The accidental hotelier

A career in chemicals and power tools might not seem the best training to be the boss of the world's most profitable hotel company's international division, but Ian Carter would beg to differ. *Christian Sylt* reports

Despite having been in his role since last February, Ian Carter is still a new face in the hotel industry. As chief executive of Hilton International, Carter looks after Hilton hotels outside the USA, following in the footsteps of one of the industry's most colourful characters.

David Michels, the former boss of Hilton plc, was the man who earlier this year pulled off a \$5.7b (£3.1b) merger to reunite the company with its US counterpart after 40 years apart. But, unlike that of Michels, Carter's background couldn't be further from the hotel industry.

Carter's CV reads like a roll call of blue-chip businesses. In addition to running Black & Decker's empire outside North America, he has worked for consumer products conglomerate Unilever and for British Steel, and spent 12 years at General Electric, running its chemicals business in the USA.

Already carving his own niche at Hilton, Carter has cut costs and centralised operational divisions. Now he plans to double room numbers in just three or four years.

His Hilton appointment wasn't planned, and came about as a result of the untimely death of his predecessor, Anthony Harris. Looking for a fresh perspective, Hilton finished up with a shortlist of four candidates, two of whom were non-hoteliers. On getting the job, Carter had a tough task: he had to learn the ropes of a new industry and get to know the 403 Hilton hotels under his charge.

So, in his first nine months, Carter visited more than 200 Hilton-managed hotels in 45 countries and spent time monitoring operations at all levels of hotel management, from the back of house and kitchens to conferences and banqueting. He is adamant that there is little to separate the selling of power tools from the filling of hotel rooms.

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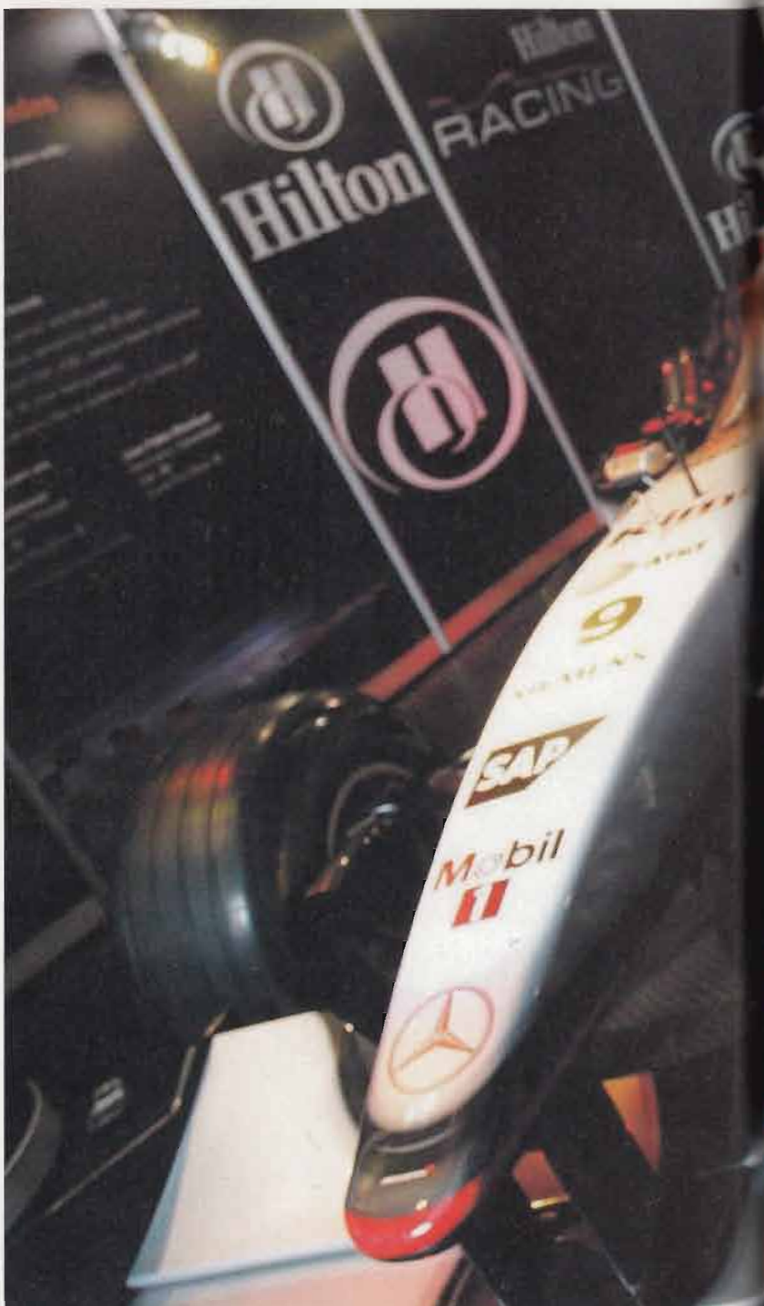
"From a pure product perspective, there's no difference," he says. "The process of selling is very similar. We sell our products through virtual stores and actual stores – we do it through travel agents, we do it online – and we did the same with power tools. In the end, you are judged very quickly on your quality and customer service – the same in both businesses."

Building loyalty has been one of Carter's fortes, and this serves him well at Hilton. He explains that people often buy power



tools as impulse purchases, to perform immediate tasks; similarly, hotel stays can be spur-of-the-moment and, as he says, in both cases "if it doesn't work, you've immediately lost your loyalty. It's very difficult to build back up. With a hotel room, you can stay 50 times but you remember the one bad one."

MORE CHALLENGE

There are obviously some differences between the two industries. Carter stresses that, unlike consumer goods, hotel rooms are perishable in that, if they are not sold by close of business, they equate to lost sales. "That's more of a challenge," he says. But it has its upsides. "What I like about it is that it's very immediate," he says. "If you get it right, you get the feedback very quickly."

Carter says that his international background, working with branded products, made him an attractive candidate, and three management principles are at the heart of his style.

First, he places focus on financial discipline at the top of his list of credentials. "It's not that the financial disciplines didn't exist, it's more that we probably place greater emphasis on their longer-term impact and how we make decisions on investments," he says. And in a hotel company which is morphing its business model from owning to selling and managing properties, a long-term perspective is crucial to optimal management of capital.

Second, Carter says that the secret to the smooth running of Hilton is asset allocation. "Ultimately," he says, "my role in the business is to ensure that we have allocated the resources in the right place. In my previous jobs, I've run global businesses and the decisions are the same. The question is: how are we going to allocate the resources for the best possible return? At Black & Decker, I could allocate more resources to engineering to develop great products, or I could put more people in sales and marketing to influence market – and it's the same here."

Finally, Carter's style is macro-management. As he says, "when you've got a great team, let them perform. If you have a hands-on prescriptive approach, you stifle creativity."

Carter's first big project at Hilton employed all these management principles. The creation of the Commercial Operations Group (COG) involved putting sales, marketing, distribution and IT under one roof globally. The heads of the four divisions are based at the company's Watford HQ, and his model has also been adopted in the USA.

There have been tangible benefits, such as a 5-6% increase in nights booked and associated F&B spend. He says that implementing the COG benefited the UK more than any other region because of the country's high operational costs. He also stripped out business areas with duplicated costs and cut loss-making promotions.

IAN CARTER: CV

Age 44
Born near Newcastle
Home Surrey
Status married, with one daughter
Leisure interests rugby, tennis and squash

Appointed chief executive officer of Hilton International in February 2005. Became an executive vice president of Hilton Hotels Corporation in March 2006.

Before this, he was an officer and president of Black & Decker Corporation, Europe, Middle East, Africa and Asia.

He has worked for consumer products conglomerate Unilever and for British Steel, and spent 12 years at General Electric, where he ran its chemical business in the USA.

IN GREAT SHAPE

So successful has the strategy been that, even in the wake of last year's terrorist attacks in London, Carter says: "We actually did better than expected in the fourth quarter, and we started this year in great shape, with the bulk of our big London hotels full in July and August." However, he adds that costs have soared so high that, despite a buoyant market, it's still "not enough to get us back to the EBITDA [earnings before interest, tax, depreciation and amortisation] we made pre-9/11".

To make the greatest gains, Carter is pinning his hopes on the introduction of new Hilton brands from the USA. "That will be the biggest single benefit of the merger by a long way," he says, adding that negotiations are under way to bring in US Hilton brands such as Hilton Garden Inn, Hampton Inn and Doubletree by the end of 2006.

This will be a new world for ▶

◀ Hilton, which, unlike other global players, doesn't have a well-established group of offerings at all service levels. As Trevor Ward, managing director of the W Hospitality Group, says: "Hilton are lagging behind somewhat, partly because they have been a one-horse stable for so long."

Carter says research shows that brands such as Doubletree will all have "by Hilton" added to the brand outside the USA to aid recognition, but he still accepts that differentiating between the Hilton brands is a challenge. Although all seven of the brands operating thus far exclusively in the USA could migrate abroad, it isn't likely. "It would spread us too thin," says Carter.

Ward comments: "Doubletree means very little in Europe. They will have to provide a huge amount of marketing support to launch brands in markets which are very crowded." Other sources say this is where the strategy could come unstuck. One leading hotel consultant, who didn't wish to be named, says: "The real issue here is whether they're prepared to put enough money behind launching new brands worldwide."

Given the importance attached to brands, it's perhaps no surprise that Hilton has hired a brand expert to lead the strategy. However, his toughest job may lie with reasserting the Hilton brand itself. The consultant adds: "Of late, many feel it has been dwarfed by key competitors in coming up with more innovative ideas in product development, and more particularly growth in number of hotels."

The Zeta Bar in Kuala Lumpur is one face of the new trendy Hilton, while (below) US brand Hampton Inn is to go international

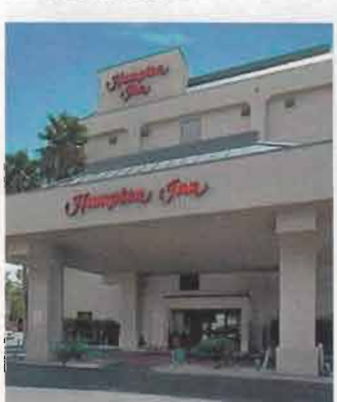
NEW BRANDS

Carter smiles at the suggestion that Hilton's brand has been spread too widely. Reflagging existing hotels with the new midmarket brands is one solution under consideration. "The opportunity to rebrand existing property, given the new portfolio that we own, is an integral part of our overall brand and development review right now, and not just in the UK," he says.

However, since many of these properties are not owned by Hilton, the owners may oppose plans to downgrade a property's status for fear it might affect trading. There are other difficulties, according to the consultant, who says: "Having a master brand then naming all the sub-brands as by-products of Hilton will only breed confusion as to what the master brand stands for."

Carter projects steady growth from the new brands. Next year, Hilton plans to open 5,158 rooms across 23 hotels, and Carter says: "Internationally, we are going to more than double our business in the next three or four years in terms of rooms." He says even developed countries such as Germany and the UK will have room for growth, since Hilton can move into the midmarket with its US brands.

But although it's growing, Hilton isn't changing its strategy of managing rather than owning properties. Hilton has two UK hotels for sale – both Metropoles, in Birmingham and London – and Carter expects the deals to close in September for more than £400m.



Internationally, Hilton's reinvestment stands at about 7% of revenue and Carter explains that capital from property sales is used to pay down debt, invest in new opportunities and develop its high-return timeshare business. "At some point in the future, we will pay back dividends to shareholders in the form of share buybacks," he adds.

Goldman Sachs recently said that Hilton expects to sell most of the international assets acquired in the merger over the next one to three years, getting its owned property down to about 30% from 43%.

However, Carter says that he cannot envisage that Hilton will ever get entirely out of bricks and mortar, since flagship assets are needed in gateways as examples for franchisees. "We have only 25 franchises but I expect that, five years from now, we will have three-digit numbers," he adds.

Despite such bullish forecasts, Carter must still counter criticism that Hilton's brand has become tired. In early January, the company announced a $1b (£540m) "reignition" campaign including property enhancements, advertising and new guest services. The new face of Hilton has trendy branded bars such as Zeta in London, Sydney and Kuala Lumpur, and the Purple Bar in Paris's Hilton Arc de Triomphe. Carter also personally spearheaded a sponsorship deal worth around $2m (£1.1m) with the McLaren-Mercedes Formula One team.

With new brands finally unchained, Carter has a free rein. Indeed, his strictest limitations may come from global HQ in Beverly Hills, California. "There must be a temptation to put a Hilton US person into the international business to try for some culture harmonisation," says a source.

Carter's international brand experience could be enough to ultimately get him the top job in the USA, and meeting his target of doubling business in a matter of years would make his mark. It may not be too long before Hilton International has to hire again.

HILTON HOTELS: OPERATING DATA

Quarter to March 2006	
Revenue	$1.519b (£820m)
Gross profit	$536m (£289m)
Operating income	$225m (£121m)
Total net income	$104m (£56m)
Year-end December 2005	
Sales	$3.831b (£2.068b)
Net income	$460m (£248m)
Market capitalisation	$10.184b (£5.497b)
Employees	61,000