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# The Story Goes On

## **The shooting star**

Hilton Hotels have seen it all, oil boom in Texas, prohibition, the Great Depression, World War II, the Cold War, the collapse of the Berlin Wall, the landing on the Moon, the birth of digital age and expansion of social media, and many other events which have contributed not only to the development of business but, actually, influenced people's lives the world over. It has been the aim of this book to tell the stories of a handful of properties which had to overcome various challenges on the path to the internationalisation of this American company. In all cases these are actually stories of people, those who created the Hilton Hotels, who made it expand, or sometimes, those who made it lose. Stories of struggle, success or defeat are not unique to Hilton, but some of the ways in which Hilton navigated through these challenges are, undeniably, worth remembering.

This final chapter focuses on the key solutions employed by Hilton and its people to navigate the stormy waters of international business in the 20th Century. Historical events cannot, however, be studied in isolation from the wider socio-cultural context in which they unravelled, and the internationalisation of Hilton Hotels is no different in this respect. We have looked at the development of some of the most iconic of Hilton's properties in this company's early expansion and the destinations which hosted these 'little Americas' on their land. Yet, it is crucial to also take into consideration the wider changes which contributed to the internationalisation of other companies in the first half of the 20th Century, hospitality and tourism industry in particular.

Without doubt, one of the biggest impacts on travel and all related services was that of transportation technology and immense growth of air transportation. The decades encompassed in this book, during which Conrad built his hotel empire and embarked on expanding to faraway locations, coincided with so-called 'Jet Age'. The term 'Jet Age' was actually coined already in the late 1940s and referred to a period in the history of aviation defined by the advent of aircraft powered by turbine engines and by the wider social changes this brought about.

World War II, just like World War I, sparked new life in the airline industry. Having been released from military contracts, many airlines of the Allied countries foresaw a future of rising demand for civil air transportation and proved to be more than correct in their expectations. The US, UK and France were eager to invest in the newly emerging flagships of air travel such as the Boeing Stratocruiser, Lockheed Constellation, and Douglas DC-6. Most of these jet carriers were based on American bombers such as the B-29 and were able to fly much higher, faster, and farther than the older piston powered aircrafts, making transcontinental travel considerably smoother, more comfortable and cost effective, thanks to improved fuel efficiency. An aircraft leaving North America and crossing the Atlantic Ocean, like the Constellation carrying Hilton's guests to Madrid, could now fly to their destinations non-stop, making much of the world accessible within a single day's travel for the first time. Since large jetliners could also carry more passengers, air fares also declined and people from a greater range of socio-economic classes could now afford to travel outside their own countries. As a result of these changes Americans became the front-runners of mass international travel.

At that time American skies were controlled by a small number of major airlines, including American Airlines, United Air Line, TWA, Eastern Air Lines, Capital Airlines and Pan American Airways (Davies, 2011). Pan Am had been particularly chosen as America's "instrument to develop an overseas network" (Davies, 2011). It had been formed by Juan Trippe in 1927 and made its first scheduled mail flight from Key West to Havana in 1928, thus inaugurating the age of international travel for Americans. In the so-called first Jet Age, TWA and Pan Am controlled the traffic from the US while their British counterpart, BOAC proved to be the leader of the European skies. With airline transportation developing at a rapid pace, one thing was becoming clear to American investors, their citizens were now travelling

widely abroad and what they, obviously, required was accommodation. Pan Am made the first move in the direction of this unique opportunity and set up a wholly owned subsidiary to open and run hotels abroad for its passengers and crew, thus initiating a company which, after a few changes of ownership, still operates to this day as the Intercontinental Hotels Group. Trippe's initial strategy for Intercontinental was to expand first to Latin America and the Caribbean where Pan Am flew most of its planes.

Europe, under these circumstances, appeared to be a blank slate, terra incognita for American hotel industry. Conrad instantly spotted this unmissable opportunity and made the bold decision to enter European hotel market. What helped him make this important step was the assurance of support from the State Department and the Department of Commerce who wished to make a substantial contribution to the government program of Foreign Aid by establishing American-operated hotels in important world cities. The idea behind it was that these hotels could stimulate trade and travel, bringing American dollars into the economies of the countries needing help and, most importantly for Conrad, promote international good will. Conrad always had faith in the international division of his company, even when it was in its infant stage. In 1949 he wrote about his thoughts to John Houser:

“At one time, I had so much confidence in Hilton International that I offered to buy it from the Company if the Company felt that it was going to be a burden. The Directors did not take me up, and of course it is best that it belongs to Hilton Hotels Corporation. I believe that this company is destined to go places. You have a fine little organization around you, that some day will be a much larger one. We are not growing too fast, as by the very nature of things, we can't, and if we have the right formula, nothing is ever going to happen to this company but good. With the experience we gained in San Juan, this should serve as a guide to us for future dealings, so that we will know what we are doing when we sign a contract”<sup>1</sup>.

Conrad could not have been more correct in his judgments, having developed the right formula, the international division was going from strength to strength and it turned out to be the best thing that Hilton Hotels Corporation could have invested in.

<sup>1</sup> Conrad Hilton to John Houser on 27th December 1949.

The key challenge in the process was to find suitable local investors who would be able to fund construction of hotel buildings and then lease them to Hilton for operations, just as it was previously arranged in Puerto Rico. Hilton's executives, however, managed that perfectly and the same model was successfully adopted in Madrid, Istanbul, Mexico City and Havana. A major change in the way of thinking came in 1959, after the Cuban revolution, when Fidel Castro took over the Habana Hilton leaving the company without any opportunity for negotiation<sup>2</sup>. Bell (1993) believes that this was when Conrad Hilton, John Hauser and Bob Caverly, who run Hilton International in 1960, converted the 'operating lease' into a 'management contract' model, which was expected to carry even less risk. Bell (1993: 28) explains that a management contract was an agreement under which "the owners took the full risk of operating losses, as well as debt service, and had the ongoing responsibility of supplying working capital". Hilton International was to be paid a base fee of 5% of gross revenue and an incentive fee of 10% of the gross operating profit for the use of its name, operations and expertise. It was also reimbursed for all the group services, which included the centralised reservation system, marketing and the cost of operating regional support offices. Nickson (1997: 187) believes that by adopting management contracts Hilton International "attempted to diffuse best practice techniques of modern hotel management". The company was certainly in the position to do so because it supplied managerial controls and techniques, extensive worldwide advertising, sales promotion and publicity programmes.

What Strand (1996) believes to have been the strength of the Hilton organisation was the fact that the development division did not constitute a separate entity but was geographically dispersed, working closely with people responsible for operations. This gave the team exceptional product knowledge which, in turn, dramatically enhanced their negotiation skills. Being located close to everyday operations also provided the advantage of flexibility and the ability to react to opportunities quickly. It is evident that many of the early international properties were developed because Hilton people were in the right place and at the right time when an opportunity arose. In the early 1950s they spent months touring Europe and searching for perfect locations and investors. They left no stone unturned and reacted very quickly when a promising project appeared.

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2 'History' brief from 14th October 1964.