

Nobody Asked Me, But.... No. 31

Blackstone's Acquisition of Hilton, The Art of Groveling, The Origin of Franchising, Key Facts about Franchising, Quote of the Month

By Stanley Turkel, MHS, ISHC

1. Blackstone's Acquisition of Hilton- If you want my considered opinion about the Blackstone acquisition of Hilton, just remember that private equity investors buy and sell companies usually with other people's money. They put up a tiny slice of their own capital and multiply it with investments from pension funds, wealthy individuals and foreign government investments. They shake the acquired companies up, cut spending, reduce reserves and then resell them to smaller investors in the public markets. Some of these equity firms "rip, strip and flip". Look at the Hilton family of brands one year from now to see which have been sold and discarded. Look at the roster of Hilton executives one year from now to see whether a personnel bloodbath has taken place.

Finally, let's see if Jonathan Gray, a senior managing director at Blackstone, lives up to his statement, "we are committed to investing in the company and working with Hilton's outstanding owners and franchisees to continue to grow and enhance the business." What will happen with the overlap in the middle tier with Hilton Garden Inns, La Quinta and Hampton Inns? Or in the luxury tier with the overlap of the Waldorf=Astoria Collection, Conrad Hotels & Resorts and the Blackstone LXR portfolio?

2. The Art of Groveling- Steve Rushmore's "The Art of Groveling" column in Hotels magazine (August 2007) is a classic description of how to handle a public relations disaster in your hotel.

Rushmore's solutions are brilliant:

- Accept full blame
- Start groveling immediately
- The apology needs to be sincere and from the heart

- Repeat your apology several times using different words and phrases
- The solution/compensation needs to exceed expectations
- Empower everyone to grovel and provide immediate solutions
- Immediate compensation is best
- Don't forget the quid pro quo

For those not familiar with the term, Rushmore defines “grovel”: to humble oneself or act in an abject manner, as in great fear or utter servility.

3. The Origin of Franchising As a Business Format- Who was the first to utilize franchising as a method of expansion? Was it Howard Johnson's, Holiday Inns, McDonalds, A&W Root Beer or the Singer Sewing Machine Co.? My research reveals that it was none of the above. It was, in fact, Martha Matilda Harper (1857-1950) who used the franchising technique to expand her Harper Hairdressing Parlors to other outlets.

After years of domestic service, Harper used her savings to open Rochester's first public hair salon. The demand for her products and services grew so quickly that she launched a new business model (“a franchise”) in 1891, and by the 1920s there were 500 franchised Harper Shops worldwide. Each salon was run by a woman trained in the regimented “Harper Method” of beauty but the franchisees owned their own salons. Harper inspected the franchises, provided training and group insurance and supported them with worldwide advertising campaigns. Harper Shops offered countless low and middle-income women economic security. Harper is credited with other groundbreaking employment practices including paid personal time off, flexible financing and profit sharing. Harper was also a marketing innovator long before the phrase “customer service” came to be. Harper Shops offered evening hours and childcare for working women. She invented the reclining shampoo chair that is used throughout the world today, and produced her own natural hair and skin care products which she tested on her own glorious floor-length tresses. Harper customers included Susan B. Anthony, First Ladies Coolidge, Kennedy and Johnson and Helen Hayes. Harper also established beauty training schools (Rochester, NY; Atlanta, Georgia; Madison, Wisconsin; and Calgary, Alberta) and laboratories in Rochester, N.Y. and Niagara Falls, Ontario where “Mascaro” products were manufactured.

In 1920, Harper married Robert Arthur McBain, a man 24 years her junior and they ran the business together for 15 years until Harper retired at age 78 and passed control to him.

4. Key Facts about Franchising- If you want to know what Martha Matilda Harper started, here are the key facts about the franchising sector in 2003:

- Franchised businesses generated jobs for more than 18 million Americans
- More than 760,000 franchised businesses generated a total economic output of more than \$1.53 trillion, or nearby 10% of the U.S. private-sector economy.
- Employed 9,797,000 people directly
- Resulted in more than 18 million jobs or nearly 14% of the nation's private-sector employment
- Accounted for 622,272 establishments.

5. Quote of the Month- "If you really want something in this life, you have to work for it. Now, quiet! They're about to announce the lottery numbers."

Homer Simpson

Stanley Turkel, MHS, ISHC operates his hotel consulting office as a sole practitioner specializing in franchising issues, asset management and litigation support services. Turkel's clients are hotel owners and franchisees, investors and lending institutions. Turkel serves on the Board of Advisors at the NYU Tisch Center for Hospitality, Tourism and Sports Management. If you need help with a hotel franchising problem such as encroachment/impact, termination/liquidated damages or litigation support, don't hesitate to call 917-628-8549 or email stanturkel@aol.com.

If you would like to reserve an autographed copy of Mr. Turkel's new book "Great American Hoteliers: Pioneers of the Hotel Industry" (to be published at the end of 2007), send an email to stanturkel@aol.com.