Course: Managing Services: Concepts, Design and Delivery

Course #:   15.778

Professor: Prof. Dr. Gabriel Bitran

The Ritz-Carlton:

Using Information Systems to Better Serve the Customer

Case is prepared by members of the Sloan Fellows Program – Class of 2002:

- Harold Buchanan - USA

- Bassim Halaby - Lebanon

- Keiichiro Ogushi - Japan

- Zoran Vucinic - Germany

From its beginning in 1983, The Ritz-Carlton Hotel Company has successfully built an international group of hotels with the explicit goal of personalized service and the highest quality standards. Along with The Four Seasons, Ritz-Carlton is now one of the two dominant brands in the luxury segment as perceived by US customers[1]. In 1992 a "Malcolm Baldrige Award" recognized the achievement of an effective human resources strategy, quality performance through employee empowerment and exceptional customer service [2].

Since the company's inception, management's aim has been to "build seamless customer-driven service systems that would anticipate a guest's needs and preferences, and at the same time instantly react to correct any service error or satisfy any complaint"[3]. These systems (people, process and I/T) have been the key source of the company's success to date.

What objectives is Ritz-Carlton pursuing in developing the customer information system?

Ritz-Carlton uses 2 primary systems for customer information: Covia and Encore. Covia is worldwide reservations capture system. Encore is a local hotel system that keeps track of reservations and customer preferences. The objective of these customer information systems is to support the overall strategy of unique and exceptional customer service.

How effective have these systems been in meeting these objectives?

Ritz-Carlton has an exceptional human resource system that has made up for any shortcomings in these customer information systems. Empowerment and service orientation allows the overall system of people, processes and information systems to be exceptional. Within that context, these systems have been effective in meeting these objectives. As will be highlighted below, opportunities do exist within these systems to further enhance performance.

---

[1] From Case Study page 2
[2] From Case Study page 3

What might Ritz-Carlton do to further exploit the information gathered by these systems?

To evaluate this question, we have used the Gap Model for Service Quality (Exhibit 1)[4]. We identified the following new opportunities:

→Gap 1 - **Management's understanding of customer expectations** - Exception reports in the system may indicate shortfalls. Special services that could or should become **new standards** ought to be identified and documented through customization requests (return guest preference).

→Gap 2 – **Optimize service quality specifications** – Exception report data can highlight opportunities - but the most important control would be management's continuous review of **the specifications** in the quality assurance system versus their understanding of customers expectations (articulated <u>and</u> unarticulated) and external competitive forces (discussed later).

→Gap 3 **– Enhanced service delivery (execution)** - Exception reports may indicate staff's shortfalls in performing to management's specifications. Management should review and summarize these events to determine their root cause and patterns and take actions to minimize the gap.

→Gap 4 – **Demand creation bundle must reconcile to actual service delivery** - This gap goes beyond the customer information system. Exception reports may highlight specific issues created through "demand creation bundling" that do not reconcile with actual service delivery.

→Gap 5 (overall) - **Summation of Gaps 1 through 4 –** All above mentioned opportunities would contribute to a reduction overall service quality gap.

→Gap 6 (added to framework) **– Link to external environment** – A better understanding of <u>external</u> trends and realities will enhance management's ability to interpret and act upon the <u>internal</u> information. Consequently, service specifications will not be only met and incrementally

---

[3] From Case Study page 3
[4] Bitran (1993) "A Framework for Analyzing the Quality of the Customer Interface"

improved but entirely **new and innovative concepts** may find their way into the customer service process. The inherently **transferable nature** of services across the borders of industries amplifies this process. A key data opportunity within this gap is **post-defection analysis**. Data could be segmented and cross-referenced in such a way that a deeper understanding of the defection rational emerges. This, in turn, will allow for very targeted and effective customer recovery initiatives. Marketing dollars would be spent more efficiently.

<u>Link to Financial Data</u> – The traditional system data could be merged and cross-referenced with financial data. Management could then segment and rank the customer base by value and determine the organizational cost of "customization" requests. For example the system could point out that Mr. Kriner's, who is a five star customer, never eats in the hotel but spends his meal money elsewhere. A program could be developed to change that trend and increase utilization of the hotel infrastructure.

Has Ritz-Carlton successfully integrated its information-based approach to managing customer service with its human resource strategy?

As mentioned in the beginning, Ritz-Carlton has an exceptional human resource strategy as manifested by the quality of service quality and employee commitment (see: Mr. Kirner's recovery). While the information-based approach has been well integrated into the human resource strategy it is evident that the human resource strategy has been the dominant driver of success. The opportunities to utilize human resources have been nearly optimized but significant additional opportunities exist to exploit the current information systems. Employees on the front line feed and utilize these systems by capturing customer preferences for input and reviewing customer preference lists. The "Guest Incident Action Report" captures critical events and puts them into the system, allowing local access to historical problems to improve recovery efforts.

Limitations of the two systems are driven by the original intent and design of the architecture; the systems are not fully integrated and have grown in requirements well beyond that original architecture. Technology is defined as the "systematic application of knowledge."[5] The current systems have been predominantly databases; opportunities exist to turn that data into information and then knowledge, providing users with more useful information. Additionally, information from the financial systems (internal environment) could be merged with the data in the Cavia and Encore systems (external environment) to help prioritize, cost and sort events. This would advance the effectiveness of the entire system.

Additional Recommendations

Data Utilization

- Defection analysis and action - the data within these systems could be utilized to evaluate customers stay history. A decline may indicate a defector. Management should identify them and create a process to interview them, learn from the defection and potentially recover. Identifying defectors, understanding, fixing the problem, and then insisting they return to the hotel should be a core business process. Improved information could also aid in capacity optimization.

- Service gap analysis - As discussed, data within these systems should provide insight into the service quality gaps and should be mined. Management should design a system to continually monitor that data, analyze the information and use that knowledge to close gaps.

- Feedback loop to management with executive sponsors for the best customers – It should be the responsibility of management to interact with those customers in the highest categories of importance. This would provide direct feedback on service quality and give management the ability to improve the experience of the customers most important to the organization.

---

[5] Bitran et al (1998) "A Structured Product Development Perspective for Service Operations"

- Analysis of data to determine standardization opportunities – The system could indicate that a customization request has occurred with such regularity that management should consider making it a standard spec. Example: a guest requested a foam pillow rather than the standard feather pillow. It may indicate the need to change the standard pillows from feather to foam, reconciling service to the customer's expectation without customization.

System alignment

- Segmentation of customer data (financially and attitudinally) – Through integration of financial data, adequate data should exist to segment customer. The organization could determine which customers have the highest impact and create processes to get information to employees. This would ensure the best experiences for the highest impact customers.

- Economic evaluation of service and event profitability - With the integration of financial data, adequate data should exist to determine the profitability of service requests. Integrated with customer segmentation data (discussed above), and supported by processes to utilize the information, this could allow better financial decisions in the customization process.

- Full integration of the two systems to supply the best information to the reservation system and across hotels – the systems must be flawlessly integrated. 100% of return customers must be recognized regardless of common name or because they are visiting another hotel in the chain for the first time. Integration and functionality should be seamless.

- Integrate system with block booking systems to ensure identification of customer decision makers. Key decision makers in block bookings must receive high segment priority and should be identified as such to frontline service providers for appropriate treatment.

EXHIBIT 1
Minimizing Ritz Carlton Service Gaps Through An Integrated Service Information System
An Application of The Gap Model for Service Quality