

Hospitality's Global Impact

Defining Luxury

An Interview with Horst Schulze,
Chairman and Chief Executive Officer, The West Paces Hotel Group



EDITORS' NOTE Horst Schulze served as Vice Chairman of The Ritz-Carlton Hotel Company from 2001 to 2002, after serving as President and COO of The Ritz-Carlton Group, starting in 1988. After joining The Ritz-Carlton as a charter member and VP of Operations in 1983, Schulze was instrumental in creating the operating and service standards that have become world famous. He was appointed EVP in 1987 and President and COO in 1988. When he left The Ritz-Carlton to form The West Paces Hotel Group, he was responsible for the \$2 billion Ritz-Carlton operations worldwide. Prior to his service at The Ritz-Carlton, Schulze spent nine years with Hyatt Hotels Corporation, where he was a hotel GM, regional VP, and corporate VP. Before his association with Hyatt, he worked for Hilton Hotels. In 1995, Schulze was awarded the Ishikawa Medal for his personal contributions to the quality movement. In 1999, Johnson & Wales University recognized him with an honorary Doctor of Business Administration degree in Hospitality Management.



Horst Schulze

COMPANY BRIEF Established in 2002 and headquartered in Atlanta, Georgia The West Paces Hotel Group (www.westpaceshotels.com) was founded by Horst Schulze along with several former Ritz-Carlton executives. The principals of the company leverage their hospitality experience to create value through superior service at luxury, world-class properties and conference centers in gateway cities and high-profile resort destinations around the world including Ayana Resort and Spa in Bali; Hotel 71 in Chicago; and The Cambrian in Switzerland. With the launch of two top-tier international hotel brands, Capella Hotels and Resorts and Solis Hotels & Resorts, The West Paces Hotel Group is looking to redefine the standards of luxury on a global scale.

Were you surprised at how deeply the economic crisis affected hospitality, and where is the business today?

It is clearly coming back, but it is going slowly.

The crisis was unique in this industry. The deepest hit was to real estate and we are in a real estate-related business.

The second deepest was tourism and we are in that.

Tourism is coming back; real estate is not yet. For example, we have a condo/hotel where every single room was supposed to be sold. None of them have sold. So the real estate ploy for that property failed.

Tourism has not come back enough yet to support the failure of real estate.

I'm not one that accepts excuses, but those are serious facts about what happened out there.

Why is it so difficult to get the message out about the importance of this industry?

The industry is very competitive and some limited thinking exists. Generally, our industry is pretty limited. It's very strange how the industry is managed. Throughout the various hotel groups, there is a very interesting mix of individuals, some of whom have come from colleges that taught them the financial side but not hospitality. Most hotel companies are run either by lawyers or CPAs.

I'm outspoken that we, as an industry, need to get together and contribute to the healing. The industry leadership needs to step forward and make that happen.

With so many CPAs, lawyers, and others involved, is the hospitality part of the business being lost?

That's why most hotel companies have become marketing driven rather than product driven. We see that even high-end hotel companies go for marketing ploys with airline points and so on.

That means they don't trust their own product to attract and retain clients anymore. And if you have others in the industry doing the same thing, then that's a natural response.

So the mentality is that the moment one doesn't trust their product or their ability to convince the guest to come back, they rush into other ploys. And if they're not hospitality professionals, how can they really trust their own hospitality products?

After all your time at Ritz-Carlton, you could have gone off and relaxed. Is that just not in your nature?

Some people like to play golf; I like to play hotel.

I reflected back on the Ritz-Carlton company and its wonderful people over the weekend

after retiring, remembering some of the agonies of giving birth to something like that, but also the connection to the people. That makes it hard to leave, even though you know it's time to go.

But I dreamed of smaller hotels where every employee comes to work not just to work but to create excellence, where every employee is committed, and where it's not about creating rules but about every customer being taken care of the way they want to be taken care of.

I saw something beautiful and it started to control me, so I decided that I had to do it. Otherwise, I would feel that I had missed an opportunity to paint a masterpiece during my life. So I retired on Friday, and on the following Monday, I went to find office space to start a new company.

In the early days, how high did you have to set the bar?

Ritz-Carlton and all those hotels are wonderful. But it's not possible for that hotel model to individualize for every single customer. They're great hotels, but I wanted to create a model where every customer is individually and personally taken care of.

We funded studies to find out what customers really want and then analyzed what it would take to give that to them and how the process could be instituted. The result was a new hotel model – one that would not accommodate larger groups; it had to be a smaller hotel in order to do all the things the customer wants. For example, they don't want a check-in time, so we don't have one; they don't want limited hours of operation, so we don't have them.

So the conclusion was, it's not enough to be better – we have to be different in what we give back to the customer.

In a 300- or 400-room hotel, one cannot have the staff call every customer asking what they want when they come to the hotel. So you need a different model. We had to create a business model, and it turned out to be a great one. Ours are great hotels and make good money. We're doing something unique for the man or woman who is looking for something different. I don't even know if I compete with anybody because we have such a different product.

Is mixed-use today important from a financial point of view?

The Exterior of Auriga Spa at Capella Pedregal in Cabo San Lucas (above); The Setai Fifth Avenue, a Capella Managed Hotel, located at 400 Fifth Avenue in the heart of New York City (right)

Even that doesn't fully work today, because few people are buying second homes and condos; the environment is not here right now in the U.S., but it is in other areas like China and the Middle East.

But right now, that is our model in New York, and we are in development in Washington, D.C. We have some other sites in the U.S. and I predict that concept will become viable once more. We are also getting some first-time inquiries again.

In the boom days, everybody was using the term luxury. Has it lost some of its meaning?

Luxury is still having something that is exceptional. But the interpretation of what is exceptional has changed in the hospitality industry.

Forty years ago, exceptional was a glass elevator in the lobby; then it became real paintings and fine marble and so on. Now it's coming back to doing what the individual guest really wants: personalized and individualized service geared not to the market, but to the individual.

Very clearly we created a luxury experience for the market as a whole, but true luxury today is about responding to each individual guest.

Will the Capella products be aimed at a specific niche market?

They're clearly for a client that says, "I'm a businessman, I'm in a hurry, and I want a totally reliable product for me individually. Wherever I go, I want to deal with somebody who is an expert on that location and who will take care of all my needs, whether they be technological, or a need for a business apartment, or a need for social and cultural connections. I want that hotel to represent me while I'm there and to help me with everything."

For example, I was ill years ago and had a serious diet going on and I had to carry my food with me. You don't need to do that with us. Just call and tell us what you need, and we will find it for you. Those things define luxury today.

How large do you anticipate the company becoming?

Capella cannot be everywhere. The locale has to support a certain rate and a certain clientele that comes with it. Currently, there are about 80 locations in the world that fit that criteria, but that is clearly changing. There are two locations in China, and there are new destinations coming forward there.

Nobody would have talked about Angkor Wat 10 years ago, but today it's a major destination.

So the number of destinations is growing, but we have a secondary brand that we developed as a way to protect ourselves without compromising the Capella name. That second brand, Solis, is on the normal five-star level, so it can be in a thousand locations.

Is it possible to be profitable in the food and beverage area, and what makes a successful hotel restaurant?

I was the one who had a nearly 600-room hotel in Atlanta and decided I wanted to have a three-star chef in a city that, at the time, didn't quite understand that. The first year, it lost money. But because of the image the restaurant helped to create, we were sold out on

weekends with guests from the surrounding areas who wanted to experience Ritz-Carlton.

A gourmet restaurant does a lot of things. Today, in New York, gourmet means something different than it meant 30 years ago, when it was defined by super slow service and French food. It's much more user-friendly today. Consequently, those restaurants are busier producing more of what is seen as gourmet food today and, consequently, are profitable.

At your level, do you need to offer a true luxury spa experience?

Even though the use of spas has gone down, a spa in a hotel is still important because our leisure and business travelers want them. We serve business travelers who travel so much that they cannot wait until they go back home for a leisure experience; they have to find leisure while traveling. So we are here to offer that.

How do you balance offering technology like express check-in/check-out without losing that people part of the business?

The human contact cannot disappear, but it can be supported by the technology.

Positive guest comments over the years are always referring to the human contact. I never had a guest indicate that they wanted to return to the hotel because of great furniture, fixtures, or technology.

Many say Ritz-Carlton set the bar for excellence. With the individualization you touch on, do you now see things differently?

I grew up in the hotel business where I started when I was 14, and I always tell the story of my first maître d'. I was so overwhelmed by his excellence that it became a driver in my life; he didn't come to work to work – he came to work to be excellent.

In an industry where people say it's about nothing but service, he wasn't a servant; he was a professional. Guests were honored when he served them.



With Ritz-Carlton in the mid-'80s, we were applauded for being wonderful, but I knew we were loaded with guest complaints. I talked to a gentleman who advised me to focus on creating an organization of excellence and to have processes where you can transfer excellence. That starts not by your knowing what is excellent but by finding out what is excellent in the eyes of the customer. So for the first time, we focused on what the guest really wants from us. I spent \$300,000 to have somebody create a guest analysis, based not just on what they said they wanted but what they were really thinking.

I link my emotional connection to service back to my childhood, to that maître d'.

What makes a successful hotelier today?

We are here to create value for the organization. But the great hotelier knows that and then concentrates on the things that create value rather than on the value itself.

So the focus is on creating a correct product for the customer. I can't do anything about the money, but I can do something about the product, which creates the money. That's what we do. It's not one or the other – it's understanding the product the guest wants and creating it.

Also, hotels are not built for a year or two or five – they're built for 50 years. So anyone can cut costs; it takes professionals to understand the long-term implications of cutting costs. Generally, the focus goal should be to maximize the results and the long-term implications of the business.

Is it possible to be successful if you don't have a great relationship with the owner?

It's very difficult. I'm here for the owners – it's that's simple. But the problem with some of the current brands is that there is sometimes a conflict. In one location, an owner may want cheaper shampoo, but I cannot do that because I also protect the other owners and the reputation of their hotels.

If you have clear communication and a common understanding, then it works perfectly.

When did you realize that it would not be possible for you to slow down?

In retirement, when I looked forward, I could not see an area where I could create. And I believe that the magic in life is creating something. That is why it's sad when people retire if they don't have a purpose in their retirement.

You have created so much. Do you step back sometimes and appreciate it?

I walk into our New York hotel and I see the employees developing and I'm appreciative, but it doesn't mean I'm ever content. It's part of the philosophy of creating; our philosophy is continued improvement. There is no such thing as standing still.

And it's my responsibility to set standards. I have no right to accept mediocrity or limitation. If you don't point out flaws, mediocrity will set in. It's my business to do what is right and not make excuses for mediocrity.

I agonize when I make a decision that it is good for all concerned; if it's not, I don't do it. ●