case study

A Strategy of Duality: New choreography for the Marriott/Ritz-Carlton dance

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Introduction

During the period between 1995 and 2000, numerous mergers of hotel companies occurred, representing significant consolidation for the U.S. hotel industry. Marriott Corporation appeared to lead the charge with its 49% acquisition of The Ritz-Carlton Hotel Group in 1995. Mergers and acquisitions are a primary method of growth, and acquisitions can be a quick method to fill a need for skills and resources of the corporate portfolio of airlines and hospitality companies.

There have been several recent mergers in the US airline industry. In February 2013, US Airways and American Airlines consolidated to form the worlds' biggest airline with 6,700 daily flights and annual revenues of approximately $40 billion. Within the airline industry, in previous years, other mergers include the deals between United and Continental; Delta and Northwest; and Southwest's acquisition of AirTran. Another example is Starbucks. This company entered the tea business in 1999 when it acquired the Tazo brand and in late 2012, Starbucks bought Teavana. As of November 2012, there was no intention of marketing Starbucks' products in Teavana stores, though the acquisition would allow the expansion of Teavana beyond its current main footprint in shopping malls. IHOP acquired Applebee's, Inc. in 2007.

Starwood Hotels have announced they are seriously considering adding another brand to their family within the next three years. The Stamford, Connecticut-based chain is looking to buy a global, luxury brand—which would be the company's 10th brand overall and fourth in the luxury segment. In fact, Starwood executives have stated they would rather purchase a brand than develop one from the beginning of a concept, but Starwood has stated their biggest problem is finding a brand for sale. According to CEO Frits van Paaschen, Starwood Hotels have a high number of hotels outside the US, and the Sheraton brand in particular is thriving globally. Therefore, van Paaschen says any additional brand would need to have a global footprint already established.

While mergers and acquisitions are often announced with much fanfare, the "thereafter"—the integration process post-merger or acquisition--and the corporation's subsequent parenting strategies are less visible; thus, the long-term impact on the firm is more difficult to assess. Following a merger or acquisition, many acquired companies become so intertwined with the parent company, they lose their own identity and competitive advantage that was the initial attraction for the merger. This case study examines the "thereafter" of Marriott's acquisition of The Ritz-Carlton Hotel Group, and how synergy has been fostered between the two companies while maintaining brand integrity of the two.

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Background Information: Marriott Corporation and the Ritz-Carlton

The Ritz-Carlton is a luxury hotel brand known for its quality of services and has the distinction of being the only service company to have twice earned the prestigious Malcolm Baldridge national Quality Award, one that requires outstanding customer service. The Ritz-Carlton was founded in 1989 by Cesar Ritz and the chef Auguste Escoffier as the Hotel Ritz Paris. The Ritz name has become legendary with superlative hotels, high-class cuisine and accommodations. Escoffier, among other achievements, was known as the inventor of Peche Melba, as well as Melba toast. On the other hand, Marriott Corporation, founded by J.W. Marriott, Sr. in 1927, began with a nine seat root beer stand in a neighborhood of Washington, DC. Marriott Corporation opened its first hotel in Arlington County, VA known as the Twin Bridges Motor Hotel. From this beginning, Marriott expanded into theme parks, partnered with Sun Line cruises, and forming a timeshare division now known as Marriott Vacation Club International and a senior living division.

Marriott Corporation ended its existence as a single company in 1993, when it was split into two separate entities: 1) Marriott International Corporation, which operated the hotel and lodging aspect of the business as well as Marriott vacation club international, and 2) Host Marriott Corporation, the new name from the original Marriott Corporation and operating the Marriott Food Service. Today, Marriott Corporation has become a diverse global enterprise. It is one company, but pursuing a model with many brands that began in the late 1980s and has evolved with its corporate structure to facilitate managing and franchising hotels. But in the mid-1990's, Marriott was lacking in one area: a foothold in the luxury market.

In 1995, Marriott Corporation, acquired a 49 percent interest in The Ritz-Carlton Hotel Company, and in 1998, the transaction was completed when Marriott acquired control of The Ritz-Carlton for 290 million dollars. Simon Cooper, former President and Chief Operating Officer (COO) of The Ritz-Carlton Hotel Company, explained The Ritz-Carlton has operated as an independent brand with no commercial broadcast of the Marriott acquisition.

The most successful mergers tend to involve companies that share a high level of complementarity among their resources, which creates the most potential for synergy. Complementarity occurs when two companies have strengths in different areas that interrelate with each other. As well, the largest shareholder gains occur from mergers when the organizational cultures and the top-management styles of the two companies are similar (organizational fit). Sharing resources and activities has been found to be important to post-merger success. And in 1995, upon announcement of the acquisition of the 49% stake in The Ritz-Carlton Hotel Group, J. William Marriott Jr. stated: "our companies may serve different market segments but we share 'an incredible commitment to customer service" (McDowell, 1995). This philosophy is also parallel to that of Singapore Airlines and their principle of harnessing the power of people and the organizational culture (Heracleous & Witz, 2010). In a move commensurate with a history of "firsts" in the hospitality industry, Marriott has successfully pursued a management philosophy of recognizing brand differences and managing The Ritz-Carlton with a dual approach.

The Evolution: A Philosophy of Duality

According to the previous president and COO of the Ritz-Carlton Hotel, Simon Cooper, Marriott has tried to keep the brand image of the Ritz-Carlton separate by referring to the Ritz-Carlton as "a luxury brand owned by Marriott" rather than "the luxury brand of Marriott." This has allowed Ritz-Carlton to compete against its competitors especially its long time competitor Four Seasons. Ritz-Carlton has also been ranked as the number one luxury company in the hotel segment for 2011, according to a study of guest satisfaction by J.D. Power and Associates.

Beginning in the early-1990s, Marriott began to pioneer the development of a multi-branding strategy as it transitioned from a lodging company to a brand company. It separated into two companies: Marriott International, and Host Marriott Corporation (currently called Host Resorts and Services). The latter entity absorbed all real estate holdings while the former, Marriott International, became an operator of hotels retaining all brands and contracts to manage and franchise hotels. This meant that Marriott did not have the traditional balance sheet that is so often burdened by debt, leaving Marriott with a variety of brands and the capabilities to grow those brands. Without the burden of real estate debt, the ambitious plans for expansion are more realistic.

Subsequent to the reorganization, Marriott's desire to complete offerings to all consumer segments, partnered with The Ritz-Carlton and bought 49% of the chain marking the Maryland company's entry into the luxury hotel market. As part of the deal, Ritz-Carlton also divided into two entities, one a real estate holding company and the other holding management contracts on 33 hotels in their sphere of influence. Options to increase ownership of Ritz-Carlton were exercised several years later while allowing even greater autonomy for the acquired chain.

Marriott's use of three different degrees of affiliation has augmented its abilities to successfully market to varying consumer segments: endorsed brands like Courtyard by Marriott; brands that sit beside Marriott in terms of its offerings and prices and but targeted to different customers; and The Ritz-Carlton, with a strong footing of its own, not needing the Marriott name recognition. The latter was able to maintain its own footing when competing with purebred competitors such as the Four Seasons which do not have a portfolio of brands (Jannini, 2006). This degree of affiliation allowing autonomy of the Ritz-Carlton chain while streamlining costs through the benefit of the larger purchasing distribution system of the parent has assisted the vision of significant expansion of Ritz-Carlton hotels.

Marriott's Re-structuring

During the fall of 2009, Marriott International announced the ambitious undertaking of a corporate makeover by establishing four autonomous geographic divisions bringing many formerly independent Ritz-Carlton brand operations into Marriott's corporate offices. The four geographic or continental divisions divided the globe into regions named the Americas, Europe, the Middle East and Asia, all properly descriptive. Each division is headed by its own president, has resources to operate independently, and has independent teams for all the necessary operations including sales and marketing, revenue management, procurement and finance. A timeshare business, the Marriott Vacation Club International that was part of the parent remained outside the new regional structure. The reorganization was completed in the early 2011.

On February 14, 2011, Marriott International, Inc. announced a plan to split the company's businesses into two separate, publicly traded companies. Marriott International expected to spin off its timeshare operations and develop the business as a new independent company through a special tax-free dividend to Marriott International shareholders in late 2011. The Marriott Board of Directors announced its approval of the spin-off of its wholly owned subsidiary, Marriott Vacations Club International, through the distribution of shares to holders of Marriott International common stock on October 25, 2011. The new company was to concentrate on the timeshare business that is to become the exclusive developer and operator of timeshare, fractional and related products and services under the brand of Marriott as well as the exclusive developer of fractional and related products under the Ritz-Carlton brand.

Following the spin-off, Marriott International was to focus on the lodging management and franchise business. Marriott was also to obtain franchise fees for use of the Marriott and Ritz-Carlton brands from the timeshare company. According to J.W. Marriott, Jr., the new structure will permit both companies to best address opportunities in their respective industries. It will allow each to tailor their business strategies to best address their particular marketing needs. Marriott International will be able to further advance its longstanding strategy of separating real estate from management and franchise operations. The timeshare company will be able to expand faster over time. There will be an added benefit to shareholders: with two public companies, investment goals in either or both companies will be available rather than one combined organization (HotelNewsNow, 2010).

As the long transition process ended at November 21, 2011, it was very clear how Marriott maneuvered to maintain independence of Marriott brands from the luxury brand. Marriott Vacations Worldwide Corporation was launched as a separate independent public company, and a leading global pure-play vacation ownership company, offering a diverse portfolio of quality products, programs and management expertise with more than 60 resorts and approximately 420,000 Owners and Members. Its brands include: Marriott Vacation Club, The Ritz-Carlton Destination Club and Grand Residences by Marriott.

Capitalizing on its distinction as the luxury brand and its autonomy, The Ritz-Carlton Destination Club retained its members-only luxury vacation club position. Furthermore, the Club offered two distinct, equity-based membership options to meet different individuals' needs: Portfolio Membership and Home Club Membership. Portfolio Membership is the flexible and personalized option. It is for customers who seek the freedom to journey to different locations each time they travel. Portfolio Membership additionally offers consumers the choice where and when to travel, the length of their stay, and the type and size of their accommodations. Home Club Membership, on the other hand, is for those who primarily wish to vacation at the same location year after year. The reorganization and restructuring of 2011 was a continuation of the duality evolution concept envisioned by Marriott.

A Long-awaited Rewards Program

Laurence Geller, chief executive of Strategic Hotels & Resorts that owns two of the Ritz-Carlton properties argued that major brands with loyalty programs outperformed those brands without similar programs during the current recession. In Geller's perspective, he thought that the reward system would enhance growth of luxury hotels because it would attract more guests from a variety of segments (Berzon, 2010). This change was also supported by a study of focus groups in 2009 which indicated that customers desired higher inducements from the hotel, especially Asian customers, also a target market for The Ritz-Carlton (Yomiuri, 2009). Such point redemptions could be stronger inducements than services or experience since most customers are price sensitive (see Figures 1. & 2.). In the long run, however, experiencing the quality and service would be more rigorous factors to attract to, and retain consumers, at such destinations.

In September, 2010, the Ritz-Carlton introduced its highly-anticipated luxury frequent guest stay program – The Ritz-Carlton Rewards. The company claimed the creation of the program was based on strong customer feedback and demand for a world-class loyalty program. The requests are for a program that went beyond complimentary stays and airline flights and recognizes its members with a broad selection of unique travel experiences. Greatly multiplying the effects of The Ritz-Carlton Rewards program was the partnership with Marriott wherein Marriott reward points were accepted at participating Ritz-Carlton properties. Conversely, Ritz-Carlton reward points were also accepted by Marriott hotels. Travelers are not permitted to belong to both reward programs, but can easily switch their rewards when opting to move the membership from one to the other.

Figure 1

The Ritz-Carlton's global guest by age.

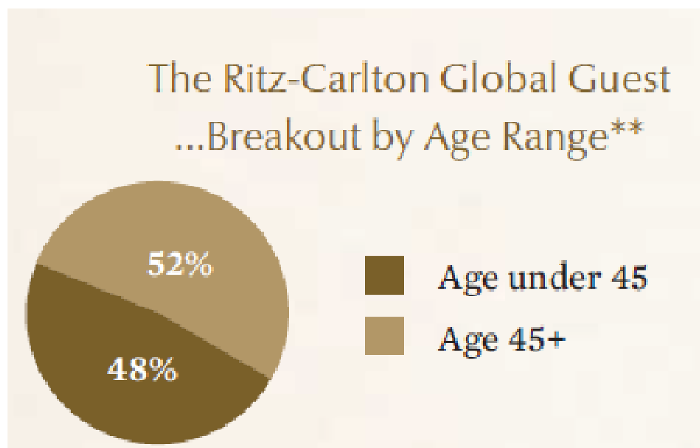
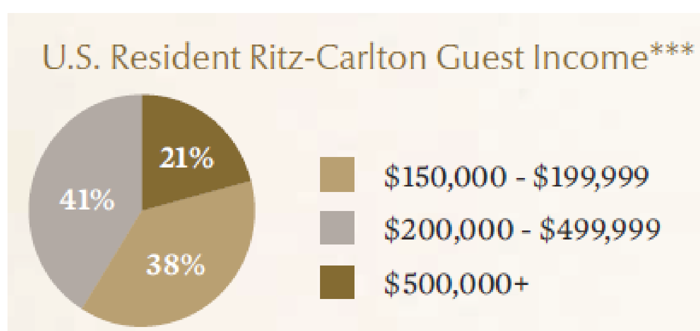


Figure 2

The Ritz-Carlton's U.S. resident guest income

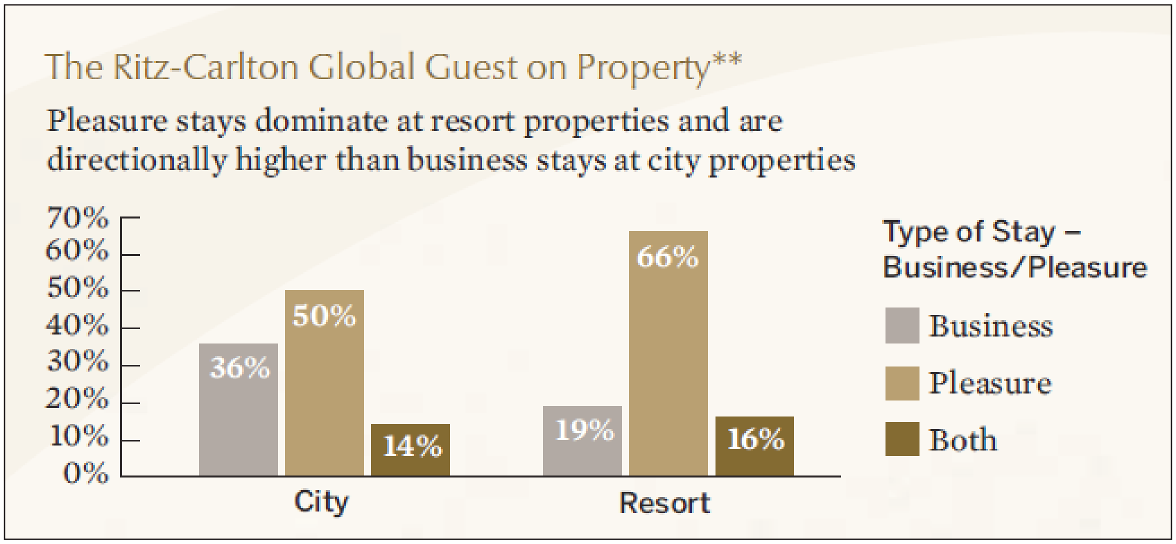


** Gallup Web Survey, Domestic Properties, November 2008 –_ December 2008, Base 44,226

*** 2008 Full Year Brand Tracking Summary, Burke, Inc. Users have stayed at The Ritz-Carlton within past 12 months

Figure 3

The Ritz-Carlton's global guest by property



*** 2008 Full Year Brand Tracking Summary, Burke, Inc. Users have stayed at The Ritz-Carlton within past 12 months
Source: ritzcarltonmagazine.com

According to an interview with Mark Smith (name is disguised), a front desk agent at the Ritz-Carlton Naples, Florida, the clients at this property have consisted of business travelers and families in the approximately ratio of 60:40 respectively (Figure 3). The ADR of the Ritz-Carlton Naples, Florida has ranged between $299 and $499 per room night which adheres to the standard pricing of The Ritz-Carlton. Smith also explained that the hotel has seen more incoming guests with point stays because of the new loyalty program. However, there are some use limitations of such points based on The Ritz-Carlton hotel's tiers, the number of points earned, and the permitted daily inventory available for point redemption determined by the revenue management team. The Ritz-Carlton's website provides a guideline of how points are earned and redeemed in each hotel tier (Z. Li, personal communication, March 30, 2012).

Lalia Rach, divisional dean of the New York University hospitality school suggests that "if they can convince the Ritz clients there is no change, then they win, and the only way to win is if there is no change or if it gets better…but if that Ritz tradition or its service goes away, that's when they lose. If it erodes, they lose" (Clausing, 2009). On the other hand, implementing such a reward system into the Ritz-Carlton might dilute its luxury image. During the merging process of dual loyalty programs, Zach also mentioned that there have been some changes in standard operating procedure (SOP) of the Ritz-Carlton in the property level such as "having express checkout box and certain arrival letters to make us a little bit more like Marriott." These have been done in order to cater to the needs of reward members of both the Marriott and the Ritz-Carlton. These members can now use their points to stay at many of the Marriott brands as well as the Ritz-Carlton hotels.

Conclusion

These systems involve networks of interconnected actors and create virtuous circles that support dual strategies. The Ritz-Carlton offers its members unique opportunities to earn and redeem points for exceptional and unique experiences. They bring together such exclusive names in travel and retail: Abercrombie & Kent members-only tours in locations such as China, Turkey and Egypt; special customer events and half-day personal shopping experiences with fashion experts at Neiman Marcus or Bergdorf Goodman; National Geographic Expedition photography. Along with the one-of-a-kind experiences, this reward program offers its members full access to Marriott's portfolio of over three thousand properties world-wide, as well as allowing Marriott Rewards program members to earn Marriott points at Ritz-Carlton hotels. The synergistic effect continues in marketing.

Differentiation in a competitive arena that borders on commoditization is difficult and strategies can be risky. Being different in ways that customers appreciate can raise a company from mediocre revenue to a profitable environment in such a competitive sea. Executing dual strategies is difficult, but this degree of difficulty is what makes the strategy so valuable.

Discussion Questions Pertaining to Case

1. What are the similar/dissimilar characteristics of the organizational culture of both Marriott and The Ritz-Carlton?

2. What lessons can be learned from Marriott's acquisition of The Ritz-Carlton?
3. What has been Marriott's purpose of managing The Ritz-Carlton using a "hands-off" approach for the past 18 years?
4. How has The Ritz-Carlton maintained its status in the luxury service market and its awarding of two Malcolm Baldridge Service Awards?
5. What is the future of the luxury market for brands such as The Ritz-Carlton?

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