



## Logistics Association of Australia Ltd

### THE RITZ-CARLTON COMPANY

In the third of his reports, 1993 International Study Award winner Terry Brookshaw reports on Ritz-Carlton, the first hotel chain to win a Baldrige Award for quality service.

The first impression on entering the lobby of The Ritz-Carlton Hotel in Buckhead, Georgia, Atlanta, the corporate headquarters of the Ritz-Carlton Hotel Company, is understated quality and efficiency with a reputation of both people and systems.

A hotel chain with a reputation as the premier luxury company could be expected to be opulent. However, what is experienced is neither excessive opulence nor luxury. The décor and presentation of staff gave an impression of dignity, quality and genuine pleasure to serve.

In fact, the hotel chain's motto is "We are Ladies and Gentlemen serving Ladies and Gentlemen". Horst Schulze, the company President and Chief Operating Officer is quoted as considering himself a fanatic about customer satisfaction and expresses the company philosophy as "Service begins with people, not servants, responding to the requirements of other people. No-one's importance is inherently diminished. Service can only be accomplished by people. The Hotel can be breathtakingly beautiful and the food memorable, but a poor employee attitude can quickly sour the experience."

This led to a deeper investigation of The Ritz-Carlton Company and how it became the first Hotel chain to win the service category in the Malcolm Baldrige National Quality Award (MBNQA), winning for not just providing lodgings, but for providing a very reliable product that gives customers exceptional value for their dollar.

The Ritz-Carlton Hotel Company is a management firm that develops and operates luxury hotels world-wide. It was formed in 1983 when Atlanta-based W B Johnson Properties purchased exclusive USA rights to the Ritz-Carlton trademark along with the Boston Ritz-Carlton Hotel. Today under the leadership of William B Johnson (CEO) and Horst Schulze (COO), the privately owned company operates 27 hotels and resorts in the United States and Australia. Its future international expansion plans include adding hotels in Hong Kong and Barcelona, and Ritz-Carlton also has 9 international sales offices and employs 11,500 people.

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Ritz-Carlton quality planning begins with the President and 13 other senior executives who make up the corporate steering committee. The group, which doubles as the senior quality management team, meets weekly to review the quality of products and services.

Each year executives devote about one-fourth of their time to quality related matters. The President in fact does the initial induction of new employees and quality training himself, before the opening of every new hotel.

Time with customers and employees accounts for nearly 90% of the schedules of senior staff members. They realise that the line worker is the one who directly impacts the customer and, in essence, the company market share, profit margin and overall success. It is based on the concept that employee satisfaction is directly related to customer satisfaction. They believe that an employee will really do a good job if they feel part of the organisation and not merely working for an organisation.

The Ritz-Carlton people turnover is 48% annually versus 100% industry wide. Employees, whatever their position, are empowered to solve a guest complaint, respond within ten minutes and follow up within twenty minutes with a phone call to ensure satisfaction. The employee who receives the complaint owns it and is empowered to solve it. The company is pilot testing giving authority of up to \$2,000 to front desk employees to ensure total customer satisfaction.

Is the emphasis on leadership and employee training and satisfaction an accident? Apparently not. The quality approach to service is only new in name to the Ritz-Carlton staff. Since opening in Boston in 1922, the Ritz-Carlton has catered for the needs of the prestigious traveller. Brian Kaznova, an executive consultant who has worked with the company for more than two years familiarising the company with the MBNQA criteria, states that the company managers weren't always aware of their own practices and were initially fearful of Total Quality Management (TQM). They perceived it as too regimented and geared towards manufacturers rather than service providers.

Through the mid-80s the Ritz-Carlton appeared to be doing everything right. Occupancy rates were higher than the competition and expansion plans were in place. But recession clouded the company's bright future. Managers were concerned with reducing service variability, cost of quality and reducing waste such as cycle time. This may also have coincided with W B Johnson Properties acquiring the exclusive rights to the Ritz-Carlton trademark in 1983.

Horst Schulze the President rated them at that stage as about 6 out of 10, which meant that all of their customers were still not being satisfied all the

time. They felt fortunate because the competition was assessed as rating at about 5 out of 10.

They say the need for continuous improvement. More money was spent on marketing to get back lost customers than to improve market share and gain new ones.

The hardest thing for President Schulze was to overcome his ego and admit that he really didn't know how to take the company beyond where it was. Once he did that, he states, the job became easier. Despite a desire to find areas of improvement they had run out of ideas. Several main customers and quality organisations suggested the Baldrige criteria for guidance. Although hard to understand at first, they realised it could serve as a road map.

The company started benchmarking several early Baldrige winners like Motorola, to learn how they instituted quality improvement programmes. From the Ritz-Carlton plunged head first into TQM with astonishing results. In 1991 they received 121 quality related awards and earned industry best ranking from all three major hotel rating organisations. Independent research commissioned by the chain shows that 97% of its customers aren't just satisfied, but say they have a "memorable experience" when staying at a Ritz-Carlton Hotel.

The company believes that its continuous improvement activities have intensified five-fold since using the Baldrige criteria as the road map. It has given them the understanding of the significance leadership aspects have in continuous improvement. Patrick Mene, the Corporate Director of Quality said the company has learned that the executives are responsible for every aspect of guiding the effort and being trained first in all aspects.

Not every executive wants the responsibility for being on the Strategic Planning team and some managers are better suited to a team approach than others. They use screening methods to determine who shares the company values. They also took for granted that good Ritz-Carlton employees would work naturally together as a cross-functional team and go forward. But what they found was more time was needed to allow the team members to get to know each other and learn how to build and maintain support before they could really get the kind of improvement they wanted.

The Baldrige Award turned out to be good news and bad news. The feedback report received after winning the award suggested 75 areas for improvement. For example, it was found all cycle time reduction teams in each hotel were working on the same process. Instead it was recommended that each hotel team work on a separate process for cycle time reduction and monitor the process improvement. This would then be taken up by the other hotels. The next step was to go right after defects. Ritz-Carlton have announced to employees that by 1996 they want to reduce cycle time (the time between

identifying a guest's need and satisfying that need) by 50% and set an objective of 100% customer retention.

What they have done is set goals of enormous magnitude on the heels of winning the Baldrige Award.

They have new high quality goals and aren't stopping at Baldrige. They want to achieve six sigma performance (99.99966% good or 3.4 defects per million opportunities). A defect is anything that results in customer dissatisfaction.

The Ritz-Carlton Hotels estimate they have more than one million employee-guest interfaces each day. They see that, as a four sigma company, that translates to 6,200 errors per day.

The impact the company sees to the supply chain, is the need for an integrated and multi-functional approach with a continuous improvement philosophy, whether method, machine, material or people, to transform the work into a product or service with minimum variability, satisfying the customer and achieving a world class standard.

Suppliers are not vendors. They are either not-acceptable, acceptable, certified or full partners. The company will only deal with suppliers capable of continuous improvement. They choose suppliers ultimately on their quality standards, not just on their price tag.

Work is processed through a system and management must decide where to concentrate its efforts.

The Ritz-Carlton recognises that its customers are placing greater emphasis on reliability, timely delivery and price value.

Ritz-Carlton asks its suppliers to join the chain in adopting the principles of TOM. Suppliers are asked to conduct self-assessments of their quality efforts or by applying for the Baldrige Award themselves.

The company measures how often suppliers meet specification on time and how well they improve their cycle time from order to delivery. If the willingness is not there, then they no longer do business with that supplier.

The internal self-assessment involves a rigorous 100 question internal audit of suppliers' capabilities, plus a survey of the people who use their products and services, including personnel, sales persons and hotel guests who also rate the quality of those suppliers' products and services. Ritz-Carlton rank the suppliers based on a score developed from the supplier audits and user surveys. The goal is to get suppliers to advance through a certification program to become a fully integrated partner.

If the Ritz-Carlton experience teaches us anything, it's that a focus on customer satisfaction must be built into management processes of the organisation and supported through an integrated system of information analysis, total employee participation, training and continuous effort to improve service and quality.