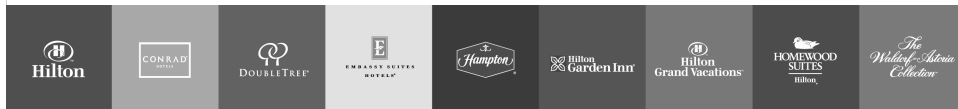




The Hilton Family

Category Sourcing

Executive Strategy Meeting
March 27, 2006



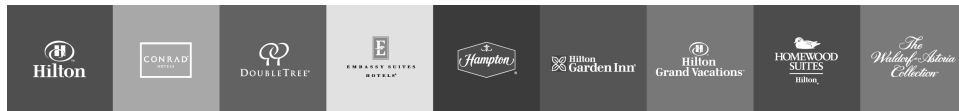
The History of Purchasing and Supply Management

- Purchasing has always been a function, just not a discipline
- 1st college course – 1917
- 1st college textbook – 1933
- Overshadowed by established business disciplines



The History of Purchasing and Supply Management (cont)

- 1960's-1970's
 - Buyers focused on purchase price and prevention of line shutdowns.
 - Manual systems used to manage inventory
 - Inventory management was a secondary concern
- 1980's
 - Marketplace had become more international
 - Technology
 - Inventory management became critical



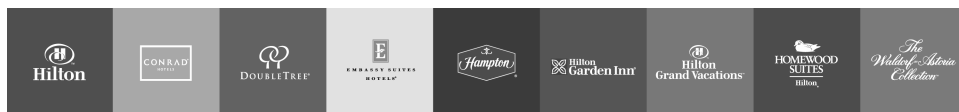
The History of Purchasing and Supply Management (cont)

- 1980's
 - All things Japanese
 - Kanban – pull system - led to JIT
 - Kaizen – continuous improvement
 - Realization of need for two types of purchasing personnel
 - Managers of operational and tactical issues
 - Broad, strategic focused supply managers
 - Six Sigma
- 1990's
 - Computerization
 - eProcurement
 - Reverse Auctions
 - Electronic Data Ownership

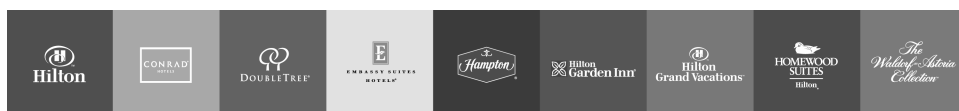
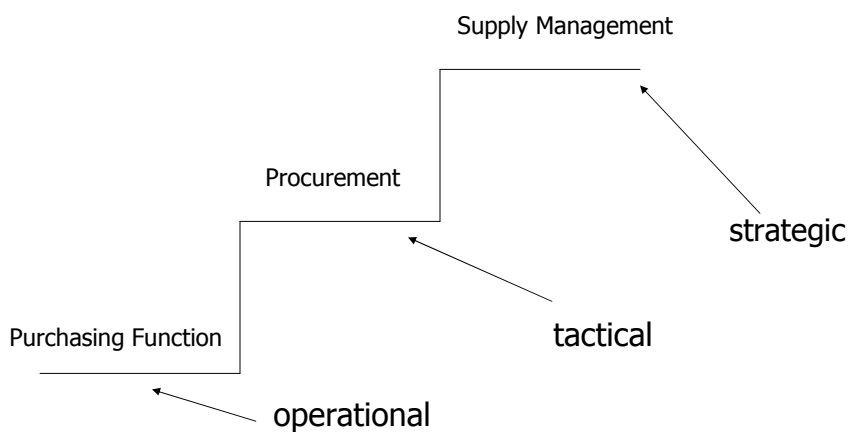


Importance of Purchasing

- 2006 estimate - U.S. firms buy over \$1.5 trillion worth of goods each year
- Purchases represent largest single expense of doing business
 - Value of purchases average 57% of sales in manufacturing industries
 - 15% of revenues for service industries

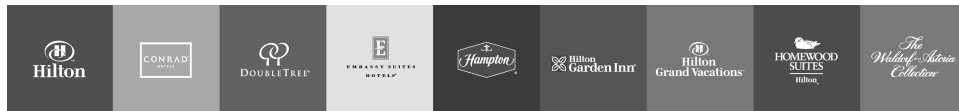


The Evolution of Purchasing



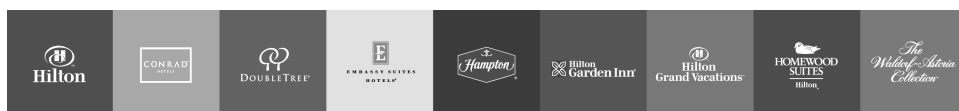
Purchasing Defined

Purchasing is the function and process of obtaining materials, products, and services for the firm.



Purchasing Function

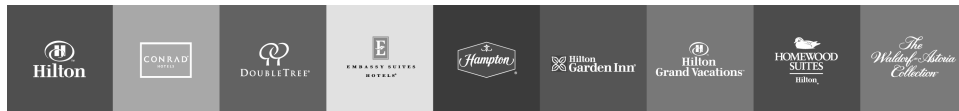
- Comprises the essential activities associated with purchasing:
 - Records Management
 - Issuance of Purchase Orders (PO)
 - Day-to-Day problem management
 - Primary supplier selection and interaction
 - Blanket Purchase Orders



Managing the Supply Chain

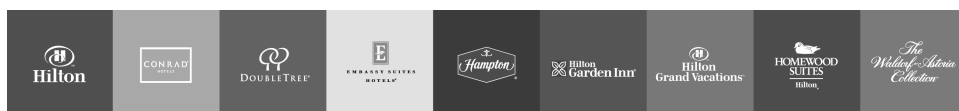
Hospitality's Past Practices . . .

- 3 bids and a cloud of dust!
- Ordering via telephone, fax, sales call
- Buying via open marketplaces
- Limited consolidation
- No computers
- No cell phones or Blackberries
- Storeroom clerk



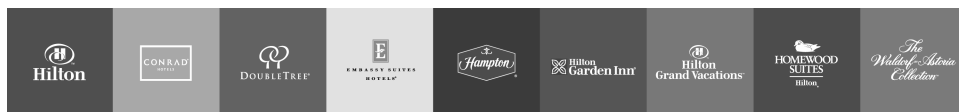
Procurement

- Wider range of activities than those included in Purchasing
 - All Purchasing activities
 - Development of service requirements and specifications
 - Management of supplier quality
 - Market analyses and studies
 - ESI/EPI



Supply Management

- All Purchasing and Procurement activities
- Development of strategic, long-term acquisition plans
- Continuous Improvement involvement
- Participation in corporate business strategy
- Involvement in supplier development
- Involved with all departments of an operation
- Commitment to Social Responsibility

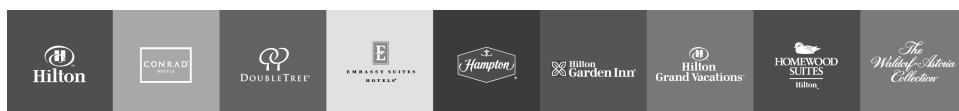


Supply Management

. . . defined

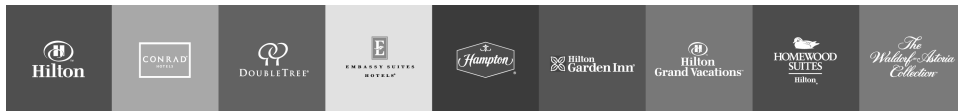
“The identification, acquisition, access, positioning, and management of resources that the organization needs or potentially needs in the attainment of its strategic objectives.”

*Joseph L. Cavinato, Ph.D., C.P.M.
Institute for Supply Management, Inc. (ISM)
August 15, 2001*



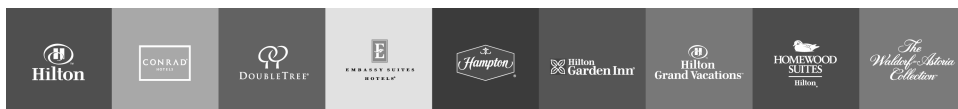
Results of the Evolution

- Formalized Purchasing Departments
- Purchasing and Procurement “Professionals & Executives”
- Purchasing Certifications (i.e C.P.M., CFPM)
- Inter-firm relationships (Supply Chain)
- Larger budgets
- Cross-functional teams internally
- More strategic dependence on Supply Management
- Communication at the speed of light



Supply Management's Relationship with Other Departments

- Supply management department is the hub of a large part of a company's business activity
- Supply management has continuing relationships with all other departments
- Supply management's operations cut across all departmental lines
- Involvement in all corporate spend initiatives

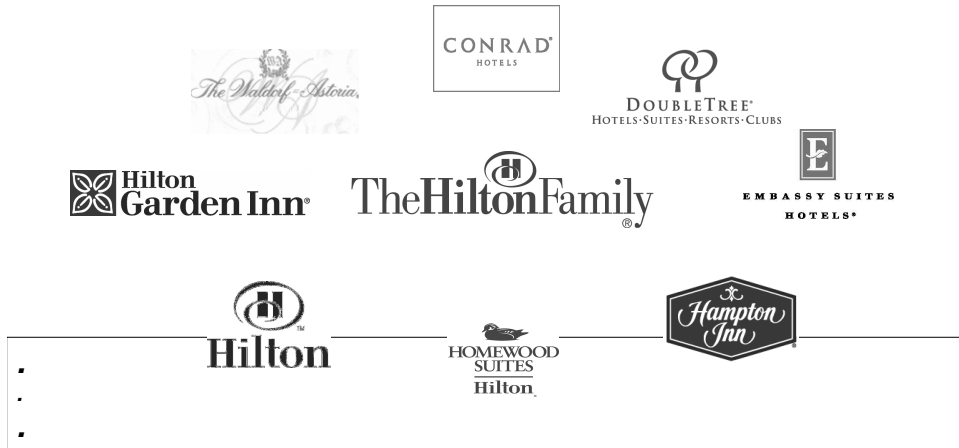


The Hilton Family of Brands

Diverse **BRANDS!**

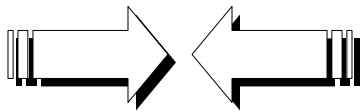
Diverse **OWNERSHIP!**

Diverse **LOCATIONS!**



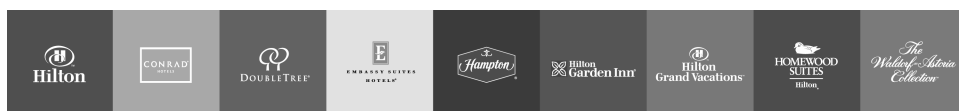
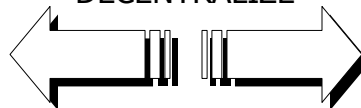
Multi-Location Purchasing Issues

CENTRALIZE



OR

DECENTRALIZE



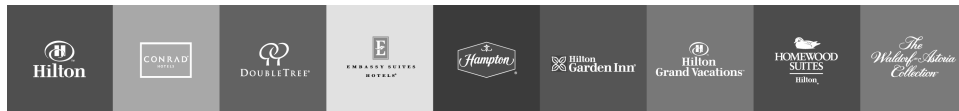
Advantages Points

Centralization

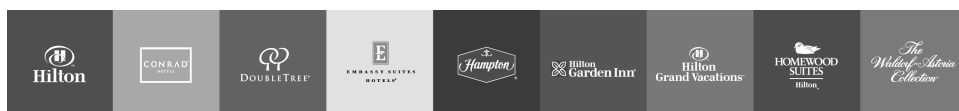
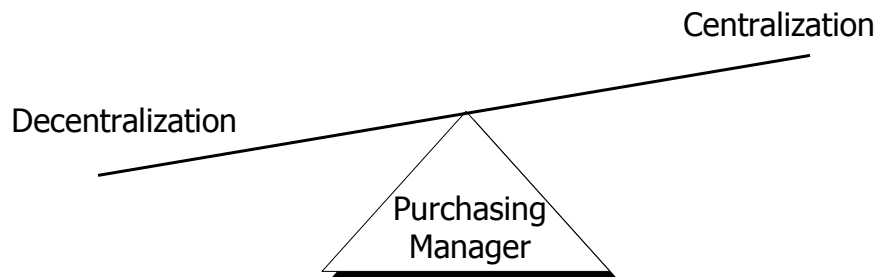
- Greater Buying Specialization
- Consolidation of Requirements
- Easier Purchasing Coordination and Control
- Effective Planning and Research Work

Decentralization

- Easier Coordination with Operating Departments
- Speed of Operation
- Effective Use of Local Sources
- Autonomy

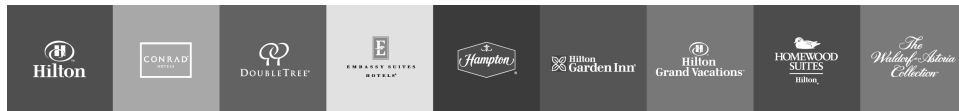


The Trend....



Balance

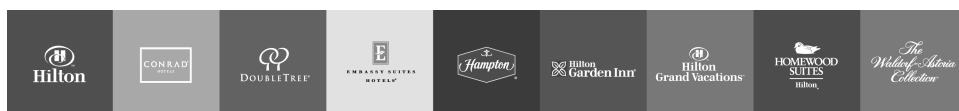
- 60% of Fortune 1000 firms have a “hybrid” purchasing set-up
- 26% are strictly centralized
- 14% are strictly decentralized



Managing the Supply Chain

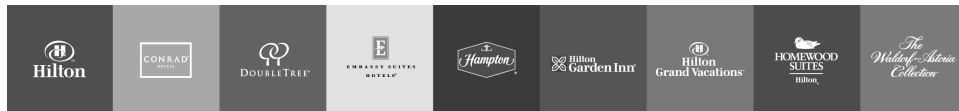
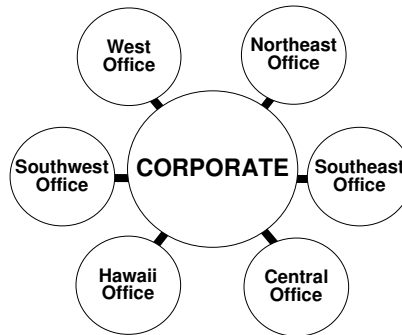
Hospitality Operational Restraints

- Purchase Volume / Average Dollar Drop Size
- Types of Products Needed
- Number of Line Items Required
- Geographical Spread of Company
- Variety of Concepts
- Quality and Other Control Factors
- Expertise



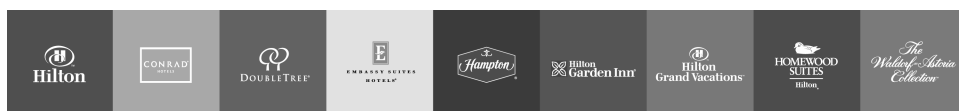
Supply Management at Hilton

Utilizes a hybrid approach with aspects of both Centralized and Decentralized Supply Management



National Programs

- Negotiate & administer contracts directly with manufacturers and suppliers
 - Two Pronged Approach
 - Merchant of Record
 - Global, National, Regional, Local, Hotel, Outlet
- Commodity and Discipline Segmentation
 - Rooms - Furniture, Fixtures & Equipment, OS&E
 - Food & Beverage – consumables and operating supplies and equipment
 - Property Operations - Maintenance, Repair & Operating Supplies, Utilities, and Services
- Product development (ESI/EPI)
- Develop product standards and brand standards
- Ensure that manufacturers and suppliers meet product standards & specifications

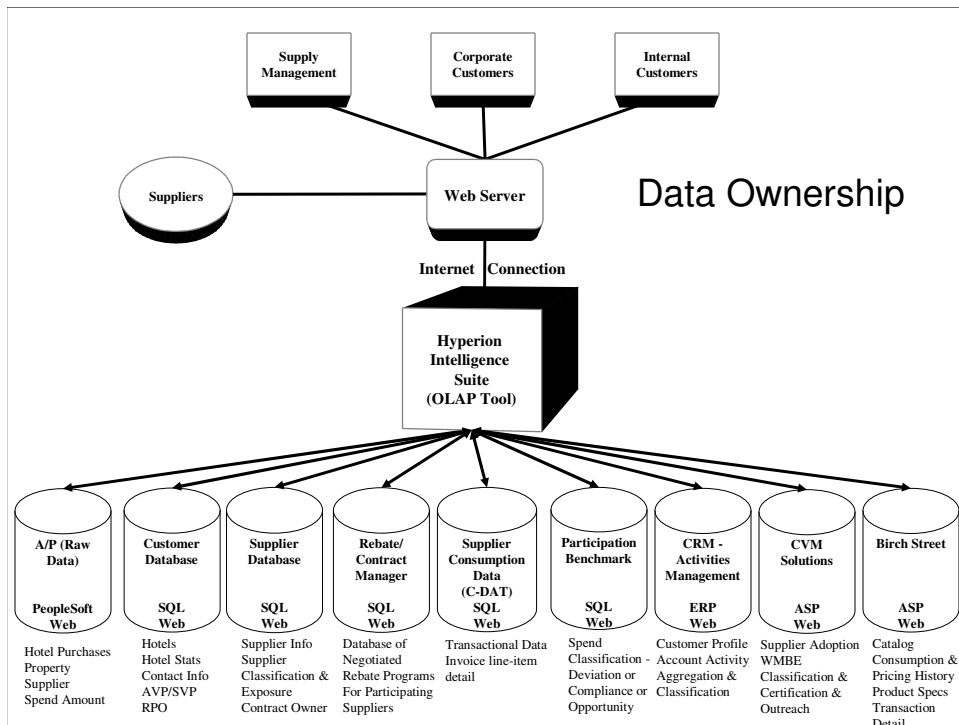
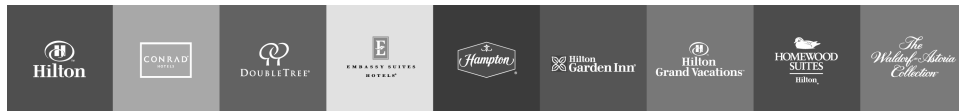


Regional Programs

Capture geographic synergies, realize economies of scale, and enable sharing of resources and information in the field.

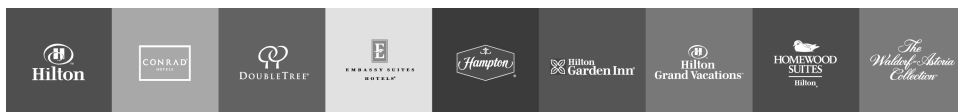
Key Benefits:

- Leverage regional buying volume
- Supplier consolidation (***fewer deliveries, invoices & checks***)
- Improved forecasting
- Program controls (***enforce product standards, supplier audits, supplier management, process controls, supplier ethics***)
- Develop and support local purchasing staff
- Close to the end user



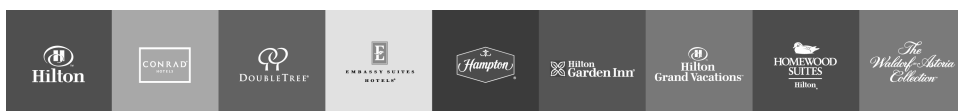
Hilton's e-Procurement Private Marketplace

- Controls spend prior to purchase
- Facilitates electronic purchasing and supply management activities through contracted and approved suppliers.
- Connects multiple brands and locations to leverage the purchasing power of our organization.
- Gain control of spending with contract catalogs and purchasing templates
- Establish custom workflow and monitoring tools
- Contract / Standards compliance / Performance metrics
- Aggregate purchasing
- Minimize operational costs



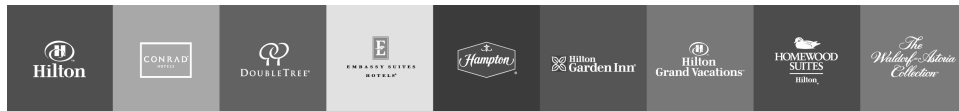
Unique Features

- No cost to hotel or supplier
- Supplier updated pricing
- Catalogs, Pictures, Order guides by brand or hotel
- Declining Checkbook
- Electronic Workflow and Approvals Control
- Receiving
- Inventory module
- Recipe module



Participation Benchmarks

- Ensures that hotels utilize both national and regional programs and service offerings to maximize their total spend.
- Utilizes OLAP Technology (*On-Line Analytical Processing*)
 - Gathers data from various databases and file servers
 - Enables multi-dimensional reports
- Key Benefits:
 - Bring value to the bottom line, which may reduce costs by 8-15%
 - Overall participation is 96%
 - Improves brand consistency, reduce costs, and add value to the hotel's overall operations

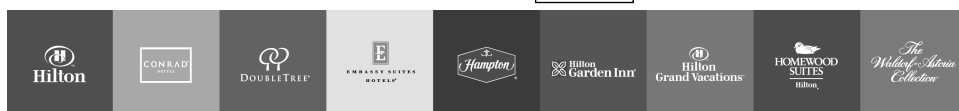


Balanced Scorecard Approach

Program Participation Q4 '05

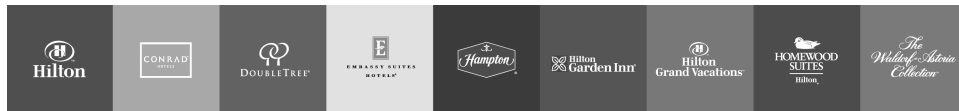
Doubletree Guest Suites	\$ 157,205	\$ 170,496	92%
Doubletree Hotel	\$ 321,554	\$ 390,269	82%
Doubletree Resort	\$ 514,722	\$ 523,417	98%
Doubletree Hotel	\$ 983,227	\$ 998,874	98%
Hilton Resort	\$ 3,771,119	\$ 3,882,849	97%
Hilton Hotel	\$ 318,264	\$ 418,939	76%
Hilton Hotel	\$ 858,889	\$ 859,778	100%
Hilton Hotel	\$ 430,456	\$ 510,421	84%
Hilton Suites	\$ 199,152	\$ 206,769	96%
TOTAL MARKET	\$ 7,397,383	\$ 7,791,316	95%

Balanced Scorecard:	85% or higher	GREEN
	80% to 84%	YELLOW
	79% or below is RED	RED



Data Mining

- Invoice level SKU information
- Company spend analysis
- Rebate calculations and reconciliation
- Contract price audits
- Monitor program compliance
- Manage program penetration
- Contract management
- Identify new business opportunities



Questions & Answers

