



## Hyatt's Mark Hoplamazian: Quantifying the Value of Customer Service

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Mark Hoplamazian was predictably a little skittish when his bosses at the Pritzker Organization asked him to become interim president and CEO of the family-owned company's signature investment, the Hyatt chain of hotels.

He had spent the bulk of his career on the finance side of the organization -- where he had worked since its formation in 1997 -- rising to president and advising the Chicago-based firm on its investments. Prior to joining Pritzker, Hoplamazian worked in mergers and acquisitions at First Boston Corp.

But the Pritzkers assured him that he would only be the interim CEO, and even put Hoplamazian in charge of the search committee to find his permanent replacement. Interim leadership tenures "are usually disasters," Hoplamazian noted during a recent Wharton Leadership Lecture. "But I had been with the company so long and loved being there, so I got sucked into the vortex." Hoplamazian did so well in the interim role that the Pritzkers insisted he remain in the job. Six years later, he is happy it worked out that way.

"I was completely smitten," he said. "I got to experience working side by side with some great people at Pritzker. [CEO and chairman] Tom [Pritzker] came to me a few months in and said the candidates he had hoped for had not come through.... On paper, I was completely unqualified, but when Tom said he wanted me, I was ready to do it."

In a way, it was a benefit "to walk in and be completely ignorant" of the management side of running the business, noted Hoplamazian, who graduated from Harvard in 1985 and received his MBA at the University of Chicago. "It was unavoidable, coming as I did with little experience in management, though a lot on the financial side. I got to ask a lot of stupid questions -- but as you know, there really are no stupid questions."

It also helped, Hoplamazian added, that he had been with Pritzker all those years and had become familiar with Hyatt's operations, which encompass 492 properties in 45 countries. Its brands include the upscale Park Hyatt, Grand Hyatt and Andaz hotels; Hyatt Regency and Hyatt Place locations targeted at business and convention visitors and families, and Hyatt House, which offers residential-style accommodation for extended stay travelers.

Hoplamazian took on the leadership role in 2006 in the middle of an upsurge in the hospitality industry. "The year after I came in, 2007, it was like a fantasy world. Everything was going right," he said. "Margins were expanding. Everyone was having a good time. But then [the financial crisis in] 2008 came, and things got funky really quickly. And 2009 was a disaster."

According to Hoplamazian, 2007 was by far the best year ever for the industry -- and 2009 was its all-time worst year. "We had to readjust our budgets six times [in the first six weeks]. It was that bad." By then, however, Hoplamazian had already established a management style: Ask lots of questions, listen to the answers and make sure to treat employees with sincerity.

### Quantifying Customer Satisfaction

Hyatt currently employs about 90,000 people, many of whom view the company as an extended family. Since the firm does not produce a physical product, employees' enthusiasm for work has to come through



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in the quality of service that guests receive -- which initially made it challenging for Hoplamazian to assess what the company was doing right and where it could improve.

Firms that make a product can judge performance based on sales and whether the devices work properly, he points out. But in the hospitality business, it is not immediately apparent how much the bottom line is impacted by the way individual employees clean guest rooms, provide directions to guests or carry bags up to a suite. It's also not easy to tie those efforts back to the performance of top-level management.

Coming from finance, Hoplamazian wanted to find ways to quantify even a service business like Hyatt. He wasn't met with resistance per se, but many of his co-workers were unsure whether there was a sound method of achieving that goal. "I asked about results of employee satisfaction surveys, and they showed me upward curves," Hoplamazian recalled. "I asked how that correlated with customer satisfaction, and they said it didn't. I asked if individual properties saw it correlating, and they only said, 'No.'"

Hoplamazian decided to approach fellow CEOs in the service industry to see how other firms had tackled the problem, figuring that technology had greatly increased the availability and ease of analyzing customer data. The leadership team at Enterprise Rent-a-Car proved to be the most helpful. "They said the most important contact was the first person who engaged a customer," he said, citing a well-known piece of advice: "There is only one chance to make a first impression." Based on that guidance, Hyatt developed a survey with a one-through-five rating system that was given to customers to fill out during their stay.

"In my discussion with Enterprise, they said that people who give a 'five' are three times more likely to return than those who give a 'four,'" Hoplamazian noted. "And the people who give a 'four' are twice as likely [to come back] than [those who give lower numbers]. Below a 'four,' and you might as well forget it. The only thing that matters is customer satisfaction."

### **Authenticity, Listening and Loyalty**

Hoplamazian also made a point of engaging employees -- from his general managers down to the custodial staff -- to get their ideas for improving customer satisfaction. "I was reminded of what may well be an apocryphal story about someone seeing a janitor at NASA and asking him what his job was," said Hoplamazian. "[The janitor] said, 'I am putting a man on the moon', which was, I feel, the right answer."

The average general manager at Hyatt has been with the company for 23 years, Hoplamazian noted, and housekeepers, janitors and other service professionals tend to have long tenures as well. "I believe they relate to Hyatt in a human, emotional way," Hoplamazian stated. "They are not thinking about cost elasticity or all these things financial people think about, but [about], 'How do I really do something that a customer would like?'"

That mindset, he added, is very different from the outlook of many product-driven firms, where staff is primarily focused on getting the next shipment out on time. When Hoplamazian was first starting out at the company, he tried out each hotel job just to see what it was like. He recalled meeting a particular front desk employee and being taken with his enthusiasm. Hoplamazian asked the front desk worker how he kept it up day after day.

"He said that the emotional experience he would get when he helped out a customer was nothing less than the reaction you see [from] a new puppy wagging its tail," Hoplamazian noted. "It is my job to manage employees like that."

Although the economic downturn in 2008 and 2009 was a challenge, Hoplamazian said it was not the disaster for Hyatt that it was for companies in many other industries. In its most recent earnings report, the company -- whose primary competitors include Marriott, Hilton and Starwood hotels -- reported a 5.4% gain from a year earlier and an 8.3% increase in revenue to \$1.01 billion. According to *The Wall Street Journal*, the firm is one of several U.S. hotel companies that are expanding significantly overseas in response to an increase in demand, particularly among business travelers.

Hoplamazian attributes some of Hyatt's staying power to his decision during the downturn to continue paying out bonuses promised to employees at a time when many other companies were cutting out extras. "My own principles and what we had committed ourselves and our people to were tested," he said. "But it had a gargantuan impact. You could see people knowing how serious you were about loyalty even in the

face of challenge. . . . What you demonstrate to others when you are pushed is what makes the difference in leadership," he added. "That one thing has [solidified] employee loyalty now that things have turned. It did not cost that much, and it showed that the leaders of the company were loyal when we needed to be."

When former Pennsylvania governor and U.S. Secretary of Homeland Security Tom Ridge was the guest speaker at one of Hoplamazian's hotel conferences, he asked Hoplamazian what he had learned from being a CEO. Hoplamazian stressed authenticity, being a good listener and loyalty. "Ridge latched onto that and said that when he was in the military, he found that rank gives you compliance," Hoplamazian noted. "He said that because he had rank, he could tell people what to do, and they would do it whether they wanted to or not.

"But that doesn't get you their hearts and souls, and [Ridge said] that you have to make sure you get that, too," Hoplamazian added. "Compliance doesn't get you there. It is how you show up and relate to people day-to-day that matters."

Hoplamazian noted that he had to prove himself as a good leader to Hyatt employees when he first took the CEO position. He arranged to attend regional managers meetings as a way to introduce himself to the staff. At the very first of those gatherings, which included about 25 general managers, "I felt like I was getting grilled from the start. It was clearly not warm and fuzzy."

On the morning of the second meeting, Hoplamazian took aside a manager he had known for a while and asked that person what was going on, and if he could expect the grilling to continue. The manager replied, "Oh, they just wanted to see if the rumors were right, if you were going to ask questions and really listen," Hoplamazian noted. "The rumor mill had already started, and I had now gotten the stamp of approval....

"The important thing is to engage employees. Don't go in saying you know this and you know that, and this is the way it will be," said Hoplamazian. "Listening is critical to leadership, and so is staying authentic. You do that and you will get loyalty, and then your role as a leader will be easy."

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