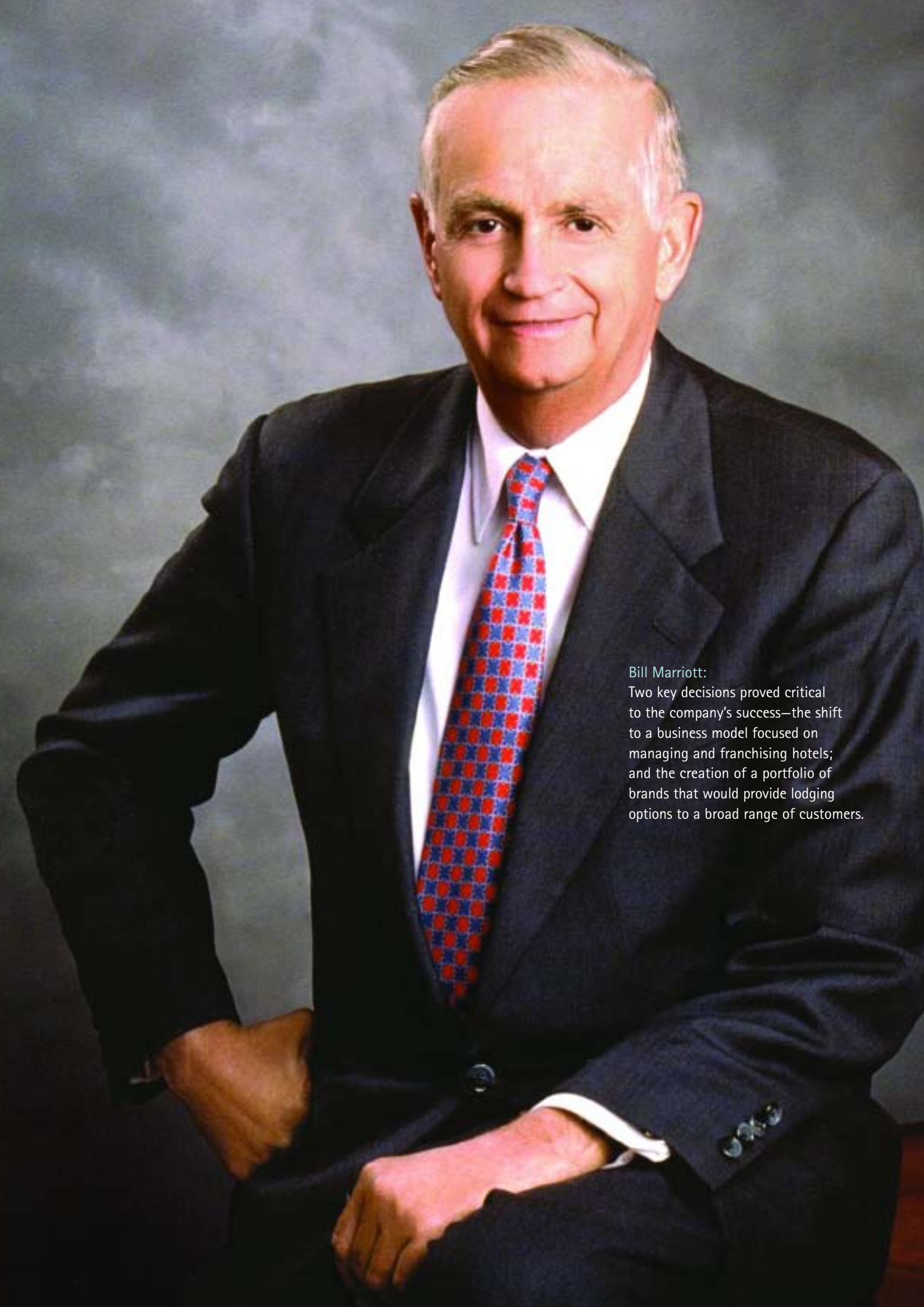


Why Marriott shareholders sleep well at night

By Robert J. Thomas and Walter E. Shill

Lodging is a mature industry, struggling with market saturation and relentless pressure on margins. Marriott's response? Combine a unique brand strategy and a focus on employee training and retention with a carefully nurtured corporate culture to create a winning mindset that pervades the entire organization.



Bill Marriott:

Two key decisions proved critical to the company's success—the shift to a business model focused on managing and franchising hotels; and the creation of a portfolio of brands that would provide lodging options to a broad range of customers.

To the casual observer, it may seem as if little has changed in the lodging industry over the past couple of decades. There are the ubiquitous budget chains for weary families on holiday, the smaller chains of luxury sites for well-off vacationers and the in-between hostels for corporate road warriors.

In this seemingly placid environment, can an organization's particular approach to managing the core elements common to every business—what Accenture calls “performance anatomy”—make much of a difference?

Indeed it can, as we found upon closer review of this industry through the lens of Marriott International. This article is the third in a series of *Outlook* case studies that explore the distinctive mindsets that comprise the performance anatomies of a number of successful companies in very different industries (see page 28).

In fact, there is plenty to keep the lodging industry executive tossing and turning at night. The industry is mature: the most appealing markets are saturated, brands are well established, and there is limited room for product innovation.

In addition, executives must navigate the two-edged swords of the Internet and globalization. The Internet gives companies control over some costs but also surrenders some power to consumers; globalization means companies have new opportunities for expansion—and new threats from international competitors. In this environment, lodging businesses must seek to trump rivals by stealing market share, expanding in lower-margin locations and optimizing operational performance.

Marriott, which began life in 1927 as a root beer stand, has

successfully defied industry trends, in both the long and the short term. For example, its US market share more than doubled between 1991 and 2003, from 4 percent to 8.4 percent. In 2004, the company reported revenue of \$10 billion, with income from continuing operations of \$594 million; it also posted significant increases in revenue per available room and revenue from management and franchise fees, two key benchmarks in this industry.

And in 2004 alone, Marriott added 27,000 rooms to its total, 39 percent of which were conversions from other brands. Given those figures, it's not surprising that Marriott's stock outperforms that of most of its competitors.

This article reveals how Marriott has combined a unique brand strategy, a focus on employee training and retention, and attention to other elements of performance anatomy with a carefully nurtured corporate culture to create a winning mindset that pervades the organization and helps the company achieve high performance.

Shaping the market, executing with discipline

Marriott has transformed the lodging business in a number of ways while consistently delivering superior service to its customers and high returns to its shareholders, demonstrating the ability to combine creativity with discipline that is a hallmark of high-performance business in any industry.

Yet the hotel business was not even a glimmer in the eye of company founder J. Willard Marriott when he and his wife, Alice, opened a nine-stool soda fountain in 1927 in Washington, D.C. Thirty years later, when interstate highways and passenger jets were enabling Americans to travel farther and more frequently, Marriott added to his restaurant and catering businesses by opening his first hotel. By 1972, when he passed the chief executive baton to his son J.W. “Bill” Marriott Jr., the Marriott Corporation consisted of a diverse portfolio of businesses, including restaurants, food production and purchasing facilities, theme parks and hotels.

The new CEO set himself the task of expanding Marriott’s lodging business. Although implementation took some time, two key decisions proved critical to the company’s ability to execute the new vision. The first was to shift to a business model focused on managing and franchising hotels in which revenue would come from recurrent fees and in which the risk associated with real estate ownership would be minimized. The second was to build a portfolio of brands that would provide lodging options to a broad range of customers.

But this new strategic vision also drew heavily on an existing service-oriented corporate culture that had

been essential to the company’s success in the past—and that still guides Marriott today. The culture is grounded in two very important beliefs. First, everyone—managers and employees alike—contributes to the quality of a guest’s experience; this is reinforced by the oft-repeated maxim: “If management takes care of associates, associates will take care of guests.”

The second belief is linked to Bill Marriott’s legendary attention to detail. In his view, rigorous adherence to standard operating procedures will lead to flawless execution. The culture also links process execution to strategic goals: Employees have been able to use the standard operating procedures to benchmark, and then improve, guest satisfaction scores.

Too much debt?

One of the reasons J. Willard Marriott had moved cautiously into the hotel business was the cost of buying and owning real estate. “He was always worried about having too much debt,” notes Bill Shaw, the company’s current president and chief operating officer. The market saw it that way, too, penalizing the company for the debt on its balance sheet. Bill Marriott was plagued by this issue as well, and the company grew at only a modest rate during the 1970s.

The company had experimented with franchising as a solution to the debt problem. But Bill Marriott was concerned that quality would vary from property to property, and he disliked giving up hands-on management control. In the late 1970s, Gary Wilson, the chief financial officer at the time, proposed a compromise:



CFO Sorenson: Active management of three key intangible assets—employee engagement, communication and company culture—combined with careful measurement sets Marriott apart from the pack.

Even in the far corners of the globe, Marriott's managers focus on their role as guardians of corporate values.

Marriott would build the hotels, but it would then sell them to investors who, in turn, would sign long-term management contracts with Marriott.

The company was, in effect, reinventing how hotels were managed and franchised. Mike Jannini, current executive vice president for brand management, explains: "We thought of it more as a partnership model. In addition to financial feasibility, we also wanted to assess values and principles: Were these people speculators, or were they in it for the long term? Did they

define success in the industry the way we did?"

Marriott, in short, was sharing the risk with owners and franchisees without relinquishing control over operations. (The company currently franchises between 50 and 60 percent of its hotel properties.)

But as important as franchising and hotel management was to the growth of the lodging business, it did not address two pressing concerns: the need to offer increasingly deep discounts to attract

a broader array of customers, and the diminishing opportunity in a saturated market to build new full-service hotels.

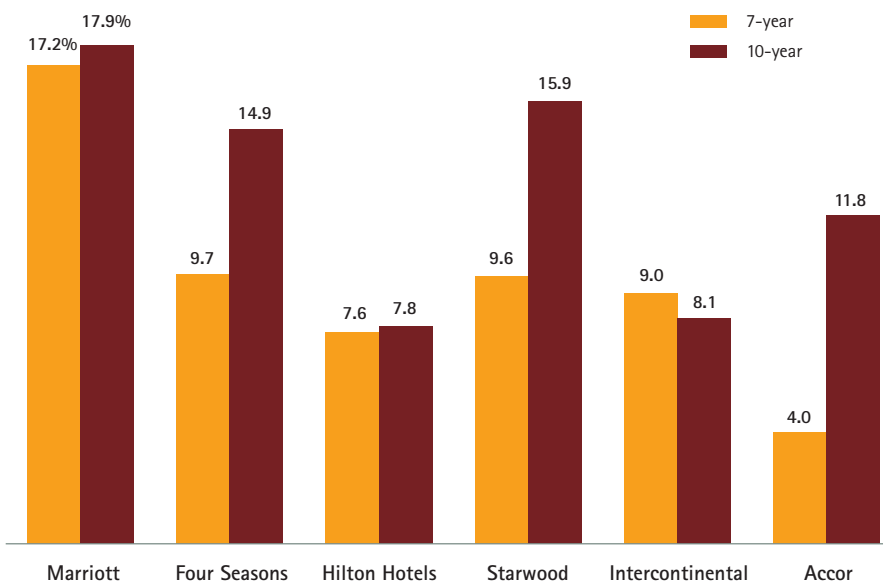
Market research revealed a potential solution to both problems. Recognizing that not all customers needed 24-hour room service or 50,000 square feet of meeting space, in 1983, the company introduced the Courtyard brand. Hotels flying that banner would be less expensive and have fewer rooms and less public space. This was the beginning of Marriott's portfolio brand strategy.

Encouraged by Courtyard's immediate success, Marriott dramatically enlarged its portfolio, adding Residence Inn and Fairfield Inn in 1987. By 1995 Marriott had moved into the luxury market by acquiring a 49 percent interest in The Ritz-Carlton Hotel Company chain and, going beyond the traditional lodging business, by moving into the time-share and assisted-living markets as well.

Hospitable returns

Marriott has consistently outperformed competitors in terms of key benchmarks like total return to shareholders.

Seven- and 10-year total return to shareholders



Source: S&P Compustat

That same year, the company launched its brand management initiative. The goal was, and continues to be, to maintain a delicate balance in which Marriott's culture is instilled throughout all the brands while each brand nonetheless maintains its own identity. Residence Inn, for example, focuses on the extended-stay market. But the brands also share a high-profile connection through Marriott Rewards, the company's frequent-traveler program.

Marriott's ability to manage the tension between expanding market boundaries through innovative brand strategies and meticulously focusing on tactical and operational execution has made the company highly successful as a shaper of this market.

Using a selective scorecard

High-performance businesses use data to support decision making and are thoughtful about how they measure success. They use this information to track not only widely recognized tangible assets but also the intangible assets—including brand recognition, customer satisfaction and employee engagement—that exemplify their organizations' values. Active management of these intangible assets combined with careful measurement sets the high performers apart from the pack.

At Marriott, the management and measurement of three intangibles—employee engagement, communication and company culture—stand out. Brendan Keegan, executive vice president of human resources, defines engagement as the extent to which an employee knows and understands the company's mission, has an emotional attachment to that vision and is energized to carry it out. Marriott has determined that more than 80 percent of its associates are engaged or highly engaged in their jobs. This figure is much higher than that for other lodging companies, according to Marriott's benchmarking research. Moreover, the company is able to establish a direct link between engagement and house profit, guest satisfaction and the frequency of guest returns. "We're surveying our guests constantly," notes Chief Financial Officer Arne Sorenson. "It's a never-ending process to make sure we're getting a straight read from our customers about what they thought about [our] service." Senior executives are now able to draw on that data to push for change, rather than having to rely on their intuition.

Alignment is also a critical intangible asset, and Marriott uses a variety

of communication methods to help its workforce see and understand where the company is going, and why. Employees use the company's in-house organ, *The Spirit to Serve Daily News*, to share ideas about how to be gracious hosts and what it means to provide good service. The management and franchise model makes good communication essential because it requires top executives to persuade the hotel owners and general managers of the merits of any change.

Another crucial intangible is the service-oriented culture that permeates the organization. Even in the far corners of the globe, Marriott's managers focus on their role as the guardians of corporate values. HR executive Keegan recalls being given a tour of a new hotel in China owned by a consortium of businesses led by a former general. The general, proud of the hotel's executive suite and conference facilities, was taken aback when Keegan insisted on observing a time-honored Marriott tradition: He asked to see the employees' cafeteria and locker room first. Though acutely aware of the irony of his request, Keegan explained his move as consistent with Marriott's belief that "taking care of associates first" will ultimately mean better service for the guests.

Marriott successfully exports the core essence of its culture because it lives by the principle that everything, from its core values to its standard operating procedures, should be easy to understand. Simple but powerful phrases—for example, "hot food hot, and cold food cold"—are touchstones at the company. This simplicity helps Marriott, despite its diverse portfolio of brands, deliver a consistent customer experience.

The *Outlook* high-performance business case study series

Through a program of original research, Accenture has determined that high performance rests on three building blocks: the creation of distinctive capabilities; market focus and position; and performance anatomy. Because performance anatomy embodies a company's unique approach to managing the core elements common to every business—and therefore is crucial to long-term effectiveness, the quality and speed of decision making, and the mastery of change and innovation—we believe it deserves special attention.

A high-performance anatomy consists of a number of elements, but at its heart are five essential skills that determine how—and how well—an organization approaches tasks critical to the execution of its strategy: balancing market creation with disciplined execution; multiplying talent; using a selective scorecard to guide performance measurement; viewing information technology as a strategic asset; and renewing continuously.

In previous issues, *Outlook* has explored the performance anatomies of Harrah's Entertainment ("Exploring the mindset of the high performer," October 2005) and Constellation Energy ("A star is born," January 2006). Organizations like Harrah's, Constellation and Marriott International, which demonstrate those skills collectively, have what we term a "winning mindset."

A refined model of high-performance anatomy



Source: Accenture analysis

Multiplying talent

High-performance businesses actively manage their talent, matching the right people with the right jobs and hiring for fit rather than for specific skills. As a result, these companies are rewarded with engaged, productive and creative workforces.

From recruitment to training and support to retaining employees, Marriott stands out because it focuses on the entire talent development chain. Hiring by gut instinct is frowned upon; instead, hiring managers use a quantitative, predictive model that combines an assessment of candidates' job skills with an evaluation of their attitudes and values—attributes that Marriott considers more important than specific skills or experience.

Marriott's success with employees at all levels makes for great press. The company regularly appears on lists of best companies to work for—for example, in the top 100 rankings for both *Fortune* (eight consecutive years) and *Working Mother* (15 years). And the company's voluntary turnover rates are among the lowest in the industry.

Part of the reason can be found in Marriott's benefits and compensation packages. "Our largest group of employees is housekeepers—largely women with families," explains Keegan. "We've found that medical benefits are a critical driver of retention—it keeps our turnover low." But that's only part of the story. Training, career opportunities and the cultivation of emotional ties all play important roles in helping Marriott retain employees in an industry marked by high turnover.

Once it makes a hiring decision, Marriott devotes considerable resources to training and developing its people at every level. Senior managers attend a four-week, in-house executive development program designed to help them cultivate a broad, externally focused point of view. For hourly workers, the emphasis is on structured, task-driven, on-the-job learning. The company even incorporates a training budget requirement into its contracts with franchisees and managed-property owners. Career-growth opportunities are another key to high retention rates. Nearly half of the company's managers were promoted from within the ranks of hourly workers.

Marriott keeps its managers engaged by providing many opportunities for development and advancement. Senior executives have spent an average of 22 years with the company, while their direct reports have an average tenure of 15 years. The company prefers to promote from within and provides cross-functional opportunities for key senior managers as a way to cultivate its future leaders.

Another reason for employee loyalty—and another important intangible—is the emotional connection workers have to the company. Marriott conducted research that showed that this connection was based largely on employees' belief that Marriott treats them fairly. Marriott found that its survey results surpassed industry benchmarks, leading company executives to believe that their employees trust the organization's leadership to look out for their best interests.



HR chief Keegan: Hiring managers use a quantitative, predictive model that combines an assessment of candidates' job skills with an evaluation of their attitudes and values—attributes that Marriott considers more important than specific skills or experience.

Viewing IT as a strategic asset

High-performance businesses view IT as an integral part of their business strategy. No longer merely aligned with business decisions, IT adds value by enabling new product and service offerings.

At Marriott, information technology is a source of operational excellence and competitive advantage. Chief Information Officer Carl Wilson explains that Marriott instituted guiding principles to change the way employees thought about IT: “We said, ‘There will be no IT projects. There are only business initiatives that are enabled and shaped by information technology.’ ”

Wilson’s team started by announcing that new initiatives with a significant information technology component would be undertaken only if the project was assigned a full-time business leader and a full-time IT leader. Within a short time, Marriott found that managers in other functional areas became more educated about information technology and began to align their use of IT with the organization’s business strategy.

Wilson brings his message to property owners and franchisees too. The goal is to make sure they fully understand how IT fits into their business strategy. It’s an example of how, by actively cultivating rela-

tionships with franchisees, Marriott helps ensure that they are more accepting of corporate initiatives, not only in IT but also in such areas as enforcing brand standards.

Marriott uses information technology to enable innovation and to create new value within the organization. One of Marriott’s early IT successes was the development of an inventory management system. Being the leader in maximizing revenue per room means, among other things, putting all the data together to forecast that September in New York will be a high-demand month.

Marriott’s innovative use of information technology allowed it to focus on demand when the rest of the industry was still talking about supply. The company invested heavily in collecting customer information that was then used to develop sophisticated brand-tracking studies and market segmentation analyses. Brand management chief Jannini recalls the leading-edge nature of the work: “We had to go outside the industry to find vendors to perform the work.”

Marriott integrates IT seamlessly into its business, ensuring that corporate strategy drives its IT investments and data drives its decision making. These are hallmarks of a high-performance business.



CIO Wilson: Marriott integrates IT seamlessly into its business, ensuring that corporate strategy drives its IT investments and data drives its decision making. Marriott’s innovative use of information technology allowed it to focus on demand when the rest of the industry was still talking about supply.

Continuously renewing the business

High-performance businesses are never satisfied with the status quo or even with their own successes. They embrace change and are on a continuous quest for improvement.

The Marriott culture encourages risk taking but discourages star turns. “As long as it’s about the business, you can stab every sacred cow on the table; you can take any risk you want,” says Jannini. “But once it

becomes about the person or the leader, and you're trying to build your own headlines and résumé, you are very short-lived here." Indeed, Marriott expects its managers to check not only their egos but also their laurels at the door. "The senior leadership group—particularly Bill Marriott—constantly reminds folks, 'I don't care what we did in the past,' " says CFO Sorenson.

Marriott finds that its own properties are often a source of innovative new practices. As a result, the company has adopted formal and informal communication channels to encourage employees to share best practices. For example, through a quarterly program called the Worldwide Business Forum, managers in Poland can learn from practices in Peru.

New managers learn quickly that Marriott embraces change—but on its own terms. CIO Wilson explains how once, soon after he joined the company, he was pulled aside by a colleague when some of his ideas met with resistance. "He told me, 'What you're saying makes sense, but you've got to start talking about how these changes you want to make will support the values of our company.' Once I started to do that, people started to get on board."

Marriott's newest project—reinventing the lodging environment—is nothing if not ambitious. Jannini calls it the "experience phase" of the organization's endless journey to engage its customers, and it's got the entire company focused on the future. "We have to get to the customers' emotional drivers and not just the rational drivers," says Jannini. "We'll do that by exciting the senses and paying attention to music, lighting and aromatherapy—a combination of environment and amenities."

Though the program is still in the planning stages, Jannini says that the company is using the desire of customers of Marriott's full-service properties for luxurious amenities, stylish surroundings, technological conveniences and personal service to shape the changes. He makes it clear, however, that at Marriott, change isn't driven through the corporate headquarters; it's a team effort, and major programs simply don't happen without the advice, guidance, acceptance and implementation expertise of the managers at the hotels.

Marriott's commitment to continuous renewal is so ingrained in the culture that its managers recite another saying by Bill Marriott—"Success is never final"—even as they laud recent company achievements. "It's not just a platitude," says HR executive Keegan. "You feel it at Marriott every day."

This constant restlessness may keep Marriott's managers up at night, but its customers (and shareholders) sleep all the better for it.

About the authors

Robert J. Thomas is the executive director of the Accenture Institute for High Performance Business in Wellesley, Massachusetts. Dr. Thomas is also a partner in the Accenture Human Performance service line and a leading authority on leadership and transformational change. He is a frequent contributor to *Outlook*, and his ideas on human capital development have also appeared in *Harvard Business Review*, *Sloan Management Review* and *The Wall Street Journal*. His book *Geeks and Geezers*, which he co-wrote with Warren Bennis, was one of the best-selling business books of 2002.

robert.j.thomas@accenture.com

Walter E. Shill is the managing director of the Accenture Global Strategy service line. He has extensive experience advising Fortune 500 clients across a broad spectrum of strategy, organization and M&A issues. Mr. Shill is based in Washington, D.C.

walt.shill@accenture.com