

How The Ritz-Carlton Manages the Mystique

The luxury brand uses hard data on employee and customer engagement to create its image and ambience -- and to drive measurable results

by Jennifer Robison

Joanne Hanna recently had the pleasure of being a Ritz-Carlton guest, but only after the pain of a bad experience she had flying -- crammed into coach -- in December. "I had to get to a conference in New York, but my flights were delayed over and over. I arrived seven hours later than I meant to, and if I never see O'Hare airport again, it'll be too soon," she says. That delay meant that she missed all her meetings and had time only to check into her room, change, and race to the conference's opening-night dinner.

"The gentleman who escorted me to my room at The Ritz-Carlton asked how my day was, and I told him, the poor guy," says Hanna. "He said he'd be happy to book me into the spa, or send up a masseuse, or even have a rose-petal bath drawn for me, and I'd have loved all of that. But there was no time." So he told Hanna to wait a moment, and then he returned with a scented candle. "I was so touched, I was speechless -- it was so thoughtful and helpful, like something a friend would do," says Hanna. "So I told the people at the desk. And now whenever I check into a Ritz-Carlton, there's a candle waiting for me."

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Perhaps any hotel employee could figure out that a tired and frazzled guest could use a little help. And maybe any hotel company with a global database could keep track of a candle-loving customer. But making sure that every employee notices, cares, thinks, and acts as thoughtfully as the one who served Hanna -- well, that takes something special.

The Ritz-Carlton calls that something special "The Ritz-Carlton Mystique." It's a way of conceptualizing the brand's image and the ambience of each of the company's more than 70 worldwide locations. "Mystique" sounds enigmatic, but it's achieved through the most straightforward of methods: extremely close attention to performance data collection and a broad educational platform to deliver the findings.

Of course, all companies watch standard business measures and train employees. But The Ritz-Carlton watches things that most companies ignore, then uses what they learn in a unique way to create ongoing, top-to-bottom learning. "What we get from the data is essential," says John Timmerman, The Ritz-Carlton's vice president of operations. "Everything we learn we use to set strategies, and every strategy is communicated to our people. That learning environment is how we stay agile in an ever-changing world."

Beyond the data

Agility from education is a complex thing. A company has to determine what data to collect and how to collect it, but it also has to ascertain what to do with it. Get any of those things wrong, and the company trips over its own feet. So The Ritz-Carlton concentrates solely -- but obsessively -- on the factors that support the iconic brand.

"We really wanted to make sure that we not only had a great company but that we also had a sustainable company," says Timmerman. "So we started to benchmark different business models. We had to have the right outcome measures, so we developed certain business priority measurements. We call them our key success factors."

The factors are: mystique, employee engagement, customer engagement, product service excellence, community involvement, and financial performance. Most companies start with the financials, but The Ritz-Carlton finishes with them. "Financial performance is a result of the other metrics -- our key success factors," Timmerman says. "Everything else is a diagnostic metric."

The key success factors are the business priorities, and within those factors, The Ritz-Carlton reports on absolutely everything -- from the general morale of the restaurant staff in Bahrain to the number of scuffs on an elevator door in New York. Every day, the company's staff determines whether they're meeting the key success factors -- and if not, what needs to change.

Thus, each location and every one of The Ritz-Carlton's more than 38,000 employees turn in a river of quantitative and qualitative data points. Those bits of data, filtered by the requirements of the key success factors, are examined to give the company real-time information that it uses to set and evaluate the business priority measurements that make up the key success factors. It's a feedback loop of current information, starting and ending with the priorities.

"When executives focus on the mechanics, they miss the communication," says Timmerman. The key success factors feedback loop provides the communication that prevents The Ritz-Carlton's service from being mechanical -- and keeps it personal, for every person in every location every day.

How they strategize

The Ritz-Carlton starts with a flood of data, turns it into a powerful strategy, then targets specific actions to obtain its key success factors. But creating the right strategy to achieve the factors takes as much evaluation as analyzing the data in the first place.

First, The Ritz-Carlton defines the priorities that make up the success factors so that they're actionable and applicable to all employees. To draft the actions, a cross-functional team -- including senior

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corporate leaders, field representatives such as human resources managers, and rank and file employees -- reviews the plan and contributes insights. The company also uses the data to perform a SWOT (strengths, weaknesses, opportunities, and threats) analysis to adjust to new information.

"We look at where we want to be versus where we are today -- and where we see the trends on the horizon," says Timmerman. "Then we frame the key success factors. Then we ask for input with the SWOT process. It's a very defined process because it's our opinion that if you can't define it, you can't control it, you can't measure it, and you can't improve it."

The input of frontline staff -- the people who check guests in, serve food, and occasionally present scented candles -- into the SWOT process is crucial. Their insights are loaded into a global database so leaders can identify macro-level themes, market specifics, individual functions, and even corporate blind spots. As a result, the ladies and gentlemen, as all employees of The Ritz-Carlton are called, feel integrally involved in the business.

"For us, [integrating employee feedback into the process is the] true success because employees are personally engaged, they're fulfilled, they understand their contribution, and we're maximizing their talents," says Timmerman. "Involving [employees] in the SWOT process increases their engagement. And in my opinion, employee engagement measurements are a barometer of leadership effectiveness."

Once the company has determined the actions for achieving its success factors, the next step is actually putting them into action. That's the education factor.

How it works

A strategic plan will achieve its goals only if it's understood. And no plan will achieve its ends if it isn't measured and monitored. So, before long-range plans are put in place, The Ritz-Carlton goes to great -- some might say extreme -- lengths to teach and learn from employees. "To be agile in any marketplace, especially one that changes as rapidly as ours," says Timmerman, "means being a learning organization."

The Ritz-Carlton never misses an opportunity to teach. All new employees take part in a two-day cultural orientation before they start their jobs. Then, they are certified after the first 21 days and annually thereafter to ensure that they are delivering brand standards. Every employee in every location takes part in a daily pre-shift meeting in which actions, events, issues, and most importantly, The Ritz-Carlton philosophy, are discussed. In this way, no one is left in the dark about what a priority means -- and everyone understands his or her role in shaping it. "That helps us all adjust to changes," says Timmerman. "And change is constant."

A byproduct of daily learning is that the ladies and gentlemen who actually deal with guests are reminded to, coached on how to, and have a method for relaying customers' faint signals. Even the most subtle guest reactions are noticed and fed into the river of

data that is distilled into the business priorities. As a result, the hotel can pick up on information that might have been easily missed and have a built-in plan for delivering that knowledge to others.

Furthermore, every hotel, function, and division has access to the key success factors as well as very specific revenue and profitability measures. Thus, every day, those ladies and gentlemen can see how well they're performing against their targets, each of which rolls up to the company metrics. "So what you have is complete alignment, [and employees can see how] all the key success factors that are at thirty thousand feet translate down to ground level," says Timmerman.

Yet none of these approaches are very long term. Through trial and error, The Ritz-Carlton realized that unless the issue involves a capital improvement, action items should be designed to be accomplished within 90 days. Furthermore, having learned in the strategy evaluation process that hotels do very well when they focus their attention on just a few things, The Ritz-Carlton makes sure every business unit has no more than three priorities.

"[Any objective] longer than ninety days turns into ongoing committees that drink coffee and produce meeting minutes but not a lot of results. And once you go beyond the top three priorities, you start to really diffuse your resources, your bandwidth," says Timmerman. So the company set a mandate that every employee must work on something to improve customer, employee, or financial outcomes, with visible results within 90 days.

Engaging employees

"At the end of the day, our bottom line is in the hands of our front line," Timmerman says, which is why the company is meticulous in hiring and developing its staff. The Ritz-Carlton aims to hire only the very best of the very best -- they select just 1 out of every 20 applicants, and that's after applicants are pre-screened for job requirements.

But fit to role is only part of the employee equation. The other is employee engagement, because engagement is the cornerstone of every Ritz-Carlton success factor. Employee engagement first came to the company's attention because of its correlation to performance measures that have profit consequences; Gallup research has shown that hotels with increased employee engagement scores have lower management turnover, fewer safety incidents, and higher profitability and productivity. (See "Feedback for Real" in the "See Also" area on this page.)

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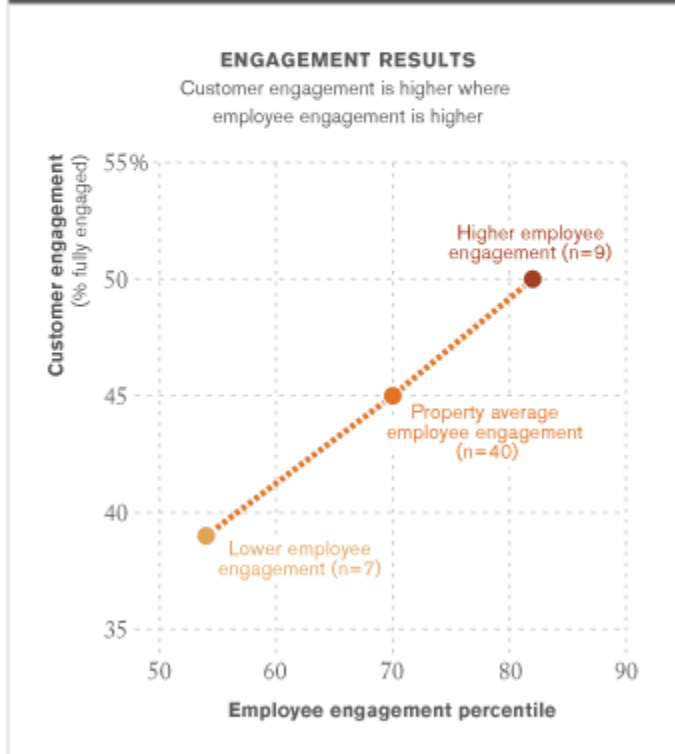
The Ritz-Carlton has conducted employee satisfaction measurements for years because it understood the crucial role that employees play in satisfying guests. But there's a big

difference between engagement and satisfaction, so the company began using Gallup's Q¹² employee engagement metric in 2006.

The Ritz-Carlton has an extraordinary number of engaged workers, with an overall engagement ranking in the upper quartile when compared to all the workgroups Gallup has studied. And its employee turnover is low enough to be legendary: a mere 18% compared to the luxury-hotel industry average of 158% for line-level workers, 136% for supervisors, and 129% for managers. "We like turnover to be between fifteen and eighteen percent," says Timmerman, "because fresh voices are valuable too."

Improving Employee Engagement Boosts Customer Engagement

High employee engagement scores indicate an engaged workforce — and a more engaging atmosphere for customers. Research shows that where The Ritz-Carlton's employees are more engaged, so are the hotelier's customers. At properties with above-average employee engagement, 50% of customers are fully engaged. At properties with below-average employee engagement, only 39% of customers are fully engaged.



Note: 40 domestic hotels participating in both EE and CE during 2008. CE results from May–September 2008.
Source: Gallup
Graphic by Tommy McCall

Engaging guests

The other side of the employee engagement coin is customer engagement. Like employee engagement, customer engagement has strong linkages to important profit outcomes: Gallup research has shown that fully engaged customers deliver a 23% premium over average customers in share of wallet, profitability, revenue, and relationship growth. (See "Manage Your Human Sigma" in the "See Also" area on this page.)

When it first measured customer engagement in

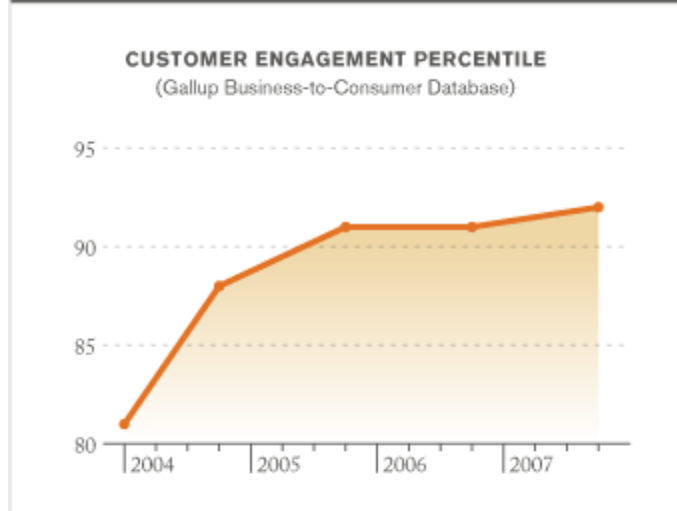
2004, The Ritz-Carlton scored above the 80th percentile against business-to-consumer companies in Gallup's customer engagement database. For most companies, this would be an outstanding result, but outstanding wasn't good enough for The Ritz-Carlton -- or, frankly, for the extremely selective luxury hotel market. So the hotelier used what it learned from the success factor feedback loop to teach

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the ladies and gentlemen to provide the perfect, and perfectly subjective, engaging experiences. And it worked: The Ritz-Carlton's overall customer engagement score now ranks above the 90th percentile.

World-Class Customer Engagement

When The Ritz-Carlton first measured customer engagement in 2004, its scores ranked the hotelier in the top quartile of Gallup's business-to-consumer database. This was an excellent ranking — but not good enough for The Ritz-Carlton. Since that initial measurement, The Ritz-Carlton has applied what it has learned from listening to customers to improve its service, boosting its score to above the 90th percentile in 2007.



Note: Domestic properties only
Source: Gallup

Graphic by Tommy McCall

HumanSigma

But a few years ago, The Ritz-Carlton stopped managing customer and employee engagement separately. The company understood the dynamics and profit potential of employee engagement and customer engagement, which is why it made each a key success factor. But the performance potential of managing both factors holistically -- a process Gallup calls HumanSigma -- caused the company to reconsider its approach. "Our employee and customer engagement scores are as important as our financial data," says Timmerman.

Gallup research shows that companies that score above the 50th percentile on either employee or customer engagement tend to deliver 70% higher financial results than companies that score poorly on both measures. But companies that score above the 50th percentile on *both* employee and

customer engagement measures outperform companies below the 50th percentile on both measures by 240%. (See "How Employee and Customer Engagement Interact" in the "See Also" area on this page.)

That's a significant performance differential, so The Ritz-Carlton leaves little to chance regarding HumanSigma. Senior leaders incorporate HumanSigma targets into their corporate strategy and action plan, and they review those targets like they review sales and financial results. "We wanted employee and customer engagement to have the same importance as sales, marketing, and financial goals, so we made it part of the senior leadership agenda," says Timmerman. "We integrate that data into our leadership performance profile, so we look at customer relationship management as part of the leadership metrics. That way, employee and customer engagement really get traction."

Candles

So leaders carefully track HumanSigma, which personally affects individual employees, so that they can perform according to the business priority measures, thus ensuring the key success factors, which maintain the world-famous brand. And all of this changes a little bit, every day, to fit the needs of customers.

It's mind-bogglingly complex, but the end result is quite simple. One cold day in December, an exhausted traveler's day was transformed by the gift of a candle from a thoughtful employee. That candle required the compassion of a single employee, but was predicted on millions of data points. That's the quintessence of business agility.

And though that candle cost very little, it's worth a fortune. Hanna was enchanted by The Ritz-Carlton Mystique, as are all people. But that candle caught her at a deeply emotional level, making her a passionately engaged customer. The hotel can count on getting all of her future business, which means several thousand dollars of extra revenue, assuming she remains as engaged as she is today (which, she says, is "a pretty safe bet").

If even a tenth of its guests experience the same sort of magic that Hanna felt, the company's careful data analysis will pay for itself. If a quarter of them do, The Ritz-Carlton's commitment to engagement will return a magical experience for its guests -- and an enormously healthy return on investment to the company.

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