

1999
Application Summary



THE RITZ-CARLTON®
HOTEL COMPANY, L.L.C.



THE RITZ-CARLTON® HOTEL COMPANY, L.L.C.

at a Glance

Products and Services: *The Ritz-Carlton Hotel Company, L.L.C. develops and operates luxury hotels for others. The hotels are designed and identified to appeal to and suit the requirements of its principal customers who consist of: (1) Meeting Event Planners and (2) Independent Business and Leisure Travelers.*

President & COO: *Horst Schulze*

Headquarters: *3414 Peachtree Road, N.E.
Suite 300
Atlanta, Georgia 30326*

Operations: *One Central Reservations Office
Seven International Sales Offices (ISO's)
24 Hotels and Resorts in North America
Two Hotels in Europe
Eight Hotels and Resorts in Asia
Two Hotels in Australia
30 Hotels under Development*

Customer Base: *Over 800,000 Customers World-wide*

1999 Revenue: *\$1.5 Billion. A 40% increase over the previous five years.*

Employees: *17,000 World-wide, known as The Ladies and Gentlemen of The Ritz-Carlton*

History: *Established in 1983, the former owner, W.B. Johnson Properties, acquired the exclusive North American rights to the Ritz-Carlton trademark, the foremost name in luxury hotels. This status was largely due to the legendary Caesar Ritz who developed and operated two of the world's best hotels in Paris and London. The hotels achieved such fame in the marketplace that they attained what is often referred to as "The Ritz Mystique". In 1995, The Ritz-Carlton was jointly acquired by Marriott International Inc. to achieve their strategy of entering the luxury hotel segment of the industry; the takeover/merger occurred in 1997.*

Overview

A History of Managing for Performance Excellence in the Hotel Industry

Previously, in tiny hotels and inns, the innkeeper directed activities in the organization personally, including “managing for quality”. As hotels grew in size, the volume of activity outgrew the capacity of the innkeeper to manage by personal direction – it became necessary to delegate.

Apprentices were trained in the craft and qualified by examination to become craftsmen. The innkeeper - the master - then delegated much of the managing for quality to the craftsmen, subject to inspection and audit by the master. Many of our standards go back 100 years to this era of Caesar Ritz and the legendary Chef August Escoffier.

As we entered the 20th century, the size of a hotel and its organization sharply increased. The resulting large hotels required functional departments. The innkeeper - now a general manager - delegated to each functional department head the responsibility for quality, for performing the function correctly.

With the emergence and growth of technology, hotel products and processes became increasingly complex. To deal with these new complexities the hotel industry adopted the principle of separating planning from doing. Planning of the various departments was delegated to division and department heads (e.g. Food & Beverage managers, Rooms Executives, Purchasing Directors, etc.). This left the job of executing the plans to the first-line supervisors and the workforce. The separation of planning from execution had four major consequences.

1. A factory concept emerged in which people were assigned one task rather than a single craftsman performing the entire sequence of tasks. In this factory approach, if task #11 was causing a problem for task #24, it wasn't identified until it reached the customer, and even then the problem likely continued.
2. A dramatic rise in productivity.
3. The segregation of divisions and departments.
4. A further distancing of upper managers from the job of managing for quality.

The progressive removal of upper management from managing for quality produced negative effects on quality. Typically, performance either fell short of customer need or the cost to meet the need became excessive. In addition, the hotels accumulated huge chronic costs as a result of poor quality.

Most hotels remained profitable despite these quality deficiencies because competitors had similar problems.

Ritz-Carlton Returns to the Fundamentals: Upper Management Participation

Then came 1983 and Horst Schulze. The pace quickened with a lengthy procession of new Ritz-Carlton Hotels under development. Faced with this challenge, Horst Schulze and his team decided to personally take charge of managing for quality because they realized managing for quality could not be delegated!

The upper management participation of Horst Schulze and his team ranged across a broad spectrum, but most significant activities consisted of:

- Defining the traits of all company products which are set out in The Credo. For a full explanation of The Credo, see Figure 1 on page 2.
- Translating The Credo into basic standards to clarify the quality responsibilities for our Ladies and Gentlemen; the most important of which include: (1) anticipating the wishes and needs of the guests (2) resolving their problems and (3) genuinely caring conduct towards guests and each other.
- Personally training the Ladies and Gentlemen of a new Ritz-Carlton on The Credo and Basic Standards, commonly referred to as The Gold Standards, which are shown on page 2 as Figure 1.
- Aggressively instilling a passion for excellence.

Another Major Change, A Comprehensive Structure

By 1989 Horst Schulze realized that a more comprehensive structure was necessary for the Ritz-Carlton to optimize its performance. He selected the Malcolm Baldrige National Quality Award Criteria. Through the use of this assessment tool and the resulting feedback reports, The Ritz-Carlton developed a “Roadmap” to business excellence (see pages 3-4) which has attained significantly higher performance levels. A major ingredient of this approach was involving people in the planning of the work that affects them.

**THREE STEPS
OF SERVICE**

- 1
A warm and sincere greeting.
Use the guest name, if
and when possible
- 2
Anticipation and
compliance with guest needs.
- 3
Fond farewell. Give them
a warm good-bye and use their
names, if and when possible.

*“We Are
Ladies and
Gentlemen
Serving
Ladies and
Gentlemen”*

**THE EMPLOYEE
PROMISE**

*At The Ritz-Carlton, our
Ladies and Gentlemen are the
most important resource in our
service commitment to our guests.*

*By applying the principles of
trust, honesty, respect, integrity
and commitment, we nurture
and maximize talent to the
benefit of each individual
and the company.*

*The Ritz-Carlton fosters a work
environment where diversity is
valued, quality of life is enhanced,
individual aspirations are fulfilled,
and The Ritz-Carlton mystique
is strengthened.*



THE RITZ-CARLTON®

CREDO

The Ritz-Carlton Hotel is a
place where the genuine care
and comfort of our guests is
our highest mission.

We pledge to provide the finest
personal service and facilities
for our guests who will always
enjoy a warm, relaxed yet
refined ambience.

The Ritz-Carlton experience
enlivens the senses, instills
well-being, and fulfills even
the unexpressed wishes
and needs of our guests.

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The Ritz-Carlton® Basics

1. The Credo is the principal belief of our Company. It must be known, owned and energized by all.
2. Our Motto is: “We are Ladies and Gentlemen serving Ladies and Gentlemen.” As service professionals, we treat our guests and each other with respect and dignity.
3. The Three Steps of Service are the foundation of Ritz-Carlton hospitality. These steps must be used in every interaction to ensure satisfaction, retention and loyalty.
4. The Employee Promise is the basis for our Ritz-Carlton work environment. It will be honored by all employees.
5. All employees will successfully complete annual training certification for their position.
6. Company Objectives are communicated to all employees. It is everyone’s responsibility to support them.
7. To create pride and joy in the workplace, all employees have the right to be involved in the planning of the work that affects them.
8. Each employee will continuously identify defects (M.R. B.I.V.) throughout the Hotel.
9. It is the responsibility of each employee to create a work environment of teamwork and lateral service so that the needs of our guests and each other are met.
10. Each employee is empowered. For example, when a guest has a problem or needs something special, you should break away from your regular duties to address and resolve the issue.
11. Uncompromising levels of cleanliness are the responsibility of every employee.
12. To provide the finest personal service for our guests, each employee is responsible for identifying and recording individual guest preferences.
13. Never lose a guest. Instant guest pacification is the responsibility of each employee. Whoever receives a complaint will own it, resolve it to the guest’s satisfaction and record it.
14. “Smile – We are on stage.” Always maintain positive eye contact. Use the proper vocabulary with our guests and each other. (Use words like – “Good Morning,” “Certainly,” “I’ll be happy to” and “My pleasure.”)
15. Be an ambassador of your Hotel in and outside of the workplace. Always speak positively. Communicate any concerns to the appropriate person.
16. Escort guests rather than pointing out directions to another area of the Hotel.
17. Use Ritz-Carlton telephone etiquette. Answer within three rings with a “smile.” Use the guest’s name when possible. When necessary, ask the caller “May I place you on hold?”
18. Do not screen calls. Eliminate call transfers whenever possible. Adhere to voice mail standards.
19. Take pride in and care of your personal appearance. Everyone is responsible for conveying a professional image by adhering to Ritz-Carlton clothing and grooming standards.
20. Think safety first. Each employee is responsible for creating a safe, secure and accident free environment for all guests and each other. Be aware of all fire and safety emergency procedures and report any security risks immediately.
21. Protecting the assets of a Ritz-Carlton hotel is the responsibility of every employee. Conserve energy, properly maintain our Hotels and protect the environment.

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Figure 1

The Ritz-Carlton Chronology of Performance Excellence

Genesis 1890's

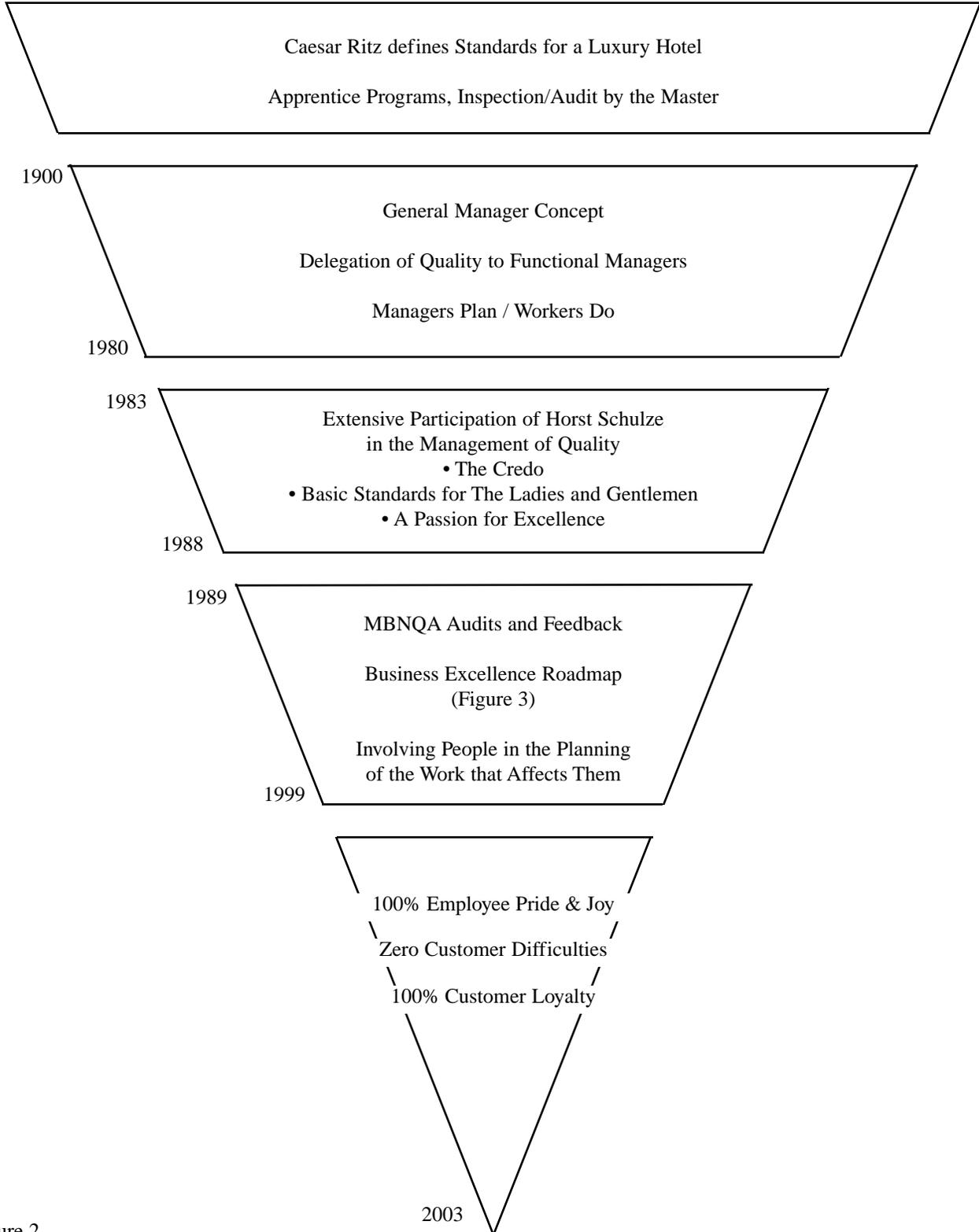


Figure 2

The Ritz-Carlton Business Excellence Roadmap				
MBNQA	Approach “Plan”	Deployment “Do”	Results “Check”	Improvement “Act”
1. Leadership	A Passion for Excellence The Seven Pyramid Decisions Basic Empowerment Process	Senior Leaders “Start-Up” new hotels Distribution of “The Pyramid” Daily Reinforcement of The Gold Standards	Performance Evaluations	Development / Training Plans Leadership Center Developmental Job Assignments
2. Strategic Planning	Fact-based Strategic Objectives Fact-based Key Process Identification	Divide/Subdivide Objectives Select Process Owners Develop Processes Provide Necessary Resources	Actual versus Planned performance compared Quarterly by Upper Managers at the corporate and hotel level Daily Operations review by the workforce	Act on the Differences Evaluate / Improve Planning Process
3. Customer and Market Focus	Market Research that concentrates on the quality of the hotel facility and operations	6P’s Concept Operation of the “CLASS” Database Standard Performance Measurement	Daily Hotel Measurement • SQI • RevPAR by Market Segment Monthly Measurement • Advance Bookings • Customer Satisfaction • RevPAR • P&L	Evaluate / Improve Annually
4. Information and Analysis	Selecting Performance Measurements for: • Upper Managers • Daily Operations Comparative Benchmarking	Individual Process Owners select Performance Measurements for: • Upper Managers • Daily Operations Share/Replicate Best Practice Performance, On-Going	Statistically Trained Employees, Consulting Specialists	Continuous Improvement

Figure 3

The Ritz-Carlton Business Excellence Roadmap

MBNQA	Approach “Plan”	Deployment “Do”	Results “Check”	Improvement “Act”
5. Human Resources Development and Management	Jobs are designed so our people: <ul style="list-style-type: none"> • Know what to do • Know how well they are doing • Can regulate the process or their own personal conduct 	Employee Education, Training and Development	Q.S.P. Day 21/365 Training Certification Review Performance Appraisal Evaluations Analysis of Employee Surveys	Site Visits by Senior H.R. Leaders Analysis of Employee Surveys
6. Process Management	Manage Key Production and Support Processes	Incorporate changing Customer requirements The GreenBook Process Owners Modify Processes for each new hotel	P.Q.I. S.Q.I. Process Audits	Major changes that require project management Incremental Day-to-Day Improvements
7. Business Results	Strategic Objectives define long-term targets Tactical Processes set annual targets	Lead People Manage Processes Standard Performance Measures	Actual versus Planned Performance compared quarterly by Senior Leaders at the corporate and hotel level Daily Operations Review by the workforce	Continuously and Forever Improve

Figure 3 (continued)

Leadership

Our Senior Leaders continue the strong excellence-driven leadership that began in 1983 and resulted in us becoming a recipient of the 1992 Malcolm Baldrige National Quality Award. In the years following the award they actually increased their involvement in both the improvement and operation of our structured approach to business excellence. A summary of this business excellence roadmap is shown in Figure 3, page 4.

Approach “Plan”

Our Senior Leaders have a passion for excellence, largely because of: (1) the performance expectations of Horst Schulze (2) our Gold Standards and (3) the Pride and Joy of achieving excellence.

The seven specific decisions made by our Senior Leaders, collectively, to set direction for business excellence are shown below:

1. *10 Year Vision*
2. *5 Year Mission*
3. *3 Year Objectives*
4. *1 Year Tactics*
5. *Strategy*
6. *Methods*
7. *Foundation*

The process for providing our Senior Leaders with the necessary data and analysis to make these key decisions is explained fully in the Strategic Planning section.

It is worth mentioning that our Senior Leaders personally established our foundation, which is now referred to

as The Gold Standards, Figure 1, page 2. These standards consist of: (1) The Credo (2) The Basics (3) Three Steps of Service (4) Motto and (5) most recently, The Employee Promise. These standards have had a long life with only the Basics changing with business conditions.

Collectively, these standards have an incredible empowering effect on The Ritz-Carlton Ladies and Gentlemen to think and act independently with innovation for both the benefit of the customer and our organization.

Since The Credo stresses “providing the finest and anticipating the unfulfilled wishes of our guests,” The Ritz-Carlton Ladies and Gentlemen continually learn and innovate.

The Three Steps of Service, combined with our basic empowerment process shown below in Figure 1.2 promotes innovative, quick personal service.

Deployment “DO”

The specific actions taken by our Senior Leaders to deploy our leadership approach consist of three major processes:

1. Since 1984, all members of Senior Leadership have personally ensured that each new hotel’s goods and services are characteristic of The Ritz-Carlton on opening day. Since six to seven hotels open each year, our leaders spend at least six to seven weeks working with our Ladies and Gentlemen (using a combination of hands-on behavior modeling and reinforcement) during the seven day countdown to opening. This includes the President and COO who personally demonstrates the guest/employee

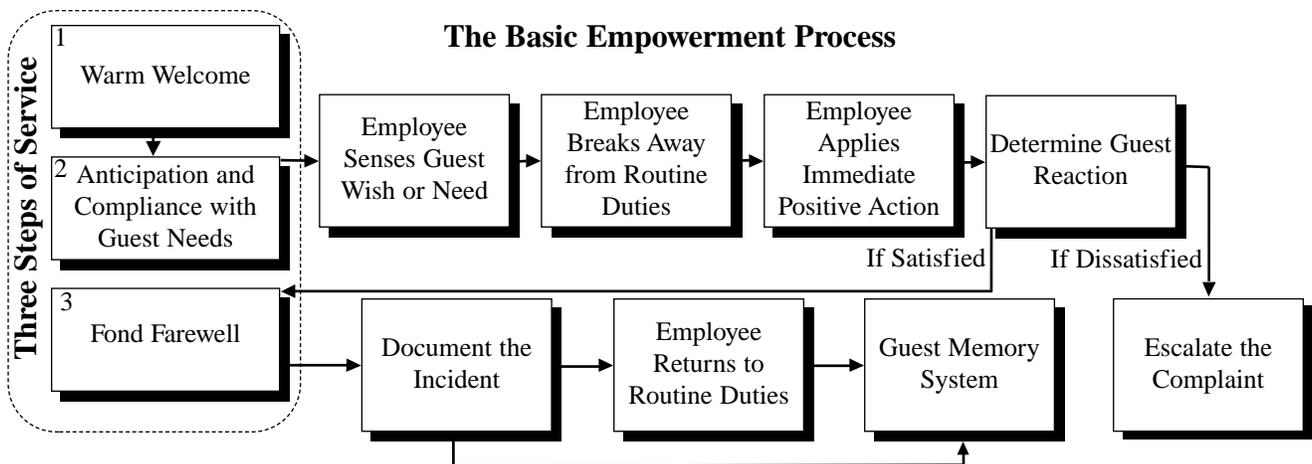


Figure 1.2

The Ritz-Carlton Hotel Company, L.L.C.
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interface image and facilitates the first vision statement session for each newly formed department. During these formative sessions which all employees must attend, the President and COO personally interacts with every new employee both individually and in a group setting. His in-depth knowledge of hotel operations and enthusiasm for The Gold Standards are an inspiration for all concerned.

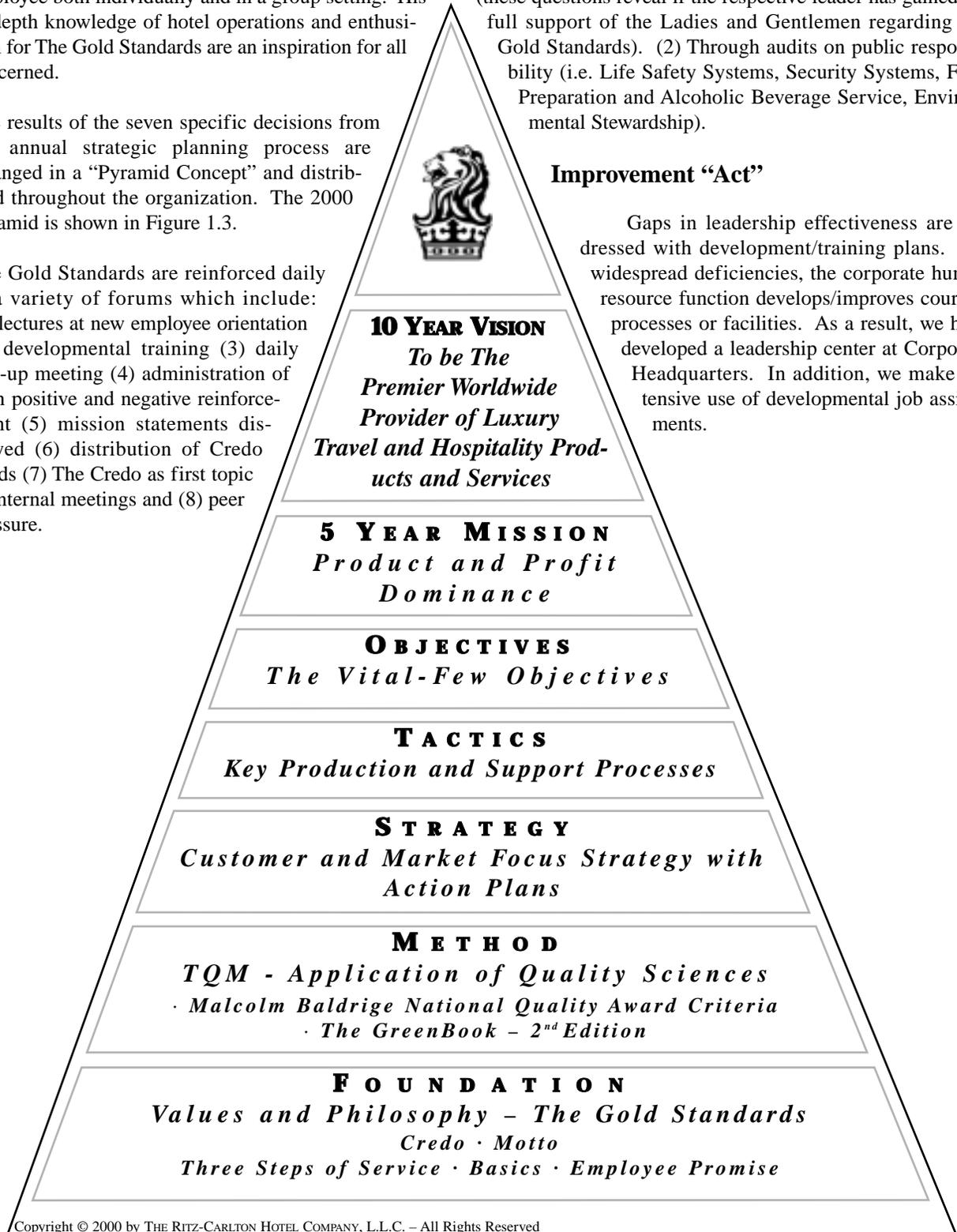
2. The results of the seven specific decisions from the annual strategic planning process are arranged in a "Pyramid Concept" and distributed throughout the organization. The 2000 Pyramid is shown in Figure 1.3.
3. The Gold Standards are reinforced daily in a variety of forums which include:
 - (1) lectures at new employee orientation
 - (2) developmental training
 - (3) daily line-up meeting
 - (4) administration of both positive and negative reinforcement
 - (5) mission statements displayed
 - (6) distribution of Credo Cards
 - (7) The Credo as first topic of internal meetings and
 - (8) peer pressure.

Results "Check"

Leadership effectiveness is evaluated (1) On key questions of our semi-annual employee satisfaction results (these questions reveal if the respective leader has gained the full support of the Ladies and Gentlemen regarding our Gold Standards). (2) Through audits on public responsibility (i.e. Life Safety Systems, Security Systems, Food Preparation and Alcoholic Beverage Service, Environmental Stewardship).

Improvement "Act"

Gaps in leadership effectiveness are addressed with development/training plans. For widespread deficiencies, the corporate human resource function develops/improves courses, processes or facilities. As a result, we have developed a leadership center at Corporate Headquarters. In addition, we make extensive use of developmental job assignments.



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Figure 1.3

Strategic Planning

At The Ritz-Carlton, Strategic Development is the process that enables Senior Leaders to make specific decisions that set direction for Business Excellence.

Approach “Plan”

A description of the three major components of our planning process, including the pre-work known as the Macro Environment Analysis, is shown in Figure 2.1.

Macro-Environment Analysis

This extensive analysis is done to understand the current state (and expected future state) of the Macro Environment in which we operate our company. The key result of the analysis is a projection of the future state of The Ritz-Carlton relative to competitors and the expectations of hotel owners in primary performance areas. Subsequently, gaps are identified.

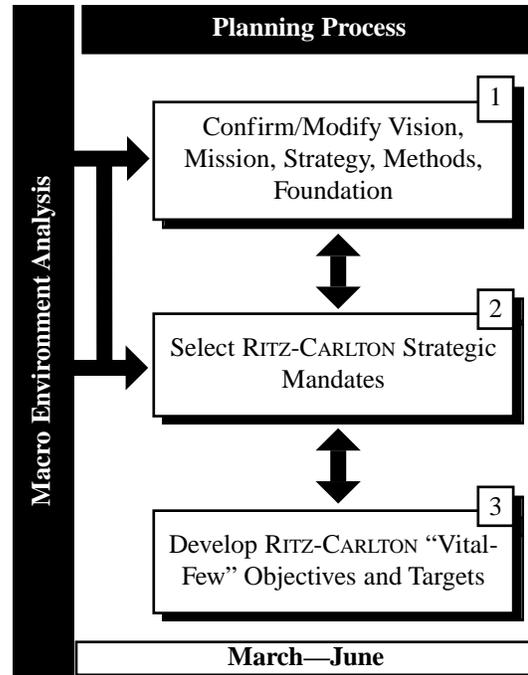


Figure 2.1

Step 1 March - June

Using the Macro Environment Analysis, Senior Leaders confirm the 10 Year Vision, 5 Year Mission, Strategy, Methods and Foundation or make changes.

Step 2 March - June

Using the Macro Environment Analysis, strategic mandates are identified along with gaps in performance.

Step 3 March - June

The strategic mandates and the gaps identified in the Macro Environment Analysis are used to create the Vital-Few Objectives for the next three years. The Objectives are designed to address the projected gaps identified in the Macro Environment Analysis and to maintain or enlarge The Ritz-Carlton advantage over competitors where these advantages exist. Vital-Few Objectives are separated into multiple categories for two purposes: (1) respond to the Strategic Mandates and (2) represent all who are affected by The Ritz-Carlton.

The output of this step becomes our Pyramid (Figure 1.3, page 7).

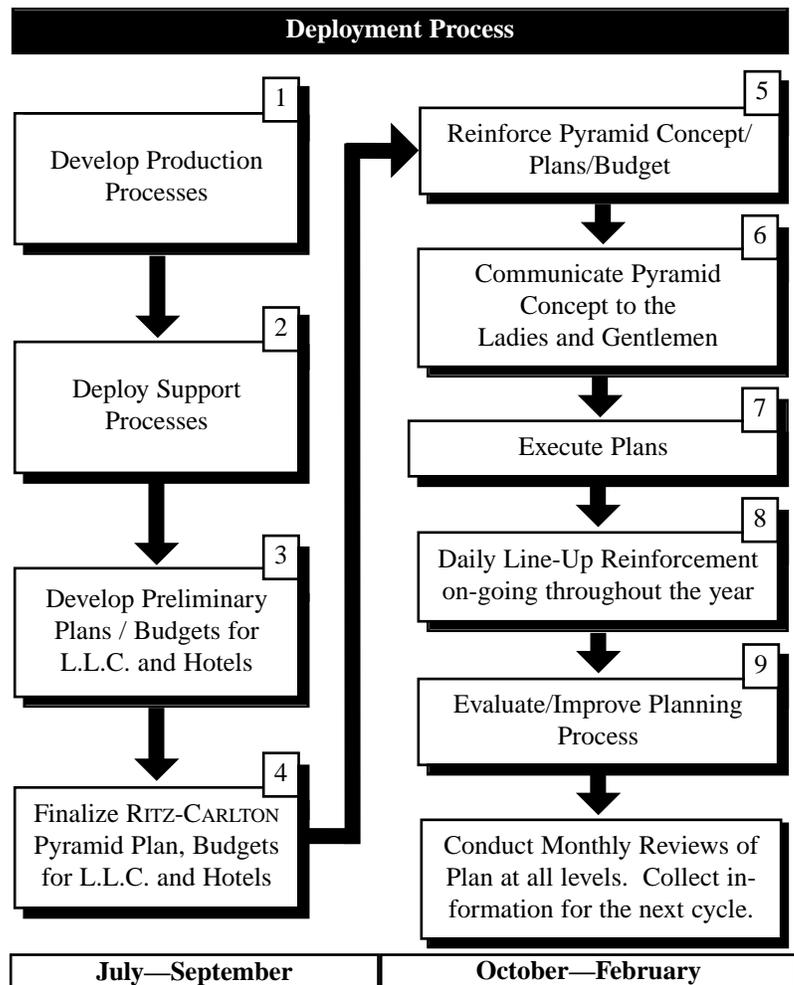


Figure 2.2

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Deployment “DO”

The specific actions by Senior Leaders to deploy the Vital-Few Objectives are shown in Figure 2.2.

Step 1 July - September

Key Production processes are identified by three criteria: (1) work that ranks very important to customers (2) work that is rising in importance to customers and (3) work that is poor in comparison to competitors. These processes must then be developed and deployed. This is done by process owners at the corporate level. For a discussion of these processes and how they are developed see Section 6, Process Management.

Step 2 July - September

Support processes are deployed to the support functions of the organization. These processes indirectly affect our products and enable us to reach our Vital-Few Objectives. These processes are also developed/deployed by corporate process owners at the corporate office.

Steps 3 - 4 July - September

To bring out into the open the resources required to reach our Vital-Few Objectives, we involve the Ladies and Gentlemen of The Ritz-Carlton. First, we communicate the measures and targets of our Vital-Few Objectives to lower levels of the organization. The lower levels then identify the deeds, that if done, will collectively meet the objectives. The lower levels also “submit the bill” to perform these deeds.

Activities that have been agreed upon are then tied into our financial planning and budget process.

Steps 5 - 7 October - February

Step 5 occurs during our semi-annual General Managers meeting which sets in motion steps 6 and 7.

Step 8 On-Going Throughout the Year

Everyday, in every work area, on every shift, a brief line-up meeting is held. During these formative sessions, the Pyramid Concept is deployed, The Gold Standards are reinforced and good ideas are shared.

Step 9 Annually

Each year the Vice-President of Quality is responsible for evaluating and improving the Strategic Planning Process. Benchmarking other Baldrige recipients is used extensively for continuous improvement.

Results “Checks”

Monthly performance reviews of the the Strategic Plan are conducted by the upper managers at the corporate and hotel level. The framework of a typical review is shown in Figure 2.3, which focuses on the pre-established performance indicators of the Vital-Few Objectives as well as key processes. This information allows us to easily make improvements and benchmarking comparisons which are discussed in Category 4.

The quarterly performance reviews are translated into opportunities for improvement and innovation. These decisions are determined by process owners with assistance from the special organization of Directors of Quality. Widespread understanding and involvement of findings and actions are deployed to lower levels through: (1) the traditional hierarchy (2) process owners and teams and (3) Commitment to Quality newsletters.

Another form of improvement is the evaluation of the Strategic Planning Process. The Vice President of Quality is responsible for developing, benchmarking and improving this process.

Focus	Indicators	What’s Reviewed	Process Owner
Employee Pride & Joy	<ul style="list-style-type: none"> • Key Survey Questions • Turnover 	Actual versus Plan / Trends	<ul style="list-style-type: none"> • Human Resource Director
Customer Loyalty	<ul style="list-style-type: none"> • Overall Customer Satisfaction • Customer Difficulties 	Actual versus Plan / Foremost Competitor, Trends	<ul style="list-style-type: none"> • Operations Director • Quality Director
Revpar / P&L	<ul style="list-style-type: none"> • Advance Bookings • Market / Business Performance 	Actual versus Plan / Industry Trends	<ul style="list-style-type: none"> • Marketing Director • Finance Director
Key Processes	<ul style="list-style-type: none"> • Key Production and Support Processes 	Actual versus Plan / Trends	<ul style="list-style-type: none"> • Functional Leaders

Figure 2.3

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Customer and Market Focus

At The Ritz-Carlton, customer and market focus concentrates on the information needed for hotel development and operation explained in Section 6, Process Management.

Approach “Plan”

The many needs and sources of this information (i.e. market research) are summarized in Figure 3.1.

A particularly noteworthy tool that we use is CLASS (an automated “memory system” that links returning guests to their preferences). The practice of remembering regular guests creates lasting relationships, which is a major competitive advantage for us. The types of information stored in the CLASS database are given in Figure 3.2 .

In addition, we utilize other information technology: (1) DFS (2) Product Quality Indicators (PQI) and (3) Service Quality Indicators (SQI), explained in the next Section, Information and Analysis.

Needs and Sources of Market Research at The Ritz-Carlton

Needs for Market / Customer Information	Brought to our Attention	Readily Available but Requires Analysis	Must be created by a Special Study
Determination of Market Segments			<ul style="list-style-type: none"> Alliances with Travel Partners (Airlines, Credit Card Companies, Convention Bureaus, etc.)
Identifying Potential Customers		<ul style="list-style-type: none"> Sales and Marketing function ranks potential and current customers by volume, geography and profit 	<ul style="list-style-type: none"> Same as above
Relative Priorities of Customers	<ul style="list-style-type: none"> “Automated Memory System” that links returning guests to their preferences 	<ul style="list-style-type: none"> Analysis of “CLASS” database 	<ul style="list-style-type: none"> Focus Groups Customer Satisfaction results
Demand Forecast		<ul style="list-style-type: none"> Use of Information Technology DFS 	
Individual Dissatisfaction of Customers	<ul style="list-style-type: none"> Complaints, Claims, Client Alerts, Feedback from the Salesforce, Summarized in the SQI/PQI 		
Widespread Customer Dissatisfaction		<ul style="list-style-type: none"> Pareto analysis of the SQI and PQI 	<ul style="list-style-type: none"> Interviews with customers
Competitive Quality Status	<ul style="list-style-type: none"> Criteria, Rating and Awards from Travel Industry publications 	<ul style="list-style-type: none"> Ratings from Customers, Star Report, Salesforce reports Summary of above analysis 	<ul style="list-style-type: none"> World-Class customer and employee satisfaction data
Opportunities for Improving RevPAR through Quality	<ul style="list-style-type: none"> Pareto analysis to identify major causes of customer dissatisfaction 	<ul style="list-style-type: none"> Summary of above 	<ul style="list-style-type: none"> Special psychological studies to understand: <ol style="list-style-type: none"> 1. What Customers mean, not what they say 2. How to appeal to the customer in the language they most understand

Figure 3.1

Deployment “DO”

The specific actions taken by our Sales and Marketing Leaders to deploy our Market Research conclusions consist of four major processes: (1) The 6 P’s Concept (2) Operation of the CLASS database (3) Complaint Resolution Process and (4) Standard Performance Measurements.

The Six P’s Concept

After we gain a full understanding of our market segments, customers and their relative priorities, we develop and distribute, internally, a 6P Concept. The concept consists of: (1) Problem or need of the Customer (2) Product (what is it) (3) Promises (what it can do for the customer) (4) Personal Advantage (what can the customer do because of it) (5) Positioning (the benefit of it versus the competition) and (6) Price/Value (what customers must give up in time or money to get it). These concepts lay the groundwork for process design.

The 6P’s concept typically creates a vision of well-being, which results from the purchase of Ritz-Carlton products – genuine care, comfort and prestige. By disseminating this information into the marketplace, we reinforce an aura of competence.

Operation of the CLASS Database

A major challenge faced by The Ritz-Carlton is to remember each of its 800,000 plus customers. In response, a special organization exists in each of our hotels called Guest Recognition. This special function uses the CLASS database

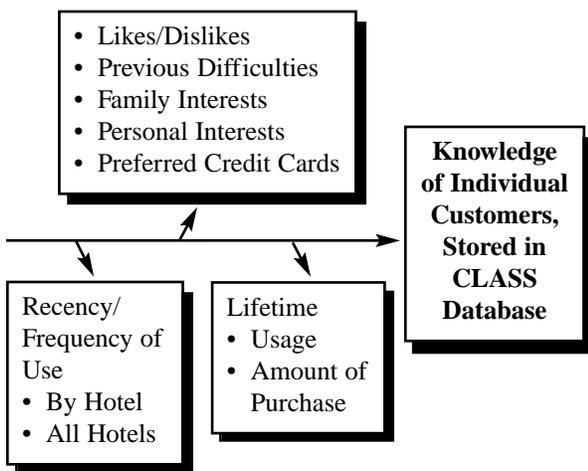


Figure 3.2

to remember returning guests and generate essential preference and schedule information to all concerned. In this way, the Ladies and Gentlemen of The Ritz-Carlton and our suppliers understand what is “new or different” about each individual customer or event.

Standard Measurements

The major components of our Sales and Marketing Performance Management System are shown in Figure 3.3. Since these measures both precede and lag the operation they are both forward-looking and reaction based.

Subject	Precede / Lag Operations
Advance Bookings	Precedes up to several years
Service Quality Indicators (SQI) measure The Gold Standards	Lags by One Day
Revenue Per Available Room (RevPAR)	Lags by One Day
Customer Satisfaction Determination	Lags by 45 Days
The P&L Statement	Lags by 40 Days

Figure 3.3

Results “Check”

The effectiveness of our Customer and Market Focus is evaluated through reviews of our standard performance measures daily, monthly and annually.

Daily reviews at hotels consist of SQI and RevPAR by market segment and performance.

Monthly reviews at all levels consist of Advance Books, Customer Satisfaction, RevPAR by Market Segment and the P&L Statement.

Annual reviews at the corporate level are contained in our Strategic Planning Pre-Work, Macro Environment Analysis.

Improvement “Act”

The daily and monthly reviews identify performance gaps to be corrected. The extensive analysis of the Macro Environment Analysis drives confirmation or changes in marketing strategy, objectives and plans.

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Information and Analysis

Approach “Plan”

Two basic types of measurements are used at The Ritz-Carlton: (1) organizational measurements for upper managers at both the corporate and hotel levels and (2) operational (i.e. process) measurements for planning, assessing and improving daily operations. A further distinction in our measurement is whether it provides information before, during or after operations (Figure 4.1–4.3).

Before Operations Measures

Subject	Unit of Measure	Use
Macro-Environment Analysis	Summaries of Performance, Money, Ratios, Indexes	Annual Input for Senior Leaders to reset organizational and operational measures
New Hotel Development	Defect Points (i.e. PQI)	Measures for Senior Leaders to plan, assess and improve each new hotel development
Daily Variable Demand	Production/Hours worked ratio	Plan daily operations and pricing

Figure 4.1

During Operations Measures

Subject	Unit of Measure	Use
The Gold Standards	Taste, Sight, Smell, Sound, Touch	Operational measures for the individual Employee to Plan, Assess and Improve their Work

Figure 4.2

After Operations Measures

Subject	Unit of Measure	Use
Vital-Few Objectives	Organizational Performance Indicators, Money, 1–5 Scale, Percentages	Improve Organizational Performance
Key Production and Support Processes	Weighted Defect Points (SQI)	Improve Daily Operations
	Production/Hours worked ratio	
	Revenue per Available Room	Improve Pricing Policies

Figure 4.3

The PQI are our Product Quality Indicators, which consist of the 10 most serious defects that can occur in the development phase of a new Ritz-Carlton Hotel, listed in Figure 4.4.

PQI Defects
1. Sub-Standard Management Contract
2. Missing / Wrong Concepts
3. Late Feasibility Study
4. Wrong / Late Schematic Design
5. Detailed Design Changes
6. High-Risk Facility Suppliers
7. Late Construction Days
8. Missing / Inadequate Key Production and Support Processes
9. Inadequate Pre-Sales Results
10. Inadequate Caring Mindset of Employees

Figure 4.4

Since our customer requirements extend beyond the functional to the sensory (which are difficult to measure), we rely on The Gold Standards to measure quality during operations. Most of these measures are used by line level employees. We can do this effectively since the workforce is selected, trained, certified, reinforced and rewarded through our Gold Standards. This qualifies them to design the appropriate sensory measurements that allow them to assess their work and take appropriate actions.

The SQI are our Service Quality Indicators, which consist of the 10 most serious defects that can occur during the regular operation of a Ritz-Carlton hotel. The seriousness of each defect is weighted by a point value listed in Figure 4.5.

SQI Defects	Points
1. Missing Guest Preferences	10
2. Unresolved Difficulties	50
3. Inadequate Guestroom Housekeeping	1
4. Abandoned Reservation Calls	5
5. Guestroom Changes	5
6. Inoperable Guestroom Equipment	5
7. Unready Guestroom	10
8. Inappropriate Hotel Appearance	5
9. Meeting Event Difficulties	5
10. Inadequate Food/Beverage	1
11. Missing/Damaged Guest Property / Accidents	50
12. Invoice Adjustment	3

Figure 4.5

The total number of occurrences is multiplied by the weight, totaled and divided by the number of working days applicable to obtain an average daily point value. The average daily point value is disseminated to the workforce daily.

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Comparative Benchmarking

There are three types of comparative data at The Ritz-Carlton: (1) comparisons to industry and our foremost competitor (2) benchmarks outside our industry and (3) benchmarks inside our company. Since we began formal benchmarking in the 1980's, we have found this highly useful as it has pushed us over the years to even higher target levels of performance and roadmaps to get there. Figure 4.6 details the sources of this data and the types of information that are analyzed.

Deployment "DO"

The specific actions taken by Senior Leaders to deploy the information and analysis approach is based on the concept of individual process owners.

Individual Process Owners

Our Senior Leaders and Hotel Guidance Teams have the high level organizational performance data they need because we assign individual owners to each metric associated with the Vital-Few Objectives. In addition, our Vice President of Quality keeps our performance measurements current with business needs.

Our Ladies and Gentlemen have the operational performance data they need daily because we assign individual

process owners to each metric associated with key production and support processes.

Since these process owners are heavily involved in designing the architecture of the data and information that they review, rarely do they see a fact or figure presented in a way they don't understand.

Results "Check"

Since we place such a strong emphasis on fact-based decision making, reliability of the data is critical. We rely on our highly trained Ladies and Gentlemen (including statistically trained at all levels) to insure data and information reliability. At the corporate level, we assign individual process owners to assure data can withstand scrutiny and provide background information. We also retain third-party specialists to provide independent reviews of information analysis and processes.

Improvement "Act"

Whenever our process owners and consulting specialists indicate a change of plan is needed, the plans are rewritten, rebudgeted and reapproved. Our Ladies and Gentlemen, on a daily basis, identify and implement improvements in performance measurement as expected in our culture and facilitated through the training and performance management programs outlined in Category 5.

Sources of Comparative Data

<i>Internal</i>		<i>External</i>	
Source	Information	Source	Information
RCHC Information, Analysis System	Each Hotel's measurements in the areas of employee satisfaction, customer satisfaction, RevPAR and operational performance are compared	RCHC Information, Analysis System	Ritz-Carlton Marketing and Finance functions compare us against our competitors in the area of market and business performance
Process Champions	Operations, Human Resources, Marketing and Finance leaders drive best practices and processes both up and down the organization	Baldrige Award Winners	Annually, the VP of Quality studies comparative data and best practices
Regional VP Meeting	These periodic meetings focus on review of performance to plan	Kaznova Consultants	World-class benchmarks
New Hotel Start-Up	When Ritz-Carlton managers are assigned as trainers in a new hotel, they learn and share best practices	Travel Industry Criteria and Publications	Travel Publications, AAA, Mobil Criteria to identify industry trends and performance
Best Practice Sharing	Any "new idea" implemented is shared company-wide via E-mail. Results and Improvements are communicated in the daily Commitment to Quality newsletter	Mayflower Group	The VP of Human Resources compares us to America's most-admired companies (i.e. Fortune 500 and Baldrige winners) in the area of Employee Satisfaction

Figure 4.6

Human Resource Focus

Our human resource approach is summarized in Figure 5.1, which is the well established model that underpins and aligns our various human resource philosophies and programs.

Approach “Plan”

Our Senior Leaders decided to increase both the meaning and satisfaction our people derive from their work. This approach consists of three basic components: (1) our Ladies and Gentlemen know what they are supposed to do (2) they know how well they are doing and (3) they have the authority to make changes in the process under their authority or their own personal conduct.

Know What They are Supposed To Do

At Ritz-Carlton our Ladies and Gentlemen know what they are supposed to: (1) learn and use The Gold Standards (2) master the procedures of their job (i.e. Training Certification) and (3) generate ideas to improve products, services and processes.

Know How Well They Are Doing

We keep our Ladies and Gentlemen informed on how well they are doing in many forms. They receive coaching from managers and peers on individual tasks throughout the day.

Daily, they receive information from the SQI report. Finally, they receive semi-annual performance appraisals on their general performance.

The Authority to Make Changes

The ability of our Ladies and Gentlemen to regulate how work gets done is assured through Basic Standards set out in The Credo Card, “People have the right to be involved in the planning of the work that affects them”.

Deployment “DO”

The specific actions taken to deploy our approach range across a broad spectrum, but most significant activities consist of: (1) The Quality Selection process and (2) Employee Education, Training and Development.

Our President and COO started as a waiter’s apprentice in Europe, and many of our executives started as front line personnel in Ritz-Carlton Hotels and were promoted as they rotated jobs. Therefore, training receives the highest attention in our company.

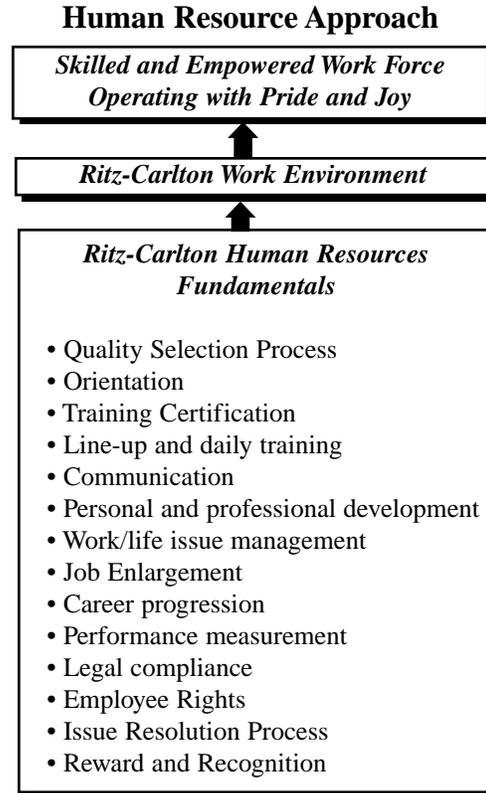


Figure 5.1

Our education and training is designed to keep individuals up to date with business needs. The Corporate Director of Training and Development and the Hotel Directors of Training and Development have the responsibility to make sure that training stays current with business needs. To do this, they work with Human Resource and Quality Executives who input organization and job performance training requirements or revise existing ones. The flow of this process is shown in Figure 5.2. Key developmental training needs are addressed through a core of courses that all employees receive.

All employees (regardless of their level in the company) receive the same mandatory two day orientation process, which includes classroom type training on The Gold Standards and The GreenBook (page 16).

As shown in Figure 5.2, we use input from employees and their supervisors in determining educational needs primarily via a review and analysis of our performance appraisal documents. The Hotel Director of Training and Development and the Quality Trainers also receive and consider direct feedback from Ritz-Carlton personnel. When training is designed, it is piloted and approved in a fashion similar to the new product and service development process described in Category 3. Participants in the pilot provide direct, candid feedback to the designers and instructors.

The Ritz-Carlton Design of Courses

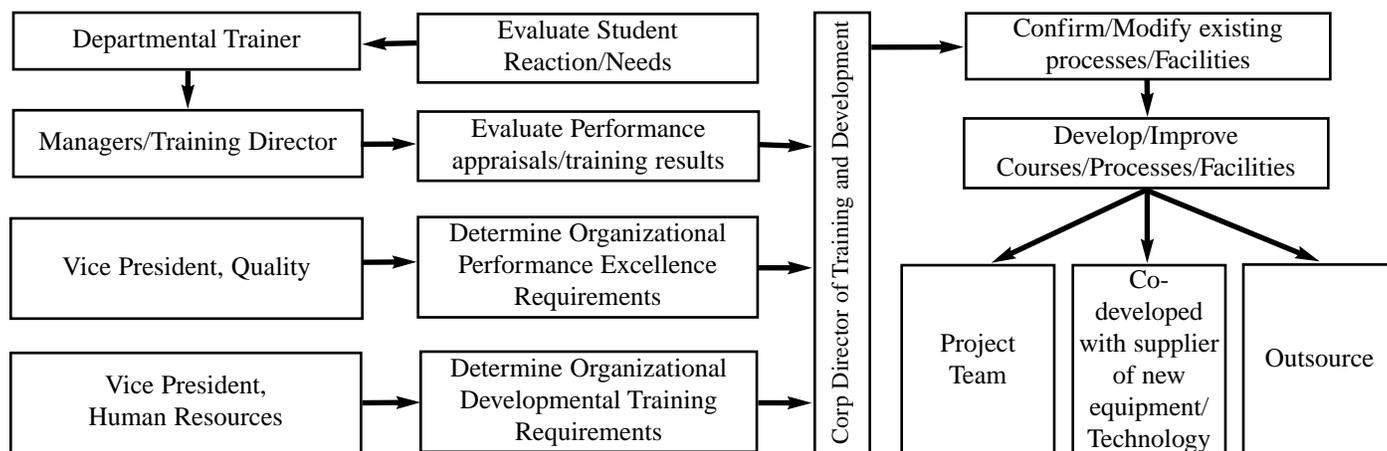


Figure 5.2

Although job induction training is classroom delivered by the Director of Training and Development and the General Manager, most training delivery is on-the-job. This consists of: (1) daily line-up (2) self-study documents (3) developmental assignments and (4) training certification. Most training is evaluated through examinations, while other methods include audits, performance reviews and appraisals.

Approximately 80% of the training received by The Ritz-Carlton Ladies and Gentlemen is from in-house sources which allows us to have direct control over the method of training delivery and evaluation.

To gain real-life developmental experiences, we make extensive use of developmental assignments in which people choose to expand their knowledge and experience through requesting new assignments within and across hotels and functions. Since most of our executives came up the ranks this way, this is a widely accepted and expected process for people who would like to be promoted.

Results “Check”

Results of the selection, training and development of our Ladies and Gentlemen are checked at key stages of progression: (1) Quality Selection Process Measurement (2) Day 21/365 (3) Training Certification Review (4) Performance Appraisal Review Evaluation and (5) analysis of employee surveys.

Quality Selection Process - QSP

We measure the desirable, spontaneous behavior (i.e. Talent+) of potential employees at all levels and categories through our QSP. Certified interviewers measure the responses to a structured interview. These measurements are then arranged in a performance graph of the necessary

“themes” of each job. The graph also contains comparative data which consists of industry and Ritz-Carlton norms.

Day 21

21 days after orientation, each orientation class reunites for a day of evaluation and debriefing. A similar session occurs on or near day 365.

Training Certification

Much like the Craft Concept, employees are subject to examination/audit at the end of their initial training period. Likewise, they must demonstrate mastery of the procedures of their job.

Evaluation of Performance Appraisals

Annual Performance Appraisal information is evaluated to identify weaknesses in our approach to training and development.

Analysis of Employee Surveys

We determine employee well-being, satisfaction and motivation from formal surveys designed, analyzed and compared to world-class companies, via a consulting specialist. Our results are compared to outside world-class service companies and The Mayflower Group. Impartiality of survey analysis and recommendations is assured by independent and objective design analysis and presentations.

Improve “Act”

Improvement activities in Human Resources rely extensively on internal audits, site visits by Senior Human Resources Leaders and analysis of employee survey data.

Process Management

We are a process-focused organization with many standard procedures. Our Senior Leaders realize that processes must be thoroughly planned so we can give our Ladies and Gentlemen the means to meet standards, create a market and thereby generate our company's income efficiently.

Approach "Plan"

Through our market research which concentrates on the quality of hotel development and operations, we have identified key production processes. In addition, we have conducted formal discussions between: (1) support and operations employees and (2) internal and external customers to identify administrative and support processes which impact our hotel products and our company's mission.

Deployment "DO"

The specific actions taken to deploy our annual process management approach flow from our strategic planning process to every job level and category in our company.

Incorporate Changing Customer/ Market Requirements

During the annual strategic planning process, we incorporate changing customer/market requirements into production and support processes. This assists in prioritizing our processes.

Assigning Process Owners

Each production and support process is assigned an "executive owner" at the corporate office and a "working owner" at the hotel level. These owners are responsible for the development/improvement of these processes. They have authority in defining the measurements and determining the resources needed to manage these processes. They involve all concerned in determining what must be done differently to reach our objectives.

The GreenBook

We use the logic, processes and tools of managing for quality, set out in our GreenBook, a handbook for our

Ladies and Gentlemen. The Nine-Step Quality Improvement Process is featured in this handbook to guide the design, control and improvement of all processes. This process is emphasized during new employee education, training and development and is ingrained in our process-oriented culture.

Develop/Deploy Processes for New Hotels

The design of key production and support processes is modified for each new hotel based on: (1) market research (2) facility design and (3) operating conditions. These process changes address quality, learnings from past hotels, cost control and general effectiveness and efficiency. These processes are transferred to our Ladies and Gentlemen during our pre-opening countdown process.

Results "Check"

Although we must control many sensory characteristics of the products we produce, we try to "put it in numbers" in our system of process measurements.

Improvement "Act"

Standing cross-functional teams at all levels use "After Operations Measures" and customer survey inputs to improve key processes. These improvements can come in two ways: (1) major changes that require funding, resources and project management and/or (2) incremental day-to-day improvements. While both types follow the Nine-Step Q.I.P., meeting event by meeting event improvement involves job shape theories found in the GreenBook.

Improvements are institutionalized in two main ways: (1) the traditional hierarchy and (2) executive process owners.

In either case, we use our process to overcome cultural resistance to change. This process consists of four factors: (1) stressing the importance of the change (2) expressing confidence the change can be made (3) providing a reason why people should make the change as a group and (4) allowing time for people to find an accommodation to the change.

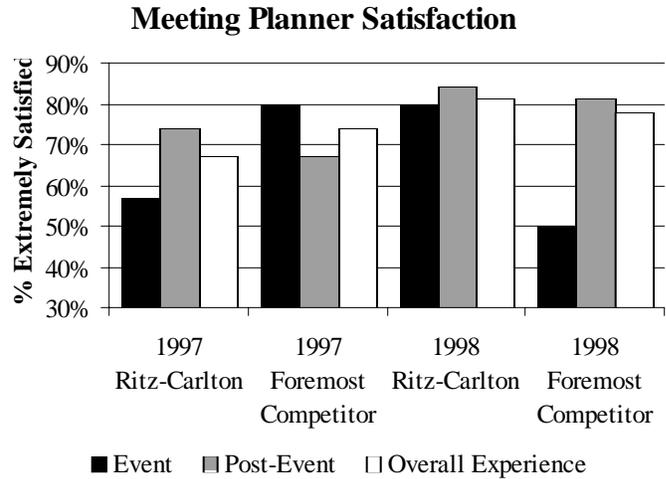
Business Results

7.1 Customer Focused Results

The following results, items reviewed in Category 1, emanate from our strategy and customer focus Categories 2 and 3. They are included in our measurement and analysis Category 4, and executed through our human resource and processes management Categories 5 and 6. All of our Customer and Employee Satisfaction data comparisons are: (1) statistically significantly different from the competition at the 95% confidence level (2) administered and produced by well-known objective and independent outside third-party research sources and (3) analyzed against world-class/world-best and Baldrige-winning companies by our performance excellence supplier/partner and benchmark source.

Our Meeting Planner satisfaction is measured both internally and externally. Externally, we use J. D. Power and Associates to measure our customer satisfaction versus our foremost competitor. Figure 7.1a shows our level and trend superiority. These percentages represent extreme satisfaction. This Meeting Planner Study was not conducted in 1999; hence, there is no new data available.

Individual Customer Satisfaction



Source: J.D. Power and Associates

Figure 7.1a

Frequent Leisure Traveler 1999 Key Comparisons

	Top 2 Boxes RCHC	Top 2 Boxes Foremost Competitor	Top Box RCHC	Top Box Foremost Competitor
Overall Satisfaction	91%	80%	70%	52%
Cleanliness of Room & Facilities	90%	77%	64%	48%
Adequate Security	83%	64%	57%	38%
Value for the Money	42%	32%	19%	10%
Staff Knowledgeable & Helpful	67%	54%	41%	28%

Our Individual Guest satisfaction is also measured both internally and externally. Externally, we use Nationwide Surveys to measure our customer satisfaction versus our foremost competitor for frequent business and frequent leisure travelers. Figure 7.1b shows our level superiority in 1999.

Frequent Business Traveler 1999 Key Comparisons

	Top 2 Boxes RCHC	Top 2 Boxes Foremost Competitor	Top Box RCHC	Top Box Foremost Competitor
Overall Satisfaction	91%	84%	68%	57%
Quality of Facilities from Location to Location	85%	68%	62%	39%
Quality of Services	88%	67%	61%	37%
Has Alert & Helpful Staff/Responsive to my Needs	83%	62%	52%	34%
Provides Excellent Business Class Floors	70%	49%	43%	23%
Has Very Clean & Well Maintained Facilities	96%	93%	74%	60%
Provides Full Range of Business Services	77%	58%	48%	26%

Source: Nationwide Surveys

Figure 7.1b

In the most comprehensive, objective and valid study to date, the Cornell School of Hotel Administration and McGill University undertook a survey of 13,400 managers in the lodging industry to identify “Best Practices” in the lodging industry. The study named The Ritz-Carlton as the overall Best Practice Champion.

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7.2 Financial and Market Results

Our measures of financial performance fall into a number of different categories. EBITDA (Earnings Before Income Taxes, Depreciation and Amortization) and pre-tax ROI (Return on Investment) are shown in Figure 7.2a.

Pre-Tax Return on Investment Summary

	Actual					Projected		
	1995 ⁽¹⁾	1996	1997	1998	1999	2000	2001	2002
Total Fees (\$M)	\$21,036	\$36,786	\$39,930	\$46,831	\$58,478	\$72,847	\$85,350	\$97,763
<i>Sales Proceeds (\$M)</i> ⁽²⁾								\$870,946
EBITDA (\$M)	\$11,951	\$20,882	\$21,284	\$29,668	\$39,103	\$53,195	\$63,937	\$945,767
Pre-Tax Return on Investment	5.3%	9.3%	9.5%	9.8%	12.9%	17.6%	21.2%	313.7%
Pre-Tax IRR =	24.4%							

⁽¹⁾ Reflects actual results from April – December, 1995 ⁽²⁾ Assumes a sale at year 8 at a 12X multiple

Source: RCHC Internal Data

Figure 7.2a

In Figure 7.2b we show administrative costs as a percentage of our total fees, profit and revenue.

Administrative Costs Summary

	Actual					Projections		
	1995	1996	1997*	1998	1999	2000	2001	2002
Total Fees (\$M)	\$21,036	\$36,786	\$39,930	\$46,831	\$58,478	\$72,847	\$85,350	\$97,763
Administrative Costs (\$M)	\$ 9,084	\$15,903	\$18,646	\$17,163	\$19,375	\$19,651	\$21,413	\$22,943
Administrative Costs as a % of Total Fees (Less=Good)	43.2%	43.2%	46.7%	36.4%	33.1%	27.0%	25.1%	23.5%

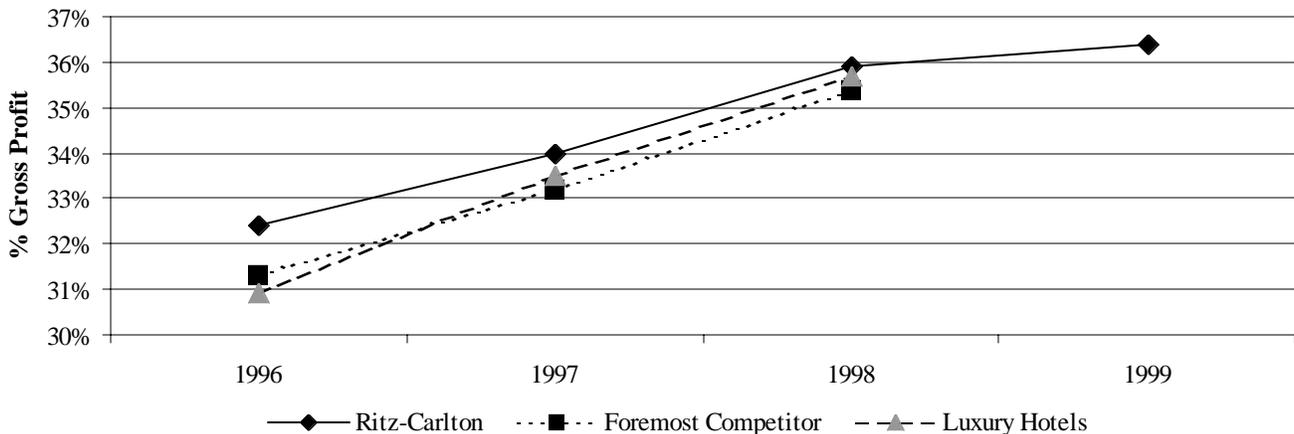
* Four hotels by individual owner that were out of compliance with RCHC standards were negotiated to another hotel management company and the costs associated with that transition increased our administrative costs in 1997. Otherwise, our administrative cost trends are excellent (down).

Source: RCHC Internal Data

Figure 7.2b

Figure 7.2c shows the percentage profit for The Ritz-Carlton versus our main competitor and all other luxury hotels from 1996–1998.

% Gross Profit vs. Main Competitor



Source: PKF Consulting (Note: No 1999 data available other than RCHC internal)

Figure 7.2c

The Ritz-Carlton Hotel Company, L.L.C.
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7.3 Human Resource Results

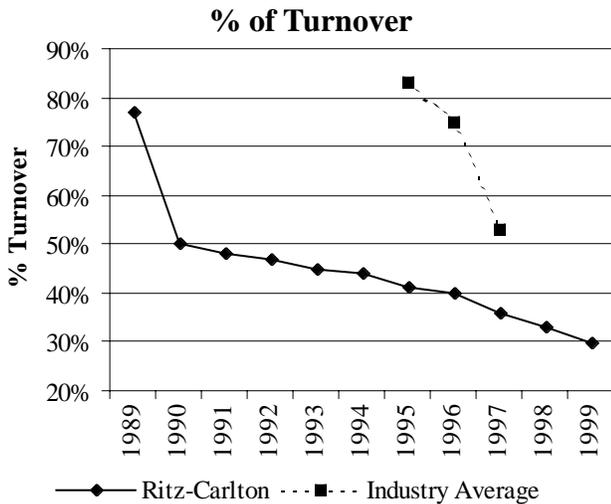
Our employee well-being and satisfaction is also measured through our Employee Satisfaction Survey. Figure 7.3a shows key drivers of overall employee morale and their respective responses for 1998 (Excellent, Very Good, Good).

**1998 Employee Satisfaction Data
 (% Positive)**

Issue	Ritz-Carlton 1998	Service Company Norms
Decision Making Authority	83%	55%
Teamwork	83%	70%
Department Coordination of Efforts	80%	40%
Communication Index	87%	57%
Empowerment	85%	67%
Understand Department Goals	86%	86%
Management		
Constructive Feedback	73%	45%
Verbal Recognition for Job Well Done	69%	41%
Monetary Recognition for Job Well Done	50%	28%

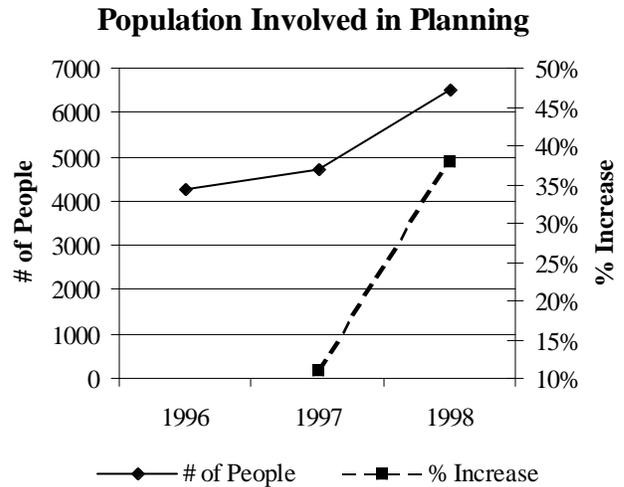
Source: J.D. Power / Kaznova Consultants **Figure 7.3a**

Figure 7.3b shows our ever-decreasing turnover rate from a high of 77% in 1989. Positive trends are a result of increasingly improved selection and training processes as well as drivers of employee satisfaction.



Source: RCHC / Kaznova Consultants **Figure 7.3b**

Our goal of Pride and Joy in the workplace and full participation of as many employees as possible is enhanced through employee involvement in planning. We know of no benchmarks in this area as most companies only track executives and do not include employees in the planning of their work (Figure 7.3c).



Source: Kaznova Consultants

Figure 7.3c

7.4 Supplier and Partner Results

We ensure that performance requirements of our suppliers are met through a robust Supplier Compliance and Quality Survey Form that measures key aspects of supplier quality.

Purchasing personnel at each hotel fill out the survey every six months and rate the issues (i.e. fit for use, accuracy, on-time, defect-free, cycle time, service, etc.)

Our goals are to: (1) Increase the number and percentage of our hotels who certify our Key Suppliers (through our robust process) semi-annually and (2) Increase the number and percentage of key suppliers who achieve an 80% or better overall rating on all attributes of our supplier certification survey (percentage meets quality requirements "to a great extent").

Figures 7.4a and 7.4b show our positive movement towards these goals over in the last three years. We cannot find other hotels, let alone other service companies, whose measures are as robust or similar to ours, and hence have no competitive comparison data.

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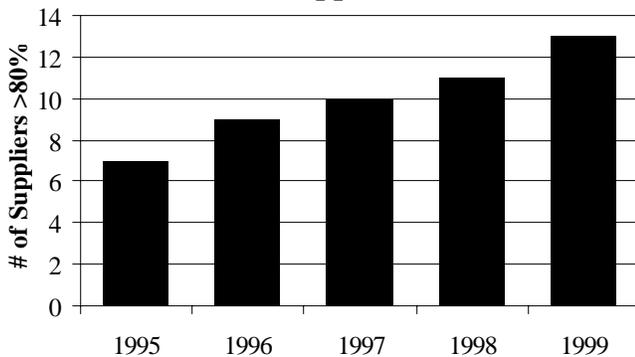
% of Hotels Certifying Key Suppliers

Supplier	1995	1996	1997	1998	1999
A	43%	52%	52%	95%	100%
B			12%	82%	100%
C	8%	21%	47%	95%	87%
D	34%	51%	56%	95%	96%
E	13%	39%	43%	100%	100%
F	39%	47%	52%	95%	100%
G	39%	52%	56%	100%	100%
H	21%	43%	47%	95%	83%
I	43%	52%	56%	100%	100%
J	43%	52%	56%	100%	96%
K	43%	52%	56%	95%	87%
L	43%	52%	56%	95%	100%
M	43%	47%	56%	100%	96%
TOTAL	34%	47%	50%	96%	96%

Source: RCHC data

Figure 7.4a

Number of Key Suppliers Achieving 80% or Better on Supplier Certification

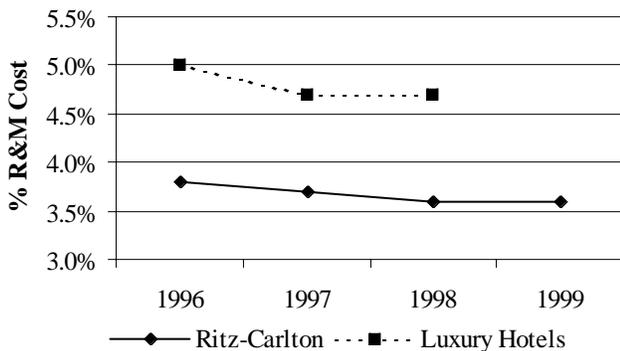


Source: RCHC Data

Figure 7.4b

7.5 Organizational Effectiveness Results

% Repair and Maintenance Cost to Total Revenue vs. Luxury Segment



Source: PKF Consulting

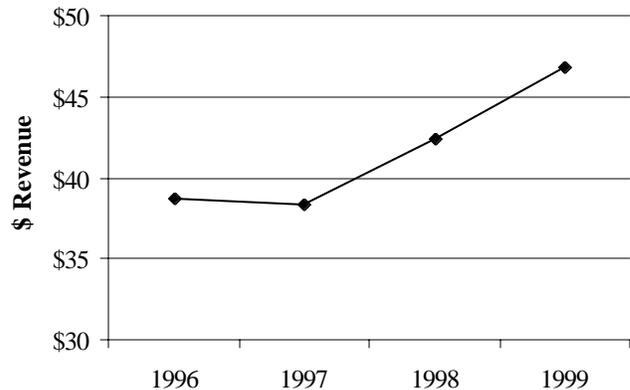
(Note: No 1999 data available)

Figure 7.5a

Figure 7.5a shows our trend and level superiority in operating maintenance. Our C.A.R.E. program of systematic preventive maintenance (four times a year) has kept our property and equipment at world-class levels at reduced costs. This is in alignment with our goal of pursuing a defect-free environment.

Figure 7.5b shows our trend improvement in revenue per hours worked.

Total Revenue Per Hours Worked

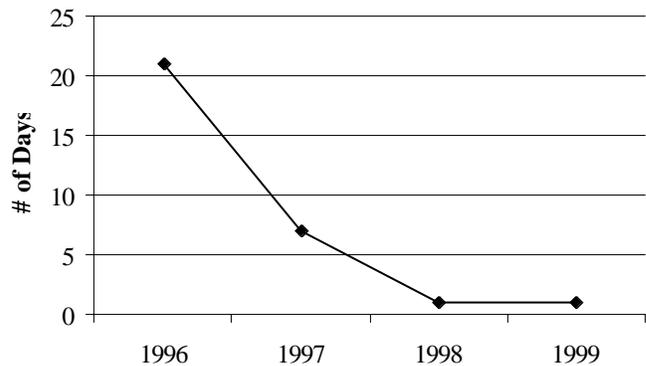


Source: RCHC Data

Figure 7.5b

With unemployment at a low, and significant competition for skilled hires, we embarked on a major project to improve the cycle time from when a potential new-hire walks in the door and a job offer is tendered. Using our scientific quality approaches, Figure 7.5c shows our 21X improvement in that reduction. **We know of no other company in any industry as of May 1999 that does the hiring process (especially with our selectivity and scientific selection tool) that is quicker.** Hence, we have no competitive comparisons.

Time to Process New-Hire from Walk-In to Job Offer



Source: RCHC Data

Figure 7.5c

Notes

Notes