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The Ritz-Carlton Hotel Company

The Master said, Govern the people by regulations, keep order among them by chastisements, and they will flee from you, and lose all self-respect. Govern them by moral force, keep order among them by ritual, and they will keep their self-respect and come to you of their own accord.

—The Analects of Confucius

James McBride, general manager of the new Ritz-Carlton in Washington, D.C., faced the largest challenge of his successful career. A proven veteran of the luxury hotel chain's march across Asia, McBride's most recent assignment was as the general manager of the 248-room Ritz-Carlton in Kuala Lumpur. Opened in 1998, the hotel was named "Best Hotel in Asia-Pacific" in the eighth *Business Traveler Asia/Pacific* magazine Travel Awards Subscribers' Survey and, for two consecutive years, "Best Business Hotel in Malaysia" by *Business Asia* and Bloomberg Television.¹ As Nikheel Advani, food and beverage services director for the Washington hotel, noted: "James is excellent—we have opened many hotels together. In the place where you didn't think that it had a chance, he made it the best hotel. That's his talent. That's what he can do really well. It's for the entrepreneurial person who wants to get involved and who thinks they can make a difference."

But this was a new situation, even for McBride. For the first time, The Ritz-Carlton was opening a hotel that was part of a multi-use facility. Owned by Millennium Partners and located in the historic Foggy Bottom district of Washington, D.C., the \$225 million "hospitality complex" covered two-and-a-half acres and included 162 luxury condominiums, a 100,000 square-foot Sports Club/LA, a Splash Spa, three restaurants, 40,000 square feet of street-level restaurants and retail shops featuring the latest designs from Italy and other countries, as well as the 300-room hotel. While The Ritz-Carlton had already signed contracts to manage five other hotels for Millennium Partners, the upscale property developers had also inked deals with the Ritz's foremost competitor—the Four Seasons. Brian Collins, manager of hotels for Millennium Partners, had his own ideas about what constituted luxury service and how the hotel's general manager should approach the new-hotel opening. Under pressure from Collins, McBride was reexamining the "Seven Day Countdown," a hallmark of The Ritz-Carlton's well-defined hotel-opening process. Any changes McBride made could not only affect his company's future relationship with Millennium Partners but also the carefully guarded Ritz-Carlton brand.

¹ *The Mystique: The Ritz-Carlton Hotel Company, L.L.C. Employee Newsletter*, Winter 2000.

Senior Lecturer Sandra J. Sucher and Research Associate Stacy E. McManus prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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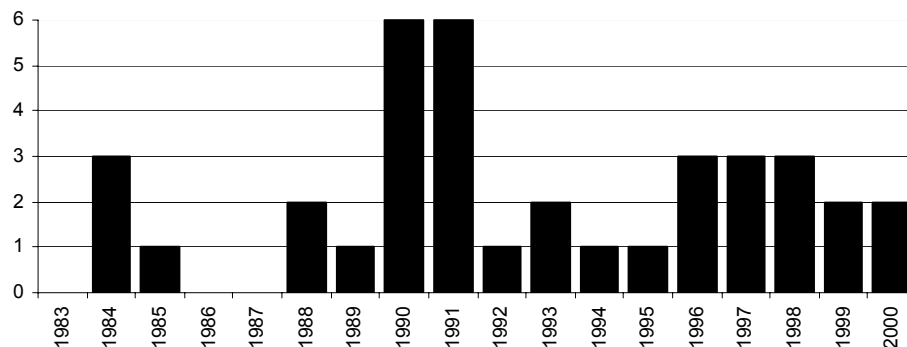
The Ritz-Carlton History

In 1898, Cesar Ritz saw his dream come true. Having left behind his life as a shepherd in Switzerland, he moved to Paris where he worked in some of the finest hotels and restaurants in the city before finally opening the grand hotel that bears his name. One year later, he opened London's Carlton Hotel, setting the stage for what would ultimately become The Ritz-Carlton Hotel Company.

Relying on the famous hotelier's vision of excellent personalized service that satisfied the most discerning guests, The Ritz-Carlton expanded to North America. One Great Depression and two world wars later, many of the luxurious hotels had folded. By 1983, when the Atlanta-based Johnson Company bought the North American rights to The Ritz-Carlton name, only the hotel in Boston had survived, thanks to the largesse of a wealthy property owner. From 1983 until 1997, The Ritz-Carlton expanded domestically and internationally under the Johnson Company's ownership.

In 1997, Marriott International purchased The Ritz-Carlton, which operated as a wholly owned subsidiary. By the end of 2000, The Ritz-Carlton was primarily a management company operating 38 hotels and resorts across the globe (see **Exhibit 1** for comparisons between The Ritz-Carlton and Four Seasons), with minority equity stakes in 10 properties and outright ownership of 3 hotels. The primary growth strategy for The Ritz-Carlton was to obtain management contracts for new hotels and resorts around the world (see **Figure A**).

Figure A Ritz-Carlton New-Hotel and Resort Openings Since 1983



Source: Company. Number of openings represent only those that remained under the management of The Ritz-Carlton Hotel Company through 2000.

Millennium Partners Overview

Millennium Partners was a New York-based real estate development group founded in 1990 by Christopher Jeffries, Philip Aarons, and Philip Lovett. The principals initially set out to create high-end luxury apartments that would command premium prices from wealthy individuals looking for second or third homes in world-class cities. Millennium's Lincoln Square four-building complex in New York City was their first project, setting the tone for future developments. The address for celebrities such as Regis Philbin and Rosie O'Donnell also included the renowned Reebok Sports Club/NY, as well as the highest-grossing theater complex in the United States—Sony's 12-screen Lincoln Square multiplex.

Brian Collins joined Millennium Partners Management in December 1996 as their CFO, subsequently becoming the COO and a partner, as well as a principal and the president of Millennium Hospitality Partners. Collins explained how they came to be hotel owners:

We are residential developers who ended up in the hotel business. It was not our intention to end up owning eight hotels, which is what we have under construction today—six Ritz-Carltons and two Four Seasons. Our intention was to create a base for our luxury apartments. Our vision is that apartments sell for a substantial premium if they have height, light, and views. The trick then was what to create below those apartments, which is both economical and adds to the residential experience, which also lifts it up in the air. So you try to do it with the best theater company, one who understands our vision. Then we're starting on the third floor. And you try to do it with a Sports Club. Their box, their basketball court, is about 29 feet, and that's another three stories. So if we do nothing else but have those two, we're 60 feet in the air. Washington's a bad example, because we have a 110-foot height limit. In San Francisco, the hotel is 13 stories, so the apartments are starting maybe 250 feet up in the air. And now you don't have any apartments that don't have height, light, and views.

The other thing that helps sell residential properties is services. We said "Well, how can we solve this service problem? How do we convince people that they're going to get great, great, great service?" And Chris Jeffries hit on the idea of a luxury hotel. At the high end of the market, there's really two choices: Ritz-Carlton and Four Seasons. Ritz and Four Seasons are clearly the best hotel operators. So we've approached both, and we're doing deals with both.

Business Model

Millennium Partners was one of the several hotel owners for whom The Ritz-Carlton managed properties. The Ritz-Carlton charged management fees that were typically 3% of gross revenues, augmenting their income stream with revenues from land rent, resort timesharing, franchise fees, management incentives, and profit sharing.² While there were many independently owned and operated luxury hotels around the world, The Ritz-Carlton and Four Seasons were the two most internationally recognized chains serving the highest end of the market.

Two key indicators of success in the hotel industry were the average daily rate (ADR) and the revenue per available room (RevPAR; see **Exhibit 2**). While the ADR was bounded on the upper end by what the local markets would bear, RevPAR was influenced by both ADR and occupancy rates. Filling hotel rooms was crucial, and The Ritz-Carlton's general managers aggressively pursued their two main customer groups: (1) independent travelers, and (2) meeting event planners.

Guests

Independent travelers, whether for business or pleasure, were courted in a variety of ways. For instance, when McBride was the general manager of The Ritz-Carlton in Kuala Lumpur, he greeted travelers at the airport with mimosas and discount coupons presented on silver trays, serenaded them with piano concertos, and even created a hotel room in the airport, complete with an armoire, bed, television, and other accoutrements representative of the hotel's furnishings. As he prepared for the opening of the new hotel in Washington, D.C., McBride held an afternoon tea in Washington

² 1999 Marriott Lodging Annual Report.

Circle, with 100 ambassadors, prominent citizens, and members of the media enjoying the city's famed cherry blossoms as they rode to the tea in horse-drawn carriages and open trolleys.

Additionally, McBride worked to attract business travelers to The Ritz-Carlton. In Kuala Lumpur, he introduced the "Technology Butler," which comprised a staff of technicians available 24 hours a day to assist guests with computing problems and other technological difficulties. In Washington, McBride created a concierge desk at the Delta Shuttle at National Airport, implementing airport check-in procedures which provided customer convenience that outpaced the competition.

Beyond the individual initiatives of general managers, The Ritz-Carlton worldwide focused on the role of meeting events in attracting independent business travelers. The Ritz-Carlton recognized that event attendees were previewing the hotel, making every interaction they had during their stay another step in a "progressive trial." This perspective reflected the organization's recognition that their product pipeline was different from those of many others—the customers had to come to them. Because they attracted many individual guests at once, meeting event planners were seen as "the vital few" customers, representing a small number of organizations that held many large meetings in various locations around the world. These "vital few" accounted for 40% of annual sales income. According to Patrick Mene, The Ritz-Carlton's corporate vice president of quality:

Our event business pays the mortgage. The individual traveler helps us with our profitability. The nature of our business is that a guest room and space is the most perishable product we have. An apple left unsold today can be sold tomorrow, but a room night lost today is lost forever—it's an extremely perishable product. That's why the meeting business is so desirable, because it is presold, it's contracted, and it's a growing market. It's a more controllable segment of our business.

Management Contracts

Having a strong meeting events business helped The Ritz-Carlton maintain profitability and provided property owners with acceptable returns on their investments (typically 10% to 12%, unleveraged). Nevertheless, the expense involved in operating luxury hotels (see **Exhibit 3**) sometimes strained relations between the management company and the property owners.

During the early 1980s when the hotel industry was growing at a healthy pace, traditional management contracts tended to meet the needs of both owners and operators. However, owners throughout the hotel industry had been agitating for more voice in how their properties were managed. A strong supply of management companies and a sudden decline in hotel demand led to owners gaining leverage in the management contract negotiation process,³ a change that was facilitated by the U.S. real estate crash of the late 1980s. Many property owners lost their investments, some of whom had contracted the services of The Ritz-Carlton.

In fact, had it not been for such difficulties, The Ritz-Carlton might never have been working with Millennium Partners on the new Washington, D.C., multi-use facility. The Ritz-Carlton had previously operated a hotel in that city, but the owner, Saudi Arabian sheik Abdul Aziz bin Ibrahim al-Ibrahim, sued the company in 1995, alleging that The Ritz-Carlton operated for its own profit to the detriment of the property owner's interest. Mene provided his perspective on the situation:

³ James J. Eyster, "Hotel Management Contracts in the U.S.: The Revolution Continues," *Cornell Hotel and Restaurant Administration Quarterly* 38 (3) (June 1997): 14-20.

The lawsuit involved four hotels located in New York, Washington, Aspen, and Houston, all owned by the same person. It made all the major business publications. Quite frankly, the owner just paid too much for these hotels. Our performance was noble, but he wasn't going to get his return on investment for a while, and his advisors never told him that. He just paid too much for the hotels and wanted to shift the blame to us. It took a little bit of luck, although we did walk away from him. I don't want to say the owner relations are adversarial in a typical hotel contract, but they can become strained.

Quality at The Ritz-Carlton

When Patrick Mene joined The Ritz-Carlton in 1990 as the chief quality officer, his primary mission was to integrate and prioritize the values and concepts of the Malcolm Baldrige National Quality Award criteria at all the company's hotels around the world. But before financial resources could be allocated to operational process improvements, Mene had to convince Horst Schulze, The Ritz-Carlton's president and COO since 1984 (see **Exhibit 4** for a partial organizational chart), of the importance of system and process development. As Mene recalled:

When I got here, human resources was literally the dominant function in this company. And I said, "Let's take this—we hired the right person. They're a perfect Lady and Gentleman, they went through orientation. Let's put them at the front desk. And the desk is too high to work with, and the temperature is too hot, and the computer has the wrong information coming in from another department—they can't function."

So for the next few years, Schulze would say to me, "Pat, you always try to take the human element out of it." And one day I was bold enough to say, "Yeah, you're right. Because you know what? If there were better people out there, you'd have found them by now. And I'm going to show you that we can have a ham sandwich run a Ritz-Carlton." Well, the battle lines were drawn.

While The Ritz-Carlton continued to maintain a heavy emphasis on human resources, the total quality management (TQM) philosophy began to permeate the organization. Using the Malcolm Baldrige National Quality Award criteria as a set of guidelines, Schulze and Mene focused on a variety of new activities and measures, including the cost of poor quality, continuous improvement, quality planning, benchmarking, supplier certification, and quality audits. Other programs were designed to meet specific customer needs, such as safety protocols to protect the children of guests, and the Service Quality Indicators (SQIs) were established (see **Exhibit 5**).

One of the components of the SQIs involved guest-recognition procedures. As an owner, Collins wanted to see that improved for the new Washington, D.C. hotel:

I pushed James [McBride] to hire more people than The Ritz-Carlton staffing plan would lead them to hire in Guest Recognition. I think it's the single most important thing we can do. If a guest came in, got what they wanted, and were recognized, all of a sudden that creates a sticky relationship. It's all about organizing your thoughts and creating processes to recognize the person coming in to the hotel.

So after a certain number of visits to one of our Ritz hotels, guests will get a monogrammed pillowcase. It will be in their room so that when they check in, they'll go to their room and say, "Oh, my pillow's here. Isn't that great!" And no one expects it, so the first time, it's like "Wow!" We're doing something different from The Ritz-Carlton standard—we're clearly exceeding the standard. But they don't force every owner to abide by that higher standard, so

sometimes there is friction about raising the standard outside of the Ritz program. I want to rethink it, rethink it all from start to finish. And it just drives them crazy.

Even so, the standards The Ritz-Carlton had already established were recognized as outstanding (see **Exhibit 6**). The company applied for and won the Baldrige Award in 1992, becoming the first organization in the hospitality industry to receive the coveted honor. The extensive feedback report from the Baldrige evaluators identified an additional 75 areas for improvement and, using those suggestions as action guidelines, The Ritz-Carlton applied for and won the award again in 1999, becoming only the second American company to earn the distinction more than once. Schulze expressed his belief in TQM:

Winning this award confirms that quality is not a short-term approach to doing business. Instead, it is a road map that allows us to achieve the highest customer and employee satisfaction in the industry. Continuous improvement is absolutely critical. If managers are not improving something every day, they are on a death path. Companies that are plateauing because of traditional management will die. Period.

Human Resources at The Ritz-Carlton

The way The Ritz-Carlton viewed its employees was a distinguishing hallmark of the organization. According to Leonardo Inghilleri, the corporate vice president of human resources:

We respect our employees. The issue of respect is a philosophical issue that is driven by our leadership. You have to have a passion for people. If you have an accounting approach to human resources, then you're bound to fail. If you look at an employee and say, "He's a full-time equivalent, he's an FTE; he is eight hours of labor," I think that's immoral. An employee is a human being who doesn't only fulfill a function but should also have a purpose. So a successful business is one that is capable of enlisting an employee not only for his muscles and his labor, but also for his brain, his heart, and his soul.

In hotels that were up and running for at least a year, The Ritz-Carlton's annual turnover rate was only 20%, compared with the hotel industry average of 100%, while new hotels experienced turnover rates between 20% and 25% during the first 60 days. Inghilleri believed that it was his company's deep respect for its employees that led to their satisfaction with and commitment to the organization. The Ritz-Carlton was so intent on treating their employees well that a "Day 21" event was held as a process check three weeks after any new hire's start date. During that session, the company assessed the degree to which it had lived up to the promises it made to its employees during orientation and initial training.

One of those promises included opportunities for career advancement, which were abundant at The Ritz-Carlton. Corporatwide, 25% of the organization's managerial workforce began their careers at The Ritz-Carlton as hourly employees, such as dishwasher, housekeeper, and restaurant server, or as hourly supervisors. For example, Kate Monahan advanced from reservations manager to general manager: "Fourteen years ago, I set out to find a job—but what I began was a career. Along the way, The Ritz-Carlton has nurtured and maximized my talent."⁴ Similarly, Alex Garza began as a line cook and eventually became an executive sous chef. As Garza stated:

⁴ As quoted in *The Mystique: The Ritz-Carlton Hotel Company, L.L.C. Employee Newsletter*, Winter 2000.

The Ritz Carlton has been a kind and generous employer. I have always been treated fairly and as a gentleman, with the utmost respect for my talents. Because this organization cared about my career path and my goals from the outset, and because it has demonstrated respect for my talents along the way, I have been able to grow. At The Ritz-Carlton, opportunities for advancement are everywhere. It's up to you how far you want to go.⁵

Through the extensive formal and informal training offered by The Ritz-Carlton (see **Exhibit 7**), employees were prepared to fulfill their current obligations and to accept positions of greater responsibility and accountability in the future. Employees with advancement ambitions were encouraged to cross-train and learn about as many different aspects of the organization as possible.

Performance at The Ritz-Carlton was not only assessed against the established Service Quality Indicators but also managed by the employees themselves. As Inghilleri explained:

We have created an environment where there is no fear of retribution, an environment where employees understand that their responsibility is not only to fulfill functions but also to have a purpose. One of their purposes is to improve the system. When you have a good person and you create a good environment for that person, he or she doesn't come to work to do a bad job—they come to work to do a good job. So it doesn't make sense for us to punish people if something goes wrong.

We verify whether the problem is a lack of resources or a lack of training, and then we address the problem accordingly. Our employees are taught from the very beginning that there is nothing more exciting than fixing a mistake or defect. They want to see the defects, they want to find out what they are, because once that's known, they can be corrected. We've never had a problem with people hiding mistakes, because it's just not the culture of the company.

In addition to employees monitoring their own performance, individuals were recognized for outstanding work in a variety of ways, including small awards given within departments, as well as larger rewards that occurred at the hotel level. For instance, each year every hotel identified members of a "Five-Star Team," each of whom received five complimentary nights at a Ritz-Carlton hotel of their choice, \$500 to spend, and round-trip airfare for two.

The Ritz-Carlton Hotel-Opening Process

According to one manager at The Ritz-Carlton, "Running an ongoing operation is a very different thing from opening a new hotel. They are actually two different core competencies." The processes and focus of activity for creating new hotels were two-pronged: one dealing with the development of the site itself, the other involving the human resources processes necessary to get the hotel up and running. The entire hotel development process was assessed against Performance Quality Indicators (PQIs; see **Exhibit 8**), the 10 defects identified by The Ritz-Carlton as most likely to lead to problems with both quality and financial performance. Mene noted that while developing a hotel was "a very complex, cross-departmental, cross-functional, cross-company process in general, the PQI represents the key pitfalls."

⁵ Ibid.

The Property

Many decisions had to be made when The Ritz-Carlton set out to open any new hotel, including site selection, concept/new-product development, feasibility studies, and management contract negotiation. When explaining the importance of site selection, Mene succinctly stated, "I mean, let's just put it this way. What if we build a 300-room hotel where there's no hotel needed at all? You're dead. It's done. It's over." The new Washington, D.C., location was desirable because of its proximity to several sites of interest, such as the White House and Capitol Hill, Embassy Row, and the Foggy Bottom Historic District; Washington's status as a global destination; and the potentially strong clientele base of foreign diplomats and local residents.

Feasibility studies were conducted that identified the primary target customers, as well as their wants, needs, and expectations. Then financial evaluations determined the cost to the developer and the price charged to the customers—two key issues for consideration prior to moving ahead. All of this activity was carried out in a time-pressured environment. As Mene noted: "Late feasibility studies are deadly, because the developers may be talking to our foremost competitor and they may be faster with the feasibility study than us. We're really in competition here." Once a contract had been signed, construction on the new property began, with both The Ritz-Carlton and the owners participating in decisions regarding the development.

Market Customization

In addition to general concerns about the property, The Ritz-Carlton had to customize each hotel to meet local market demands. As McBride elaborated, "There is great credence given to the importance of taking local information and then adapting to it. That's what we learned in Asia, and that's what I've been doing for six years—adapting locally to do business there." One of the adaptations that occurred at the new Washington, D. C., hotel involved the Secret Service walking the site and discussing the planning of entrances and exits with the developers. Given the likelihood of foreign diplomats and ambassadors being guests of the hotel, security design became an issue of potential international importance.

Innovations for the savvy guests the hotel expected to attract took more creative turns as well. For example, McBride planned to link services provided by the hotel's main restaurant, Kobalt, to the Internet. Customers would be able to go to KobaltExpress.com where they could order their menus ahead of time and select the table they would like to reserve, while Kobalt@home.com would allow condominium residents to order meals to their suites. McBride also planned to incorporate an exhibition kitchen into the Kobalt, explaining, "This restaurant is not going to be a traditional Ritz-Carlton restaurant."

That was not the only aspect of the new hotel that broke with tradition; according to Collins, Millennium Partners took an active role in defining the interior spaces: "We picked out all the art. You won't see one English hunting scene in this hotel—and it's been painful for the Ritz. Their competition is the Four Seasons, and the Ritz has been resting on its laurels—'We're an English kind of hotel'—and that just is not going to get it done in the 2000s. It's just not what people want."

Millennium Partners' choices of artwork resulted in a collection valued at about \$2 million, including hand-blown glass designs by Seattle's Dale Chihuly. The highest thread-count Egyptian cotton fabric was used for all the linens, down comforters covered each bed, and the bathrooms were tiled in beige and white marble. Further breaking with traditional Ritz-Carlton designs, the property contained a 34,000-square-foot Japanese garden complete with a cascading waterfall, bamboo plants, and willow trees.

Staffing the New Hotel

The property owners had the right to approve the individuals nominated by The Ritz-Carlton for three executive positions: general manager, director of marketing, and controller. Once McBride was selected as the general manager, he was instrumental in choosing the additional members of the hotel's executive committee, almost all of whom had experience at other Ritz-Carlton properties. These leaders were in place about two and a half months prior to the scheduled hotel opening.

The executive committee then selected their functional managers, who were, in turn, primarily responsible for hiring line-staff members. In hotels that were already operating, the selection process was often inverted, with the line staff selecting their leaders from a pool of candidates. Similarly, line-staff applicants typically were selected and trained by relevant team members, but for new-hotel openings, the process was much more structured and hierarchical.

Millennium Partners' concerns regarding the hotel's new staff centered on the distinction between effectively opening and running a hotel, as Collins explained:

I've got to tell you that I love James McBride. James McBride is just fabulous. He's successfully opened up lots of Ritz-Carltons. But a year from now? We'll have done it for 365 days, and the edge will be off a little bit. The problem in the hotel business is that you have to fill it up every single day. So somehow you have to put your game face on and be 99% every single day. But even then, that means you're ticking off a customer every single day. I don't know how you do it a year out, two years out, five years out. I don't know how you keep it sharp. And that's the trick.

As The Ritz-Carlton's president and COO, Schulze was all too aware of the difficulty of keeping it sharp. Having worked his way from a waiters' apprentice and dishwasher to the top of one of the world's best hotel companies, Schulze knew firsthand how hard it could be for employees to maintain their motivation to deliver exceptional service to customers every single day, and how difficult it could be for managers and leaders to keep morale up after the fanfare of a new-hotel opening. To help minimize failures in service delivery, Schulze focused on key human resource practices, particularly employee recruitment, selection, and training.

Personnel recruitment A wide variety of tools was used to attract applicants for the staff positions at the new hotel. McBride was active in the recruitment process, dining at The Ritz-Carlton's arch-competition and giving deserving servers cards that read "The Service You Just Provided Was First Class!" on one side and contained job-application information on the other. More traditionally, targeted ads for food and beverage personnel were run in the newspapers of major cities (e.g., New York and San Francisco), while the community within Washington, D.C., also provided fertile ground for potential employees. The first hospitality high school in the United States was located in the area, and The Ritz-Carlton also interviewed individuals in welfare-to-work programs.

For positions that required technical expertise or high-level service delivery, individuals with significant prior experience were hired. For more entry-level positions, novices to the hospitality industry were acceptable. As Marie Minarich, the hotel's human resources director, said: "If they have the talent, and if they want to serve people, we can train them. We can teach them the skills they need to perform any number of different functions. As long as we make sure that we choose people who fit our culture, we can work with them."

Ritz-Carlton job fair A two-day mass recruitment occurred on August 22 and 23, 2000, from 8:00 a.m. to 8:00 p.m. and was billed as a "Ritz-Carlton Job Fair." Individuals who had previously applied, as well as those who had not, were invited to the site (still under construction at the time)

where they went through the selection procedure. Throughout both days, the goal was to treat applicants to a personal demonstration of the service-oriented culture that made The Ritz-Carlton famous.

At the Foggy Bottom Metro stop, three uniformed Ritz-Carlton representatives stood by large placards advertising the job fair, ready to provide directions to the site. The path between the Metro and The Ritz-Carlton was marked with cobalt blue ribbons. Just outside the entrance to the building, applicants arrived at the “Warm Welcome” station, where they were greeted at the door by one of several employees who wished them luck and escorted them past a violinist into the lower level of the hotel where the meeting rooms had been outfitted. Greeters then escorted applicants to the registration area, where Claude Hedspeth provided entertainment with his electric piano. Despite performing for over 25 years, this was the first time he had ever played at a job fair.

In the waiting room, where beverages and snacks were available, a Ritz-Carlton video was running in which Schulze talked about his early days as a dishwasher and other Ritz-Carlton employees described their experiences at the company. After the applicants provided basic employment information, they went through a standardized selection procedure that first involved the administration of a screening questionnaire. Those who made it past the initial screening proceeded on to a professionally developed and validated structured interview. Each individual was then personally escorted to “Fond Farewell,” where they were thanked for applying, given miniature Ritz-Carlton chocolates, and escorted out of the building.

By 2:00 p.m. on the first day, over 400 individuals had been through the process, and everyone, from McBride on down, pitched in to serve as escorts, paperwork runners, and interviewers—and that was before the local news media aired a blitz of stories about the hotel. Over 10 years had passed since a luxury hotel opened in Washington, D.C., and television crews swarmed the job fair.

The aftershock was felt on the second day, when 1,500 individuals showed up to compete for positions. By the time all was said and done, 2,300 people had been through the selection process in 24 hours, while another 1,700 had already completed the application process prior to the job fair. These were impressive numbers, especially given the local unemployment rate of only 5.4%.⁶ About 400 people were eventually hired, which made getting a job at The Ritz-Carlton about as likely as being accepted as a Harvard undergraduate.

Individuals who did not make the cut were treated the same as everyone else during the job fair, as Inghilleri explained:

We try to make sure that those we don't hire are treated really well. They may also be sons and daughters of our customers, we don't know. So why would I mistreat them? If someone is not hired and we just disregard them, what does that accomplish? You create someone in the community who looks at you and says, “Those guys are morons. They are arrogant imbeciles who don't understand who I am, who didn't value me as a person.” We don't want that.

For the new hires, The Ritz-Carlton utilized a pre-employment call-back process to reduce the attrition that often occurred during the lag between the job offer and the start date (see **Exhibit 9**). During this phase of the employer-employee relationship, new employees were treated as customers with their own unique set of needs, and the hotel's managers were accountable for their satisfaction.

⁶ “Local Area Unemployment Statistics for the District of Columbia,” Bureau of Labor Statistics, August 2000, <http://146.142.4.24/cgi-bin/surveymost>.

The Seven Day Countdown

The Seven Day Countdown was a result of the evolution and refinement of the hotel-opening process, which became more solidified in the late 1980s to early 1990s when the hotel chain was opening many new properties. Standardization brought greater efficiency and relieved some of the burden placed on new managers and leaders responsible for ultimately running the hotel.

Individuals' first encounter with the organization as employees occurred over a month after they had been hired, when they showed up for the beginning of the Seven Day Countdown prior to the opening of the hotel. The first two days were devoted entirely to orienting employees to The Ritz-Carlton culture and values, while the remaining five days involved more specific skills training and trial runs of service delivery. According to Collins, ensuring that everything was perfect on opening day would be a challenge:

There's all this construction activity going on around here, finishing floors, testing the fire-alarm system. And they have 400 people they have to convert to Ritz-Carlton employees in the next seven days. They have to be trained and dipped into the culture of The Ritz-Carlton so that on day one when Ms. Jones checks in, she's getting a true Ritz experience. Seven days. I've told James I just don't know if that's enough time.

To help the new staff members navigate their way through the demanding Seven Day Countdown, The Ritz-Carlton provided each of them with a "Paper Palm" (see **Exhibit 10**). Inghilleri explained the rationale behind the countdown's organization:

We have a very slow orientation process that aligns the worker with the mission of the company. The reality is that, as an adult, you only change your behavior from a significant emotional experience, and otherwise you don't change. When you hire someone to start a new job, it is a significant emotional experience for them, so they will be attentive and receptive to behavioral changes.

But the size of the window of opportunity that the company has to drive home new concepts is limited. So if you waste the first few hours of the first few days discussing anything other than values, you're wasting your opportunity. That is why in our orientation, the first thing we do is discuss values.

Day One: Staff Orientation

On the first day of the countdown, new employees joined other members of their divisions outside the hotel for what can only be described as a pep rally. Carrying signs and chanting ("House-keep-ing, House-keep-ing"), each division vied to be the loudest, most enthusiastic group of new employees. The kitchen staff had the advantage, banging out Stomp-worthy rhythms on their pots and pans. At least one manager made a brave attempt at turning cartwheels along the covered drive leading to the entrance of the new hotel, while others ran from one end of the line to the other, encouraging more cheering.

After several rounds of "the wave" and chants of "D-C-Ritz, D-C-Ritz," the staff members eventually entered the building. As they slowly wound their way downstairs toward the ballrooms where their first training sessions would occur, the employees heard the sound of enthusiastic applause. It was coming from the hotel's managers, who lined both sides of the curved marble staircase. Many times over, each employee was sincerely welcomed as a new member of The Ritz-

Carlton family by the scores of managers who smiled warmly and said, “We’re so happy you’re here,” “Welcome,” “I’m so glad you’ve come.”

Once inside, everyone gathered in the largest ballroom, where video cameras were hooked up to big-screen TVs providing a simulcast of all the activity. Recordings of Sting singing “We’re starting up a brand new day . . .,” Queen’s “Another One Bites the Dust,” and the always-popular “We Are the Champions” played as the employees congregated. Once everyone was present, McBride introduced the hotel’s leadership team, followed by The Ritz-Carlton trainers, who had come from 23 different countries around the world for the countdown. Individuals chosen as trainers represented the “best of the best” of The Ritz-Carlton worldwide—all of whom had significant experience opening new Ritz-Carlton properties. Introductions progressed to the corporate steering committee and then to the Millennium Partners representatives. Finally, McBride spoke to the assembled, immediately conveying to them the importance of opening the hotel at the highest level possible from day one: “We will open as the finest hotel in Washington, D.C., without a doubt. We are like Olympic gymnasts who have been training for years and years. Then it all comes down to the big performance, and the gymnasts must stick their landings—otherwise, they are not excellent. We will stick our landings. We will be excellent.”

Next, the new employees watched a video in which Schulze and others described the hotel company’s history, philosophy, and values, followed by a second tape that described The Ritz-Carlton’s milestones, including awards they had won and new hotels they had opened. The applause and cheering were abundant when The Ritz-Carlton, Washington, D.C., appeared on the screen.

Schulze’s Address

Schulze entered the room to a standing ovation as Queen’s “We Will Rock You” blared over the speaker system. Addressing all the employees of the new hotel, Schulze explained his philosophy of being a high-quality service organization:

You are not servants. We are not servants. Our profession is service. We are Ladies and Gentlemen, just as the guests are, who we respect as Ladies and Gentlemen. We are Ladies and Gentlemen and should be respected as such.

I grew up in a small village in Germany. When I was 11 or 12, I decided to go into the hotel business—I don’t know why. My mother told me, “The guests are very fine, important people.” To me, they looked like gods. My knees were shaking. I was scared. As the months went by, I never stopped seeing them as fine ladies and gentlemen. But when our maitre d’ dressed impeccably, and spoke to them in fluent English, German, or Spanish, it became clear that he was as much a gentleman as anyone in the room, because of the excellence with which he did his job. If we do what we do right, we become as important as they are.

This was how the employees learned the genesis of The Ritz-Carlton motto (“We Are Ladies and Gentlemen Serving Ladies and Gentlemen”). According to Schulze, the motto was a “deeply believed feeling and demand on the organization,” a promise by the organization that everyone would be respected as a lady or a gentleman. It was also a demand on all employees, especially managers and leaders.

The Gold Standards

The motto was one part of The Gold Standards (see **Exhibit 11**), implemented by Schulze in the mid-1980s. These standards included The Credo, The Three Steps of Service, The Motto, The

Employee Promise, and The Twenty Basics, which were designed to focus employees on the core company values. According to Schulze, when an employee adopted The Credo, that person was in effect saying, "This is who I am from now on." Different aspects of The Gold Standards were reinforced daily through departmental "lineups," which occurred at the beginning of every shift, in every hotel, around the world. They were used to reinforce the company's philosophy and to repeat the foundation of the business over and over in order to build the habits necessary for employees to deliver the highest level of service demanded by The Ritz-Carlton. Inghilleri explained the importance of the daily lineups:

Our employees are on the front lines. They are always on the battlefield. So you've got to nourish them on a daily basis—you have to heal the wounds of being on the battlefield daily. Otherwise, they'll forget the real reasons they are there.

After cleaning 16 rooms to our standards, you are exhausted. You come back to work the following morning, and if I don't remind you that the customers are important, that being nice to them is critical, that eliminating defects is paramount, that the genuine care of the customer is crucial, well, then you'll forget. You'll think that you just come to work to clean rooms.

Service Philosophy

Complementing the concepts in The Gold Standards, Schulze further explained The Ritz-Carlton philosophy to the new employees during their first day of orientation: "We are not in the hotel business. The hotel business is about selling rooms, selling food, selling the bar. We do those things incidentally, but our business is service. We charge for service. Our commitment to our customers is excellence in service. Service is our profession." During his address to the employees on their first official day as members of The Ritz-Carlton, Schulze also set the stage for how they could expect to be treated within the organization:

For these next few days, we will orient you to who we are—our heart, our soul, our goals, our vision, our dreams—so you can join us, and not just work for us. You have a right to know who we are and what we think. You have a right to know our hopes, our dreams, and our goals.

We will get a great hotel for our guests, but what about us? We should have a great work environment, too. Besides the physical setting, the work environment is created by you—the work environment is the people who work here. We need to create a good work environment by respecting each other. But things go wrong. As soon as two people come together, conflict will arise. It's not the fact that we have conflict—it's what we do with it. Talk to your manager. It's not "them" or "they." We all have the same dream of excellence; we all have the same goal: to be successful.

Leadership Orientation

After spending time with all the employees together, Schulze conducted the Leadership Orientation for managers, and the tone changed:

This business is created for one reason—to make money. This is your role. You have accepted the role, in the hotel business, to be businesspeople. No one in the world knows more about what our customers want than we do. We survey them every four weeks. What do these customers want? A clean hotel. I walk in hotels, see something on the floor, and I see you walking by it! It's incredible—inconceivable—for us to know what customers want and to

not do it. We still only deliver 92% of customers who are satisfied. That gives us occupancy of 80%. Why not celebrate? Only 8% are not satisfied.

Of those, 2% to 3% want things we cannot do, or things that, if we did them, would dissatisfy all of the other customers. But 5% represent satisfaction that we want. Those 5% are dissatisfied because of stupid, pathetic defects that are repeating—stupid, pathetic defects that you should have eliminated permanently. That 5% translates into 200,000 dissatisfied customers. That is an army—attacking us—saying that we are not good. If we satisfied this 5%, within three years we'd run at 88% occupancy. What does 88% mean in dollars? Three hundred million to the bottom line. We are leaving \$300 million on the table because of 5% defects.

In addition to a strong commitment to the bottom line, Schulze saw leaders as having deep obligations to the rank-and-file employees:

Orientation is a key process to make sure you have the right employees. Why? Because an employee joins you open minded. Share with them what you dream about, what you wish for, your heart and soul, and then ask them to join you in your mission. They have a right to know who you are, what your dreams are.

People have a right to come to work for a purpose. The chairs that you are sitting on are doing work. If you don't give your employees a purpose, you make them chairs. If you just send them to work without a purpose, it's immoral.

Schulze's intense focus on purposeful work inspired many Ritz-Carlton employees to remain committed to the organization. For example, Vijay Singh explained his reasons for staying with the company: "I joined The Ritz-Carlton eight years ago because of a statement I heard made by Horst Schulze: 'I come to work for two reasons. One, to achieve excellence. The other, to achieve excellence with friends.' I adopted this philosophy in my own life and have stayed with The Ritz-Carlton because Mr. Schulze has not deviated from his vision."⁷

Day Two: Departmental Vision Sessions

On the second day of the Seven Day Countdown, employees in each functional area met for an introduction to their new departments. Group exercises were used to help the employees learn more about one another, their likes and dislikes, and how they could function together as an effective unit. Schulze kicked off the vision sessions for each department by asking the groups what they wanted to be in a year. The answer was invariably "the best," and Schulze started the process (later taken over by the managers) of specifying what being the best would mean for each area. In talking with the employees responsible for the bar and in-room service, Schulze explained:

In the case of the bar, customers are entering your room, but they are not coming for you. They are not coming to drink—they have drinks in their rooms and at home. They are not coming to eat. They are coming to *feel well*. You have to understand their purpose. The customer sets the pace; you capture the moments. You are in charge. Your charge is to help customers feel well. Your ultimate responsibility is that each guest feels well when they leave because of how you enhanced their life in the moment that you had to serve them.

⁷ As quoted in *The Mystique: The Ritz-Carlton Hotel Company, L.L.C. Employee Newsletter*, Winter 2000.

In in-room service, you are entering their home, which they have rented. It requires a little different style, because it's their home, their private space. Ask them, "May I enter your room?" Part of being a lady and a gentleman is to treat the situation as a professional. They want you to leave as soon as possible. Ask them, "May I put the tray down here?" And be sure to thank them as you're leaving: "Thank you for allowing me to serve you." I want you to think about how you train yourself. There is only one way of teaching—self-teaching. Think, when you've left, where are you in creating a fine memory with your guest by how you behaved in the room?

Days Three through Seven: Skills Training

For the next five days, the hotel's leadership team, trainers, and managers met each morning at 6:00 a.m. to review the day's training activities and to resolve any difficulties that had arisen. Employees in the different functional areas were given a "Warm Welcome" by their managers at 8:30 each morning and a traditional Ritz-Carlton "Fond Farewell" every evening. During the first two of the remaining five days, uniform fittings were scheduled, personal grooming sessions were conducted, and employees were introduced to the daily lineup procedure.

All employees attended a session on the anticipation and handling of guest requests, conducted by McBride, while each department continued to formulate and refine its own philosophy and statement of goals. Overviews within functional areas oriented the new staff to the big picture within their divisions. Everyone received "life safety" instruction, was treated to a wine tasting, and enjoyed a product show which allowed each employee to learn more about the materials that would provide creature comforts to their guests.

"Instant guest pacification" was a Ritz-Carlton basic, and on Day Four all new employees were instructed in the standardized procedure for "Handling Guest Difficulties." Employees were trained to immediately break away from their normal activities to solve a customer's problem, to use their empowerment in designing an appropriate solution, and to involve and follow up with other departments whose help was needed. Each problem was documented on a Guest Incident Action form in which "guest temperature" was recorded before and after the event on a scale that ran from "livid" to "calm"; these forms were used for daily communication and process improvement (see **Exhibit 12**).

The last three days of the Seven Day Countdown was when departmental technical training occurred. Employees learned the details involved in performing their jobs to the standards set by The Ritz-Carlton, and everyone was expected to master their department's key production processes. Employees arrived in two shifts, dressed in their full uniforms, and every employee practiced his or her job as if they were serving real customers. For instance, mock meals were served, trials were conducted for check-in procedures, and housekeepers prepared rooms for "guests."

Members of the corporate steering committee observed every trial run, from housekeeping to restaurants. They were looking for any flaws in service delivery that kept it from being as sharp and crisp as The Ritz-Carlton demanded. Their observations were passed on to the trainers, who provided any necessary additional one-on-one or division-level training. Inghilleri recalled occasions when Schulze stepped in to assist a struggling employee: "He was just great. He'd go into a restaurant, and he'd say, 'OK, let me show you how this job is done,' and he'd give a perfect demonstration. When the president of your company is showing you how to do your job, you are really going to be paying attention."

Recognizing that their standards of service were extremely high and that their goal of opening as a top-notch hotel right from the start was a tall order, The Ritz-Carlton tried to protect their employees from feeling overwhelmed by controlling the occupancy rate. Inghilleri explained:

The first month of operations, we may open the hotel with 50% occupancy. Then we'll increase occupancy monthly, so it takes us somewhere between three and four months to reach 80%. But we hire, in the very beginning, as if we're already operating at 80% occupancy.

This allows us to reduce the number of tables a waiter has to serve, or the number of rooms a housekeeper has to clean. It is more important that we set the standards immediately. They have to do their jobs perfectly, even if it takes them longer; productivity will increase as they get more and more comfortable. Flawless execution is the goal, and then speed will come. This practice also allows us to offset the inevitable minor turnover that we experience shortly after opening.

On the day between the end of the Seven Day Countdown and the grand opening, employees showed up in casual attire for The Ritz-Carlton two-hour pep rally, marking the transition between practice runs and real service delivery. The next day, on October 11, 2000, the Washington, D.C., Ritz-Carlton Hotel opened for business.

Dilemma

McBride sat in his new office in Washington, reflecting on the concerns that Collins had expressed, with his usual blunt style and candor, about the Seven Day Countdown. Collins questioned whether the seven-day time frame limited the hotel's ability to open at a higher occupancy rate and to reach 80% occupancy in a shorter amount of time. Since the Seven Day Countdown was only a small part of the pre-opening budget (see **Exhibit 13**), the costs might well be worth the benefits. Because Collins wanted to ensure that the service established was flawless and a real draw for potential condominium residents, he questioned whether extra training would help the employees to further polish their service skills.

McBride acknowledged that the \$700 million investment made by the Millennium Partners in six Ritz-Carlton-managed properties certainly gave Collins the right to voice his opinions. But it was one thing to change the kind of art in the hotels—changing the processes that seemed to finally join quality control and human resources in a perfect balance was something else entirely.

It was difficult to train new hires to meet the high expectations of The Ritz-Carlton service standards in only seven days, but that was how The Ritz-Carlton worked. True, sometimes the countdown occurred as the building itself was being completed. Sometimes, it seemed like they barely made it under the wire for opening day. Maybe the training should be longer, but what would that mean for The Ritz-Carlton? McBride would be responsible for opening the second Millennium Partners-owned Ritz-Carlton hotel, in Georgetown, at the end of 2001. Should he try changing the Seven Day Countdown process, which was a worldwide best practice for the company?

Exhibit 1 Locations of Current and Future Ritz-Carlton and Four Seasons Properties

<i>Asia/South Pacific</i>		<i>Europe/Middle East</i>	
The Ritz-Carlton	Four Seasons	The Ritz-Carlton	Four Seasons
<ul style="list-style-type: none"> ▪ Bali ▪ Hong Kong ▪ Kuala Lumpur ▪ Shanghai ▪ Singapore 	<ul style="list-style-type: none"> ▪ Bali (2 resorts) ▪ Hong Kong ▪ Kuala Lumpur ▪ Shanghai (2001) ▪ Singapore (2 hotels) 	<ul style="list-style-type: none"> ▪ Berlin ▪ Istanbul (2001) ▪ Sharm El Sheikh, Egypt 	<ul style="list-style-type: none"> ▪ Berlin ▪ Istanbul ▪ Sharm El Sheikh (2001)
<ul style="list-style-type: none"> ▪ Osaka ▪ Seoul 	<ul style="list-style-type: none"> ▪ Bangkok Chiang Mai at Mae Rim Valley ▪ Jakarta ▪ Maldives at Kuda Huraa ▪ Taipei ▪ Tokyo ▪ Sydney 	<ul style="list-style-type: none"> ▪ Barcelona ▪ Doha, Qatar (2001) ▪ Dubai, United Arab Emirates ▪ Dusseldorf ▪ Wolfsburg, Germany 	<ul style="list-style-type: none"> ▪ Alexandria, Egypt (2004) ▪ Amman, Jordan (2002) ▪ Beirut (2004) ▪ Budapest (2002) ▪ Cairo (1 hotel existing; one planned for 2002) ▪ Dublin (2001) ▪ Lisbon (The Ritz, managed by Four Seasons) ▪ London ▪ Milan ▪ Paris ▪ Prague (2001) ▪ Riyadh, Saudi Arabia (2002)
<i>The Americas and Caribbean</i>			
The Ritz-Carlton	Four Seasons	The Ritz-Carlton	Four Seasons
<ul style="list-style-type: none"> ▪ Atlanta (2 hotels) ▪ <i>Boston (1 hotel; Boston Common, 2001)</i> ▪ Houston (2002) ▪ <i>New York (Central Park South, 2002; Downtown, 2001)</i> ▪ Palm Beach, FL ▪ Philadelphia ▪ San Francisco ▪ Toronto (2003) ▪ <i>Washington, D.C. (Foggy Bottom; Georgetown, 2002)</i> 	<ul style="list-style-type: none"> ▪ Atlanta ▪ Boston ▪ Houston ▪ New York (2 hotels) ▪ Palm Beach, FL ▪ Philadelphia ▪ <i>San Francisco (2001)</i> ▪ Toronto ▪ Washington, D.C. 	<ul style="list-style-type: none"> ▪ Laguna Niguel, CA (2002) ▪ Marina del Rey, CA ▪ Montreal, Canada ▪ Naples, FL ▪ Naples Golf Resort (FL, 2001) ▪ New Orleans, LA ▪ Pasadena, CA ▪ Pentagon City, VA ▪ Phoenix, AZ ▪ Rancho Mirage, CA ▪ Reynolds Plantation, GA (2002) ▪ Rose Hall, Jamaica ▪ St. Louis, MO ▪ St. Thomas, Virgin Islands ▪ San Juan, Puerto Rico ▪ Sarasota, FL (2001) ▪ South Beach, FL (2001) ▪ Tyson's Corner, VA 	<ul style="list-style-type: none"> ▪ Hualalai, HI ▪ Las Vegas, NV ▪ Los Angeles, CA (2 hotels) ▪ Mexico, D.F. ▪ <i>Miami, FL (2002)</i> ▪ Newport Beach, CA ▪ Papagayo Peninsula, Costa Rica (2002) ▪ Punta Mita, Mexico ▪ San Diego, CA ▪ San Miguel, Mexico (2003) ▪ Santa Barbara, CA ▪ Scottsdale, AZ ▪ Seattle, WA ▪ Vancouver, Canada ▪ Whistler, Canada (2003)
<ul style="list-style-type: none"> ▪ Amelia Island, FL ▪ Cancun, Mexico ▪ Cleveland, OH ▪ Coconut Grove, FL (2002) ▪ Dearborn, MI ▪ Grand Cayman ▪ Half Moon Bay, CA (2001) ▪ Kapalua (Maui, HI) ▪ Key Biscayne, FL (2001) 	<ul style="list-style-type: none"> ▪ Austin, TX ▪ Caracas, Venezuela (2001) ▪ Chicago, IL (one Four Seasons; The Ritz, managed by Four Seasons) ▪ Dallas, TX ▪ Grand Exuma, Bahamas (2002) 		

Source: Ritz-Carlton locations were provided by The Ritz-Carlton Hotel Company, L.L.C. Four Seasons locations were obtained from www.fourseasons.com (accessed January 16, 2001). Locations in bold typeface are resorts; locations in italicized typeface are hotels and multi-use facilities owned by the Millennium Partners.

Exhibit 2 Key Operating Statistics for The Ritz-Carlton and Four Seasons^a

	1999		1998		1997	
	The Ritz-Carlton	Four Seasons	The Ritz-Carlton	Four Seasons	The Ritz-Carlton	Four Seasons
Occupancy Rate	75.4%	70.0%	72.5%	70.4%	76.7%	73.7%
Average Daily Rate (ADR)	\$202	\$266	\$194	\$248	\$187	\$243
Revenue Per Available Room (RevPAR)	\$152	\$189	\$140	\$178	\$145	\$180

Sources: Ritz-Carlton data for 1999 and 1998 are from the 1999 and 1998 Marriott International Annual Reports. The Ritz-Carlton figures for 1997 were calculated based on reported changes in figures in the 1998 Marriott International Annual Report. The Four Seasons data was obtained from their 1999 Annual Report.

^aAll Four Seasons figures were converted from Canadian to U.S. dollars using the average exchange rate for the relevant year from International Monetary Fund data. Corporatewide figures were computed using weighted averages from the regionally reported information in the 1999 Four Seasons Annual Report.

Exhibit 3 The Ritz-Carlton Washington, D.C., 2001 First-Year Monthly Budget Summary^a

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
<i>Revenue Drivers</i>													
Room Nights Available	9,300	8,400	9,300	9,000	9,300	9,000	9,300	9,300	9,000	9,300	9,000	9,300	109,500
Room Nights Sold	5,318	5,145	6,645	6,381	7,083	6,689	4,817	4,628	6,661	7,624	6,340	4,193	71,524
% Occupancy	57.2%	61.3%	71.5%	70.9%	76.2%	74.3%	51.8%	49.8%	74.0%	82.0%	70.4%	45.1%	65.3%
Average Daily Rate (ADR)	\$305.32	\$299.36	\$312.08	\$305.71	\$305.44	\$291.97	\$263.08	\$246.48	\$322.76	\$345.38	\$302.88	\$289.85	\$302.44
Revenue Per Available Room (RevPAR).....	\$174.64	\$183.51	\$223.14	\$216.75	\$232.75	\$216.93	\$136.48	\$122.75	\$238.84	\$283.21	\$213.23	\$130.72	\$197.49
<i>Sales and Income</i>													
Rooms	1,624	1,540	2,074	1,951	2,163	1,953	1,267	1,141	2,150	2,633	1,920	1,215	21,631
Food and Beverage.....	1,314	1,195	1,686	1,721	1,957	1,907	1,146	1,047	1,747	1,949	1,510	1,617	18,796
Telephone	69	67	86	83	91	86	63	60	86	98	82	54	925
Retail.....	12	11	15	14	16	15	11	10	15	17	16	27	179
Recreation/Spa	4	4	5	5	5	5	4	4	5	6	5	3	54
Garage	111	107	138	132	147	138	100	96	138	157	131	87	1,482
Other Income.....	51	49	61	59	65	61	47	45	61	69	59	42	668
Total Revenue	3,184	2,973	4,064	3,965	4,444	4,166	2,637	2,403	4,202	4,929	3,724	3,046	43,736
<i>Allocated Expenses</i>													
Rooms.....	500	479	560	545	580	559	464	456	555	607	538	448	6,291
Food and Beverage.....	1,049	1,011	1,315	1,339	1,478	1,460	977	917	1,354	1,484	1,210	1,303	14,898
Telephone	42	39	44	43	45	43	41	41	43	46	42	39	506
Retail.....	12	11	13	13	13	13	11	11	13	14	14	19	157
Recreation/Spa	3	3	4	3	4	4	3	2	4	4	3	2	38
Garage	105	98	117	113	121	116	101	99	116	126	113	94	1,321
Other Income.....	25	25	30	29	31	30	24	23	30	33	29	21	329
Total Allocated Expenses.....	1,736	1,665	2,083	2,085	2,273	2,224	1,620	1,549	2,114	2,314	1,950	1,927	23,540
<i>Unallocated Expenses</i>													
Administration and General ...	247	229	267	252	266	249	226	223	262	277	250	245	2,994
Marketing and Sales.....	222	193	229	224	233	220	199	198	231	244	222	213	2,628
Heat, Light, and Power	53	52	57	51	54	52	41	39	50	57	54	46	607
Repairs and Maintenance.....	135	127	135	131	134	131	130	130	131	135	130	134	1,583
Total Unallocated Expenses ...	657	600	688	658	687	652	507	591	674	713	657	637	7,812

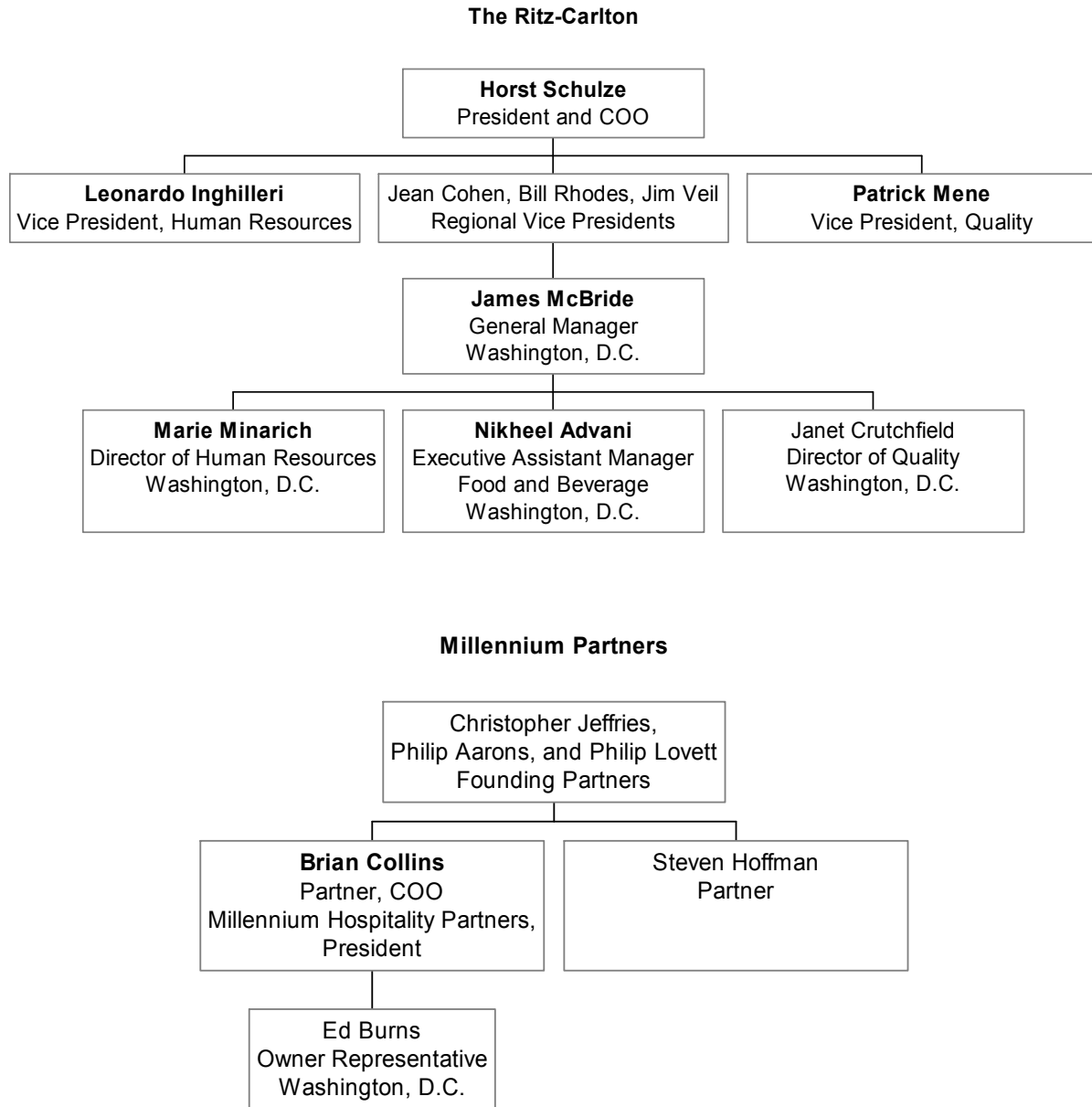
^aAll figures are disguised. All monetary figures except ADR and RevPAR are in \$1,000s.

Exhibit 3 (continued)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
House Profit	791	708	1,293	1,222	1,484	1,289	420	264	1,414	1,901	1,117	481	12,384
Other Deductions													
Management Fee Base	104	97	133	129	145	136	86	78	137	162	122	98	1,429
Management Fee Incentive.....	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure													
Program Reserve	31	29	39	38	43	40	25	23	40	95	72	58	532
Property Taxes	117	117	117	117	117	117	117	117	117	117	117	117	1,400
Insurance.....	15	15	15	15	15	15	15	15	15	15	15	15	175
Leases and Other	5	5	5	5	5	5	5	5	5	5	5	5	60
Ground Rent.....	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Other Deductions	271	262	308	304	324	312	248	238	314	393	330	292	3,596
Cash Before Debt	520	445	984	919	1,160	978	173	26	1,100	1,508	787	189	8,788
Debt Service.....	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash After Debt	520	445	984	919	1,160	978	173	26	1,100	1,508	787	189	8,788

Source: The Ritz-Carlton Hotel Company, L.L.C.

Exhibit 4 Partial Organizational Charts for The Ritz-Carlton and Millennium Partners in 2000



Source: The Ritz-Carlton and Millennium Partners.

Exhibit 5 Service Quality Indicators (SQIs)

<i>Key Production Process</i>	<i>Service Quality Indicators</i>	<i>Measurement Location</i>	<i>Reporting Requirements</i>
Individual and Group Reservations	Abandoned Calls: those that are not answered and the customer hangs up	Reservation Office	Send daily to Department of Quality (DOQ) by close of Reservation Office
Anticipation of Guest Needs	Missing Preferences: regular guest arrivals (i.e., five or more visits to your city hotel, three or more visits to your resort hotel) whose profile lacks actionable preferences beyond room type, smoking preference, or title	Guest Recognition Office	Send daily by 5:00 p.m. to DOQ
Warm Welcome/ Check-In	Unready Guest Rooms: any guest room that is not immediately ready for the guest when they arrive to register, regardless of the time of day; includes room re-locations during guest Check-In	At point of Check-In	Send daily by end of second shift to DOQ
Guest Room Assignment	Room Changes: guest requests a change of room after Check-In	Front Office	Send daily by end of second shift to DOQ
Guest Room Condition	Room Condition: customer requests repairs to their guest room	All Departments	Send daily by end of second shift to DOQ
Housekeeping	Housekeeping Defects: total score of housekeeping defects identified during five random daily inspections	Guest Rooms	Send daily by 5:00 p.m. to DOQ
Hotel Cleanliness	Unacceptable Appearance of Public Area: identified during the Morning Process	Public Areas	Send immediately after daily inspections to DOQ
Problem Resolution	Missing or Damaged Guest Property/Accident: number of claims/incidents for the disappearance or damage of guest property (i.e., vehicles, vehicle keys, luggage, clothing, jewelry, valuables, etc.) or accidents involving a guest or employee that require care from a medical professional	At the time the incident is reported	Send to DOQ immediately after each incident
Problem Resolution	Invoice Adjustment: customer requests for a credit or refund for real or perceived deficiencies	Accounting Office	Send daily by close of the Accounting Office to DOQ
Problem Resolution	Unresolved Difficulties: any difficulty discovered during the J. D. Power survey process for which there was inadequate resolution	J.D. Power	Fax to DOQ after each occurrence
<i>Meeting Events:</i>			
<ol style="list-style-type: none"> 1. Desire for Business 2. Communication of the Program 3. Flexibility in Negotiations 4. Advise of Conflicts 5. Audio-Visual 	Meeting Event Difficulties: total score of difficulties stated by the event planner during the post-event conversation	Face-to-face, or by telephone	Conference Services Manager submits Event Difficulty Log to DOQ after each conversation
<i>Food & Beverage:</i>			
1. Restaurants, Lounge, & Club	Composite Score: checks opened or adjusted because of customer dissatisfaction of any type	Within the Outlet	Send daily as soon as possible to DOQ
2. Room Service	Room Service Orders: those orders delivered past the company standard commitment time or delivery of incomplete orders	Room Service	Send daily at the end of each shift to DOQ
3. Banquet Food	Banquet Event Difficulties	Banquet Floor	Banquet Office submits report after each event

Source: The Ritz-Carlton Hotel Company, L.L.C.

Exhibit 6 Awards Won by The Ritz-Carlton

The Malcolm Baldrige National Quality Award

- 1992: First and only hotel company to win the award
- 1999: First and only service company to win the award two times

AAA Five Diamond Awards

- 10 properties and 6 restaurants (2001)
- 11 properties (2000)
- The first ever AAA Triple Five Diamond Hotel (1999)

Conde Nast Traveler, Business Travel Awards

- Best European Hotel Chain for Business Travel (2000)
- #3 North American Hotel Chain for Business Travel (2000)
- #5 Asia/Pacific Hotel Chain for Business Travel (2000)
- Best Hotel Chain in Asia-Pacific (1998)
- Best Club Floors in the World (1998)

Conde Nast Traveler, 2000 Gold List

- 16 properties on The Gold List
- “The only urban hotel with two perfect scores for service and rooms”
- “The highest-scoring property in the Americas”
- “The highest-scoring property for service in the United States”

Conde Nast Traveler, 1999 Readers’ Choice Awards

- #2 “Best of the Best”
- #1 Asian Hotel
- #1 and #2 North American Resorts
- #3 North American Hotel
- #1 Australian Hotel
- #1 Caribbean/Latin Hotel
- #1 Caribbean/Atlantic Resort

East Magazine

- Three of Asia’s Best Business Hotels (2000)

Far Eastern Economic Review

- Named one of Asia’s 200 Leading Companies (1999)

Florida Living Magazine, 2000 Best of Florida Award

- “Best Resort”

Globo Magazine

- Best Hotel Company in the World (1999)

Gourmet Magazine

- Best Hotel in Mexico (1999)
- Tops for Romance (1999)
- #6 Hotel in the World, Rooms at the Top Survey (1999)
- Best Hotel Chain or Group – United States and the World (1998)

Mobil Travel Guide Five Star Awards

- The Ritz-Carlton, Naples (2000, 2001)
- The Dining Room at The Ritz-Carlton, Buckhead (2000)

Official Hotel Guide

- Gold Award for “Favorite Deluxe Hotel Chain, North America” (1998)

Senses, Wellness Award 2000

- “Best Beach Resort”
- #2, “Your Personal Favorite as Overall Winner”

Travel & Leisure, 2001 Best Value Hotels

- The Ritz-Carlton, Bali
- The Ritz-Carlton, Montreal

Travel & Leisure, World’s Best Awards (1999)

- Six of the Top 100 Hotels in the World
- #1 Hotel in: the Continental U.S. & Canada; Hawaii; Mexico, Central, & South America; The Caribbean, Bermuda, & Bahamas; and Australia, New Zealand, & the South Pacific

Travel & Leisure, World’s Best Service Awards (1999)

- Five properties with World’s Best Service
- #1 in service in: Hawaii; Mexico, Central, & South America; and Australia, New Zealand, & the South Pacific

Worth Magazine, Readers’ Choice Award

- Best Luxury Hotel Chain (2000)

Zagat U.S. Hotels, Resorts, & Spas Survey

- Best Hotel Chain (1990, 1993, 1995)

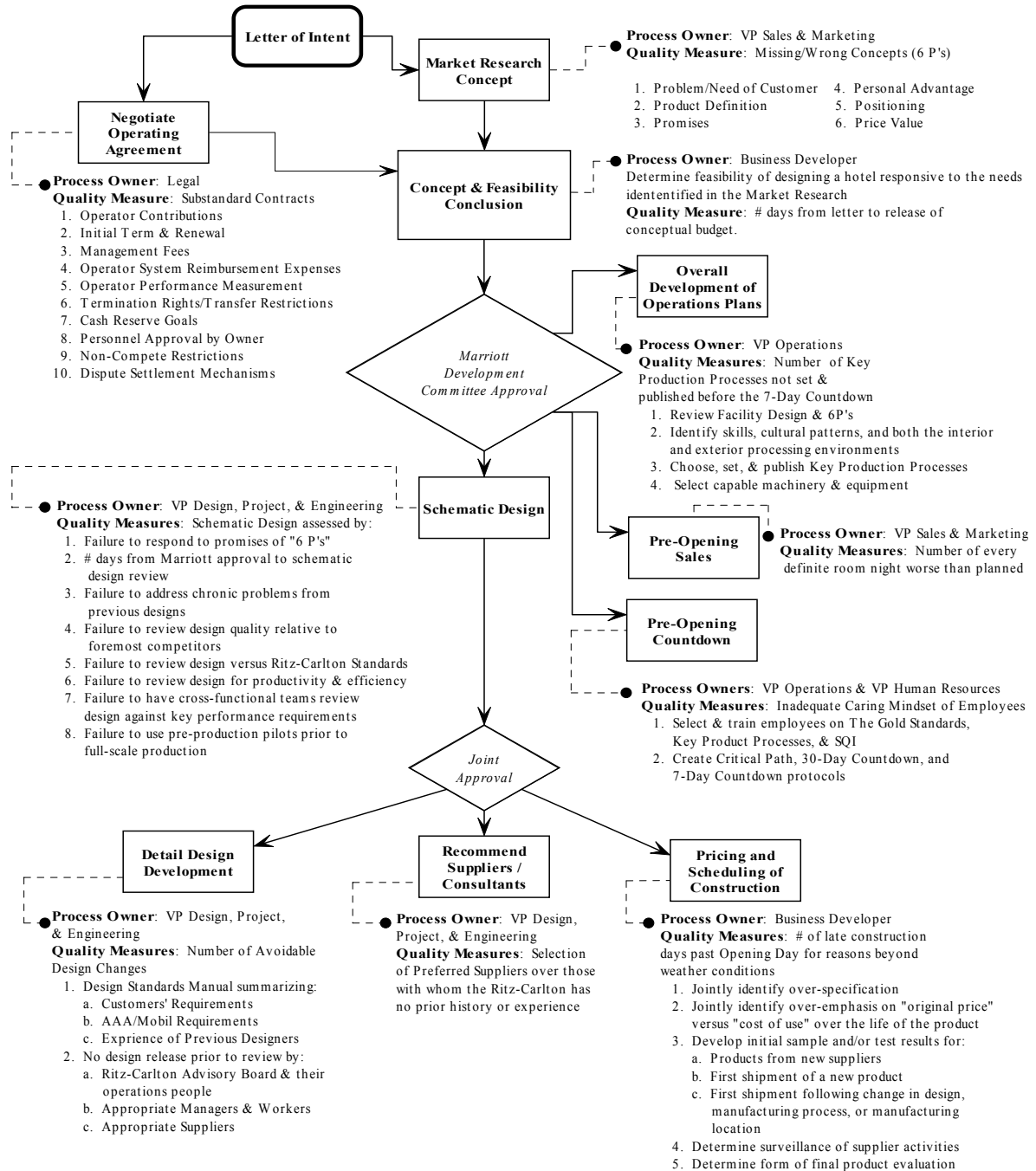
Source: The Ritz-Carlton Hotel Company, L.L.C.

Exhibit 7 The Ritz-Carlton Post-Opening Training and Development Program

Phase 1			
	Line Staff	Middle Manager	General Manager
▪ Hotel Orientation (16 hours; <i>for new hotels, part of 7-Day Countdown</i>)	X		
▪ Training Certification (120 hours; <i>begins during 7-Day Countdown</i>)	X		
▪ Day 21 (4 hours)	X	X	X
▪ Leadership Orientation (4 days, 32 hours)		X	X
▪ If possible, participate in new hotel opening (2 weeks, 100 hours)		X	X
▪ 2 days in corporate office meeting with senior leaders (16 hours)			X
▪ 2 weeks in a functioning hotel in the same class or level (100 hours)			X
Phase 2			
	Line Staff	Middle Manager	General Manager
▪ Hotel Orientation (2 days/16 hours)	X	X	X
▪ GLOW (Guest Problem Resolution process; 3 hours)	X	Within 5 months of entering Phase 2	Within 5 months of entering Phase 2
▪ LEAP (Advanced Guest Problem Resolution and up-selling skills; 4 hours)	X	Within 5 months of entering Phase 2	Within 5 months of entering Phase 2
▪ Understanding How a Talent-Based Organization works (attend if a Departmental Trainer; 8 hours)	X	Within 5 months of entering Phase 2	Within 5 months of entering Phase 2
▪ Creating an environment of trust and empowerment (5 hours)	X	Within 5 months of entering Phase 2	Within 5 months of entering Phase 2
▪ CARE (Controlling Alcohol Risks Effectively; 3 hours)	X	Within 5 months of entering Phase 2	Within 5 months of entering Phase 2
▪ Food Safety (2 hours)	X	Within 5 months of entering Phase 2	Within 5 months of entering Phase 2
▪ Day 365 (3 hours)	X	Within 5 months of entering Phase 2	Within 5 months of entering Phase 2
▪ Re-certification (10 hours)	X	For departments in division; Within 5 months of entering Phase 2	
▪ Re-orientation (4 hours)	X	Within 5 months of entering Phase 2	Within 5 months of entering Phase 2
▪ TARGET (train the trainer on Ritz-Carlton training certification process, 5 hours)		Within 5 months of entering Phase 2	Within 5 months of entering Phase 2
▪ Situational Leadership (16 hours)		Within 5 months of entering Phase 2	Within 5 months of entering Phase 2
▪ The Seven Habits of Highly Effective People (32 hours)		Within 5 months of entering Phase 2	Within 5 months of entering Phase 2
▪ Understanding training certification in each role in department and division		Ongoing for first 3 weeks of Phase 2	
Phase 3			
	Line Staff	Middle Manager	General Manager
▪ Leadership Center for advanced management skills (2 days/16 hours)		X	X
TOTAL TRAINING HOURS	174	279	349

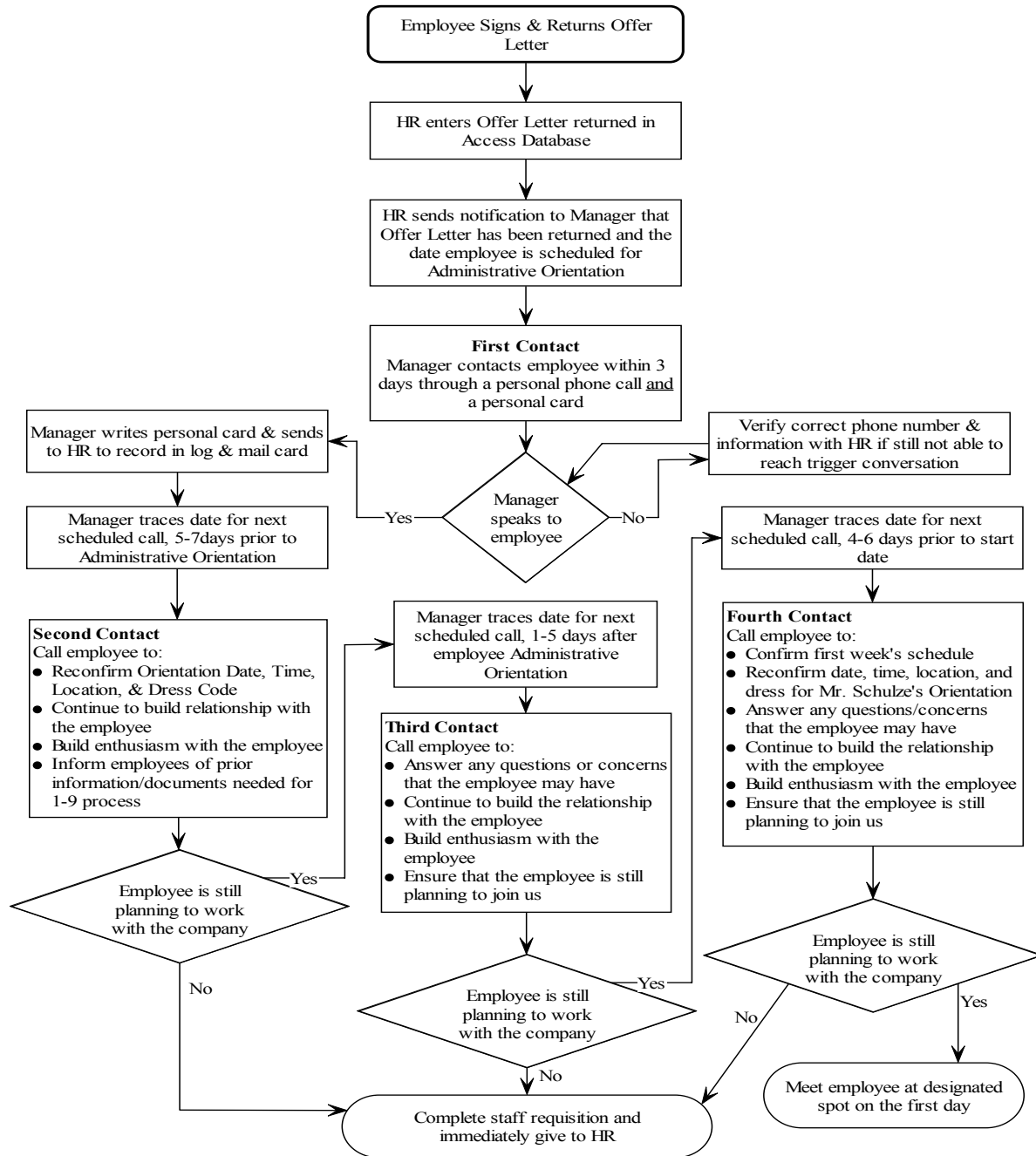
Source: The Ritz-Carlton Hotel Company, L.L.C.

Exhibit 8 Product Quality Indicators (PQIs)



Source: The Ritz-Carlton Hotel Company, L.L.C.

Exhibit 9 Pre-Employment Call-Back Process



Source: The Ritz-Carlton Hotel Company, L.L.C

Exhibit 10 The "Paper Palm"

	<p>Warm Welcome</p> <p><i>Welcome to the team that is going to recreate service excellence.</i></p> <p><i>The next few weeks will be challenging, but the rewards will be great.</i></p> <p><i>Thank you for your commitment and hard work.</i></p> <p><i>Warm regards,</i> <i>James Mc. Under</i></p> <p>The Ritz-Carlton, Washington, D.C. Paper Palm 4</p>	<p>Mission Statement</p> <p>The Ritz-Carlton, Washington, D.C.</p> <p><i>The Ritz-Carlton will redefine the service business in Washington, D.C. by building a world class reputation as a result of the loyalty created through our commitment to our guests, employees and owners.</i></p> <p><i>By providing innovative, five-star, five-diamond service enhanced by cutting edge technology, The Ritz-Carlton will be the first choice for guests in Washington, D.C.</i></p> <p><i>As the leader, we will fulfill our obligation to our Owners and The Ritz-Carlton Hotel Company, L.L.C. to achieve Product and Profit Dominance.</i></p> <p>The Ritz-Carlton, Washington, D.C. Paper Palm 5</p>
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Additional Information Contained in the "Paper Palm"

<ul style="list-style-type: none"> • Positions and names of the Corporate Steering Committee and the Hotel Guidance Team • Background regarding Marriott International and Millennium Partners • Descriptions of the artwork in the hotel and information about the various artists • General schedule of the Seven Day Countdown 	<ul style="list-style-type: none"> • Descriptions of guest rooms and rates • Hours of operation for restaurants, communications center, sports club, & gift shop • Diagram of meeting facilities • Descriptions of the Sports Club/LA and the Splash Spa 	<ul style="list-style-type: none"> • Spaces to write down key extensions for services such as the concierge, housekeeping, guest services, restaurant reservations, and room service • Appropriate verbiage for employees to use when communicating with guests, such as: "Good afternoon," "Have a pleasant day," "How may I assist you?," "I beg your pardon," "Please forgive me," "Excellent choice," "My pleasure."
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Source: The Ritz-Carlton Hotel Company, L.L.C.

Exhibit 11 The Gold Standards

THREE STEPS OF SERVICE	THE MOTTO	THE EMPLOYEE PROMISE	THE CREDO
<p>1 A warm and sincere greeting. Use the guest name, if and when possible.</p> <p>2 Anticipation and compliance with guest needs.</p> <p>3 Fond Farewell. Give them a warm good-bye and use their names, if and when possible.</p>	<p><i>We Are Ladies and Gentlemen Serving Ladies and Gentlemen</i></p>	<p><i>At The Ritz-Carlton, our Ladies and Gentlemen are the most important resource in our service commitment to our guests.</i></p> <p><i>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.</i></p> <p><i>The Ritz-Carlton fosters a work environment where diversity is valued, quality of life enhanced, individual aspirations are fulfilled, and The Ritz-Carlton mystique is strengthened.</i></p>	<p>The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest mission.</p> <p>We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed, yet refined ambiance.</p> <p>The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests.</p>

The Ritz-Carlton Basics			
<p>1. The Credo is the principal belief of our Company. It must be known, owned, and energized by all.</p> <p>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.</p> <p>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.</p> <p>4. The Employee Promise is the basis for our Ritz-Carlton work environment. It will be honored by all employees.</p> <p>5. All employees will successfully complete annual training certification for their position.</p> <p>6. Company Objectives are communicated to all employees. It is everyone's responsibility to support them.</p>	<p>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.</p> <p>8. Each employee will continuously identify defects (M.R. B.I.V.) throughout the Hotel.</p> <p>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.</p> <p>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.</p> <p>11. Uncompromising levels of cleanliness are the responsibility of every employee.</p> <p>12. To provide the finest personal service for our guests, each employee is responsible for identifying and recording individual guest preferences.</p>	<p>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.</p> <p>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").</p> <p>15. Be an ambassador of your Hotel in and outside of the workplace. Always speak positively. Communicate any concerns to the appropriate person.</p> <p>16. Escort guests rather than pointing out directions to another area of the Hotel.</p> <p>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?" Do not screen calls. Eliminate call</p>	<p>transfers whenever possible. Adhere to voice mail standards.</p> <p>18. 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.</p> <p>19. 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.</p> <p>20. Protecting the assets of a Ritz-Carlton Hotel is the responsibility of every employee. Conserve energy, properly maintain our Hotels, and protect the environment.</p>

Source: The Ritz-Carlton Hotel Company, L.L.C.

Exhibit 12 Handling Guest Difficulties

Handling Guest Difficulties Procedure

1. **Break away from work.** Basic #10 (Call someone if you can't break away.)
2. **Instant Guest Pacification.** Basic #13
3. **LEAP.**
 - a. Listen
 - b. Empathize
 - c. Ask for Clarification. Take notes if necessary.
 - d. Produce a Solution. Use your empowerment. If you cannot do it yourself, ask your Manager for help. Follow up with other departments involved in solution.
4. **Complete QIA.** (Distribute to all departments if applicable).
5. **Follow-up within 20 minutes.** To find out if the guest is satisfied with the solution.

THE RITZ-CARLTON, WASHINGTON, D.C.

QIA: Guest Incident Action Form

Incident Date:

Time:

Guest Name:		Company Affiliation (if applicable):			
Address:		Telephone Number:			
Room Number:	Arrival Date:		Departure Date:		
GUEST TEMPERATURE					
Before:	Livid	Very Upset	Upset	OK	Calm
After:	Livid	Very Upset	Upset	OK	Calm
What Was The Problem?					
What Did You Do To Resolve The Problem?					
Was The Opportunity <u>Resolved to the Guest Satisfaction?</u> <u>Yes</u> <u>NO</u>					
Recommended Follow Up Action Steps:					
Employees Involved:			Form Completed By:		
			Department:		
			Date Completed:		

Please note: this is a legal document. Include facts only.

E-Mail to GRP RC Washington DC Everyone or Place A Copy in the Mailboxes

HANDLING GUEST DIFFICULTIES: PROCESS MANAGEMENT

WHAT	WHO, WHEN
1. Print and include in line-up packet for next day distribution: <ul style="list-style-type: none"> • QIAs • Summary of in-house guests with difficulties 	Night Manager, daily overnight
2. Print and include in line-up packet for next day distribution: <ul style="list-style-type: none"> • "Outstanding Difficulties Report" 	Night Manager, overnight on Fridays
3. Ensure QIA's are followed up personally with guest and QIA originator.	GT & Dept. Heads. Daily
4. Analysis of top difficulties by hotel and departments <ul style="list-style-type: none"> • Action Plans for the 20 of the 80 should be designed 	Department of Quality: Quarterly

Source: The Ritz-Carlton Hotel Company L.L.C.

Exhibit 13 The Ritz-Carlton Washington, D.C., Pre-Opening Budget

SALARIES & WAGES	OTHER EXPENSES
Food & Beverage Division	
Banquets.....	49,990
Catering.....	136,383
F & B Executive.....	43,264
Honor Bar.....	3,505
Kitchen.....	101,517
Lobby Lounge.....	9,767
Restaurant Reservations.....	2,998
Room Service.....	11,135
Stewarding.....	21,483
Storeroom.....	3,960
The Bar.....	5,950
The Restaurant.....	24,892
Total Food & Beverage Division.....	414,844
Rooms Division	
Business Center.....	7,108
Concierge.....	9,170
Front Office.....	30,096
Housekeeping.....	74,621
Telephone.....	17,810
Reservations.....	39,092
Rooms Executive.....	38,630
Service Staff.....	9,650
The Club.....	7,970
Total Rooms Division.....	234,147
Other Departments	
Accounting.....	176,343
Cafeteria.....	28,569
Engineering.....	115,680
Executive.....	137,128
Human Resources.....	80,762
Laundry.....	40,298
Purchasing.....	39,030
Sales & Marketing.....	409,642
Security.....	20,174
Sundry Shop.....	5,065
Total Other Departments.....	1,052,691
Other Compensation	
Incentive Compensation.....	161,527
Payroll Taxes & Employee Benefits.....	357,340
Relocation.....	165,077
Total Other Compensation.....	683,944
Total Salaries & Wages.....	2,385,626
Miscellaneous	
Entertainment.....	10,000
Executive Committee Travel.....	25,000
Miscellaneous.....	24,000
Travel.....	21,002
Total Miscellaneous.....	80,002
Sales and Marketing	
Association Dues.....	4,003
Brochures & Direct Mail.....	106,780
Entertainment.....	50,000
Miscellaneous.....	25,000
Operating Supplies & Production.....	65,000
Print Media.....	151,085
Public Relations.....	45,000
Site Visit Expense.....	29,000
Telephone.....	40,000
Trade Shows.....	25,000
Travel.....	60,000
VIP Guest Gifts.....	10,000
Total Sales and Marketing.....	610,868
Operational and Office Expenses	
Duplicating/Fax.....	10,000
Hotel Forms.....	40,000
Menus and Check Presenters.....	55,000
Office Rental/Equipment.....	39,500
Office Supplies.....	20,000
Postage.....	10,000
Telephone.....	35,004
Total Operational Office Expenses.....	209,504
Selection, Orientation & Training	
Advertising.....	5,000
Mass Selection.....	5,000
Travel (Interviews).....	10,000
Talent Plus Executive Interview.....	5,000
Presentation Costs ^a	5,000
Trainers ^a	40,000
Pep Rally ^a	5,000
Total Orientation & Training.....	75,000
Recipe Testing/Trial Feedings	
Banquets.....	4,000
Chef's Table ^a	2,500
Employee Cafeteria ^b	30,000
Food Shows ^a	7,000
Kitchen Prep.....	28,000
Lobby Lounge.....	2,500
Non-perishables.....	40,000
Room Service.....	2,000
The Bar.....	3,000
The Restaurant.....	20,000
Total Recipe Testing/Trial Feedings.....	139,000
TOTAL EXPENSES.....	3,500,000

NOTES:

^a Part of the Seven Day Countdown

^b Half of the Employee Cafeteria Costs are part of the Seven Day Countdown

Source: The Ritz-Carlton Hotel Company, L.L.C. All figures are disguised.