maintenance	$708,457	$787,774	$791,493	$717,923	$819,034	$883,085	$927,072
Utility Costs	$517,286	$512,679	$551,218	$542,431	$582,424	$608,347	$638,650
Other Unallocated Operated Departments	$0	$0	$0	$0	$0	$0	$0
Total Undistributed Expenses	$3,378,217	$3,643,894	$3,850,190	$3,867,372	$4,357,445	$4,580,462	$4,788,019
Income before Fixed Charges	$2,278,196	$2,970,910	$4,036,473	$5,337,997	$6,308,202	$7,095,880	$7,614,148
Management Fees, Property Taxes, and Insurance:							
Property Taxes and Other Municipal Charges	$269,888	$300,105	$339,211	$382,892	$436,818	$470,978	$494,439
Insurance	$191,171	$212,574	$240,275	$271,215	$309,413	$333,610	$350,227
Total Management Fees, Property Taxes, and Insurance	$461,059	$512,679	$579,486	$654,108	$746,231	$804,588	$844,666
Income before other Fixed Charges	$1,817,137	$2,458,231	$3,456,987	$4,683,890	$5,561,971	$6,291,292	$6,769,482

Exhibit 8: Initial Investment, Estimated Value, and Estimated Returns

Cost of Hotel in 2000	$39,075,000.00
Weighted Average Cost of Capital (WACC)	9.35%
Estimated Sales Price in 2007	$65,082,568.10
Estimated Rate of Return on Asset	12.28%
Estimated Rate of Return on Equity	30.23%

Exhibit 9: Annual Returns

Year	Stocks	T.Bills	T.Bonds
2001	−11.85%	5.73%	5.57%
2002	−21.98%	1.80%	15.12%
2003	28.41%	1.80%	0.38%
2004	10.70%	2.18%	4.49%
2005	4.85%	4.31%	2.87%
2006	15.63%	4.88%	1.96%
2007	5.48%	4.88%	10.21%

New General Managers Arrive

As one subordinate noted, Green had a clear employee emphasis, he was a caring person, and people felt good working for him. This employee indicated that Green 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 informal, responsive, and trusting, not intimidating. 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 Green were simply not up to the task.

Five general managers came and went from the Westward Hilton in the four years after Green moved into his corporate position. While the departures of the managers were for a variety of reasons, Green blamed himself for being too controlling as the executive vice president of operations of Hiller 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.

Exhibit 10: Forecast Income Before Other Fixed Charges, 2008–2016

Occupancy and ADR:	2008	2009	2010	2011	2012	2013	2014	2015	2016
Occupancy	72.61%	72.50%	72.18%	71.96%	71.74%	71.53%	71.31%	71.20%	71.09%
ADR	$169.76	$172.84	$176.00	$179.29	$182.80	$186.50	$190.38	$194.44	$198.71
Revenue and Expense:									
Revenues:									
Rooms	$13,497,220	$13,721,571	$13,909,504	$14,126,756	$14,360,441	$14,606,993	$14,865,420	$15,159,511	$15,468,835
Food	$4,970,471	$5,053,090	$5,122,298	$5,202,303	$5,288,360	$5,379,155	$5,474,323	$5,582,624	$5,696,536
Beverage	$1,143,832	$1,162,845	$1,178,772	$1,197,183	$1,216,987	$1,237,881	$1,259,781	$1,284,704	$1,310,918
Telecommunications	$187,173	$190,284	$192,890	$195,903	$199,143	$202,562	$206,146	$210,224	$214,514
Other Operated Departments	$727,893	$739,992	$750,127	$761,844	$774,446	$787,742	$801,679	$817,539	$834,221
Rentals and Other Income	$270,360	$274,854	$278,619	$282,970	$287,651	$292,590	$297,767	$303,657	$309,853
Total Revenues	$20,796,950	$21,142,636	$21,432,210	$21,766,959	$22,127,027	$22,506,923	$22,905,116	$23,358,261	$23,834,877
Departmental Costs and Expenses:									
Rooms	$3,556,278	$3,615,391	$3,664,908	$3,722,150	$3,783,722	$3,848,684	$3,916,775	$3,994,263	$4,075,764
Food	$3,847,436	$3,911,388	$3,964,959	$4,026,887	$4,093,500	$4,163,781	$4,237,446	$4,321,278	$4,409,452
Beverage	$436,736	$443,995	$450,076	$457,106	$464,668	$472,645	$481,007	$490,523	$500,532
Telecommunications	$124,782	$126,856	$128,593	$130,602	$132,762	$135,042	$137,431	$140,150	$143,009
Other Operated Departments	$311,954	$317,140	$321,483	$326,504	$331,905	$337,604	$343,577	$350,374	$357,523
Total Costs and Expenses	$8,277,186	$8,414,769	$8,530,019	$8,663,250	$8,806,557	$8,957,755	$9,116,236	$9,296,588	$9,486,281
Total Operated Departmental Income	$12,519,764	$12,727,867	$12,902,190	$13,103,709	$13,320,470	$13,549,168	$13,788,880	$14,061,673	$14,348,596

Undistributed Operating Expenses:									
Administrative and General	$1,767,741	$1,797,124	$1,821,738	$1,850,192	$1,880,797	$1,913,088	$1,946,935	$1,985,452	$2,025,965
Franchise Fees - including Marketing Fees	$1,214,750	$1,234,941	$1,251,855	$1,271,408	$1,292,440	$1,314,629	$1,337,888	$1,364,356	$1,392,195
Marketing	$270,360	$274,854	$278,619	$282,970	$287,651	$292,590	$297,767	$303,657	$309,853
Property Operation and Maintenance	$935,863	$951,419	$964,449	$979,513	$995,716	$1,012,812	$1,030,730	$1,051,122	$1,072,569
Utility Costs	$644,705	$655,422	$664,399	$674,776	$685,938	$697,715	$710,059	$724,106	$738,881
Other Unallocated Operated Departments	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Undistributed Expenses	$4,833,419	$4,913,760	$4,981,060	$5,058,859	$5,142,542	$5,230,834	$5,323,378	$5,428,693	$5,539,464
Income before Fixed Charges	$7,686,345	$7,814,107	$7,921,130	$8,044,850	$8,177,928	$8,318,334	$8,465,502	$8,632,980	$8,809,132
Management Fees, Property Taxes, and Insurance:									
Property Taxes and Other Municipal Charges	$499,127	$507,423	$514,373	$522,407	$531,049	$540,166	$549,723	$560,598	$572,037
Insurance	$353,548	$359,425	$364,348	$370,038	$376,159	$382,618	$389,387	$397,090	$405,193
Total Management Fees, Property Taxes and Insurance	$852,675	$866,848	$878,721	$892,445	$907,208	$922,784	$939,110	$957,689	$977,230
Income before Other Fixed Charges	$6,833,670	$6,947,259	$7,042,410	$7,152,405	$7,270,720	$7,395,550	$7,526,392	$7,675,291	$7,831,902

Why Sell?

Bringing his thoughts up to the present, Green thought it might be the right time to sell—Hiller had had a good seven-year run at the Westward. However, uncertainty existed about the future. Hotel sales transactions were beginning to drop. In addition, tightening credit and stricter loan underwriting had increased the cost of capital, making it more difficult for a potential buyer to obtain a loan as a result of the collapse of the subprime mortage market. These issues, as well as the possibility of the United States entering a recession, were also on Green's mind. Nevertheless, new products had come on board in the Phoenix market, and the hotel's performance might have peaked.

Phoenix had experienced explosive growth in the late 1990s, and supply growth had continued up through 2003 (see Exhibit 6). Recently, both room supply and demand had begun to fall in the Phoenix market. Growth had been particularly strong within the upper upscale and luxury segments. In 2003, demand for luxury hotels increased by 15.9 percent, while supply increased by 13 percent. In contrast, 2007 showed a 2 percent drop in demand and a .2 percent increase in supply. In the upper upscale segment, 2007 demand was down 1 percent and supply up 1.2 percent from the previous year. Much of the new hotel development had been 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 Group's National Lodging Forecast. The overall supply growth in Phoenix in 2007 was .1 percent, after three straight years of negative supply growth. All market segments in the Phoenix area had experienced healthy ADR (average daily rate) and total revenue growth since 2002. The long-term oudook for Phoenix was strong, with its average 300 days of sunshine, good transportation support, natural wonders, and abundance of golf courses.

Hiller Hotels, though, wasn't exacdy desperate for the money. The rest of the portfolio was performing well—with the exception of one recendy acquired property, all were profitable—and the parent company, which owned and operated a bank and several other businesses, was profitable. Forecasted income before fixed charges for the period 2008 to 2016 is shown in Exhibit 10. Furthermore, all of the Hiller businesses were privately held, with Karen Connor being the majority shareholder in all. Thus, there was little of the short-term performance pressure to which publicly held companies are subject.

Green 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 people's fives at the Westward. Perhaps selling would even affect the way Hiller's employees at the other properties would feel about the company. On the other hand, because of his small equity stake in the hotel, Green stood to benefit handsomely from the sale.

Green 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.*

Green 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 Connor, to hold the property.