

Masters of Scale: Rapid Response Transcript – Arne Sorenson

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Having said that, I do think that we will see people get back on the road. We are itching to get back towards where we were before. There's no substitute for being together. And I think as we can do that safely, we'll step back and do most of what we did before.

While I don't know when I'll get back to 225 nights a year, I am eager to get back on the road and start traveling again.

It's only when we're together that we really do the most collaborative and creative things. As a globe, as a country, as communities, we've gotten through enormously difficult times, and there's no reason we can't get through this one.

BOB SAFIAN: That's Arne Sorenson, CEO of Marriott International. Hotels have been among the hardest hit businesses in the pandemic. And despite some recovery, the road ahead is uncertain.

I'm Bob Safian, former editor of Fast Company, founder of The Flux Group, and host of Masters of Scale: Rapid Response.

I wanted to talk to Arne because no one has a better view of the global and national repercussions of Covid-19. He talks about the financial struggles and the human struggles, from small businesses to big cities.

He also talks about personally wrestling with cancer, as well as wrestling with racial injustice, and he offers his own formula for how businesses might approach social action.

Arne believes that if businesses band together, they can have an important voice. But he also argues that business leaders shouldn't necessarily speak on every issue.

[THEME MUSIC]

SAFIAN: I'm Bob Safian, and I'm here with Arne Sorenson, the CEO of Marriott International. Arne is joining us from his home in Maryland as I ask my questions from my home in New York. Arne, thanks for joining us.

SORENSEN: Glad to be with you, Bob. Good to see you.

SAFIAN: So, I hope it's okay if I start with something personal. When 2020 began, you were in the midst of cancer treatment, recovering from surgery, an uncertain, very high stakes moment, and then Covid-19 begins to roll through. It's a lot to manage. How are you feeling these days?

SORENSEN: Yeah, it has been quite a year, that's for sure. The only good thing about it is that my work – obviously intensified by Covid-19 – was a useful distraction from being consumed by a personal cancer battle. Thankfully the cancer battle has gone reasonably well, so I am feeling good. I've got my hair back, which your audience won't be able to see, of course, but I feel good, and I'm through all scheduled treatments.

SAFIAN: I can attest. He looks great. You used to travel, I don't know, 200, 250 days a year. Between the cancer and COVID, you can't do that. Your work patterns have got to be radically different. How has that changed things?

SORENSEN: It has been interesting. I never really counted the number of nights I was on the road before. I was giving a speech in one of the universities in Pennsylvania a couple of years ago, and I got up there to give this speech and somebody introducing me said, "He spent 225 nights on the road the year before," which was news to me.

I've always loved to travel. I'm obviously working in the travel industry, but I think it's important to travel. I've always gotten energy from getting out and seeing the world and understanding the places that we do business in.

Obviously, because of cancer first, but then Covid-19 even more significantly, we have been stuck in a place for the last six or seven months. It causes new routines, and some of that is positive. I have a great relationship with my wife and my kids, and I see them much more now than I have in years past, but I sure miss seeing our team around the world, and I miss getting out there and collecting the kinds of experiences we all collect when we travel. So, while I don't know when I'll get back to 225 nights a year, I am eager to get back on the road and start traveling again.

SAFIAN: So, your health is much better than it was at the start of the year. How is the health of Marriott's business?

SORENSEN: Well, we're making progress too, and I can maybe give you a quick scene-setting. Late January, this rolls out in China, and our business immediately drops by 90 to 95% in China. We get to the middle of March, and we see it spread around the world. In late April, there's a horrible weekend where the virus pops in South Korea, Iran,

and Italy all in the same weekend, and it becomes fairly clear that it's going to spread around the globe. By the middle of March, we're running down 90 to 95% all around the world. That is the functional disappearance of our business. By today, I think we're probably running down 60 to 65%. Those would be the numbers in the United States. Our occupancy has gone from 10% to about 40% as we speak.

If you do the percentages in that, it looks spectacular from the bottom. It's still down 60% from last year, so it's a historically difficult time that continues. But what we're seeing is that collectively, we are showing our resilience around the world. It's not that we are used to the virus exactly, but we are learning to live with it.

SAFIAN: I know you have a bunch of new health protocols you put in place across the hotels: social distancing and mask-wearing and more cleaning and temperature checks for employees. How safe is staying at a hotel? Do we know what's rational fear versus what's about confidence? Is there clear data about those things?

SORENSEN: Well, one of the challenges we've got is we've got less contact tracing data than we'd like to have. That's a comment certainly about the United States. I think it's a comment in many respects about other parts of the world. You can't expect me to be unbiased in this as a hotelier, but I don't think hotels are particularly unsafe. The safest place, of course, for all of us to be, is in an environment in which nobody else is ever entering that environment. And when you step out of that, there is some incremental risk, but in a hotel, by and large, the guest room is your preserve.

So, you can get to a hotel, and you can essentially put yourself in that environment and be pretty safe. Now, as you start to step out – if there's a restaurant open, or if there's a bar open, or if there's public space in the hotel, and if the hotel's full, you can obviously put yourself out there more aggressively. I think one of the good things about a hotel is each of us can set our risk level, if you will, and decide, "You know what? I'm simply going to stay in my room."

Or if I'm a little bit bolder, maybe, "I'm going to go and I'm going to sit on the beach" or "I'm going to sit by the pool and do other things that need to get done." It, we believe, is much safer than many other public settings because you've got that ability to control your own interaction with it.

SAFIAN: What kind of occupancy do hotels need to stay cashflow neutral? I know you raised \$4 billion of capital liquidity earlier in the year, but what does that percentage have to get to before the business starts to be trending in a sustainable direction?

SORENSEN: Yeah, it's a really good question. And, let me just remind your audience, we don't own our hotels. Our business is essentially managing and franchising hotels under our brands, running a reservations platform, running a loyalty program so we deliver customers to those hotels, but the hotels are owned by real estate investors all

around the world. They tend to be local – so the American hotels owned by U.S. investors, Chinese hotels owned by Chinese investors, et cetera – and each of them is going through a very careful consideration of your question, which is how much business do I need in order to make sure that I am covering the bills? What do I need beyond that to cover a mortgage that has to be serviced or to cover property taxes or other things?

And it will vary a little bit based on the part of the world, but broadly, 35 to 45% occupancy is probably necessary to cover operating costs. It's higher in hotels where the service levels are higher because you've got that many more operating costs. But, as I mentioned before, we've got about 40% occupancy running today. So, on average, we're getting close to break-even before taxes and debt service. That still means many need incremental cashflow in order to service their debt.

SAFIAN: Yeah. And the new protocols cost more money for them to maintain also. Are there things you can do to help those individual or groups of hotels financially get through this? They may not be in the position to raise the kind of capital for liquidity that you guys can.

SORENSEN: Well, some of them are big institutional real estate owners, and they've gone through very much a similar sort of process, which is sometimes borrowing more money. In various countries around the world there's been government support. PPP, the Paycheck Protection Program in the United States has been tapped by many of our franchisees. Similarly, we provide services obviously to these hotels, and we immediately put 70% of our people on furlough when the crisis hit in March, so that we were reducing the costs that these hotels significantly pay for.

Of course, we were reducing our costs as well because of the pressure that was on Marriott International itself. And we have been bringing people back to full-time work just in the last few weeks, but we are a smaller company than we were before. And the services we provide to the hotels are much more cost-effective than they were before, because they have to be in order to make sure these owners survive.

SAFIAN: What's the hardest decisions you've had to make during this time?

SORENSEN: By far, the hardest decision is about our people. We estimated before the pandemic, we had about 750,000 people that wore our name badge every day around the world. Seven hundred and fifty thousand people. It's a big community of folks. At Marriott, we've been around for 93 years. We have said for most of those 93 years, we can't serve our guests except through our people. And therefore, our people have got to come first. We've got to connect with them. We've got to build careers for them. We've got to empower them. And to have the business disappear in a way that impacts not just one, but tens of thousands or hundreds of thousands of our people, is a really sobering thing.

Part of my role throughout this crisis has been to communicate with them about what we're seeing, about what the consequences are to them and to us. And often that is not having the benefit of answers because we don't really know what the answers are. It's a new experience for all of us. All we can really do is be transparent with them and try and explain the decisions that we're making, so that they understand what's behind the screen, if you will. And that's been extraordinarily difficult.

SAFIAN: This is the time of year, usually, when business travel really kicks into high gear. And there's not a lot of that happening. Virtual meetings may change business travel permanently. Do you have a theory about what that is going to mean for the way your business looks down the road?

SORENSEN: Well, we will obviously not count on business returning until it does return. We'll build our business back as demand justifies. And as a consequence, we would expect that it's probably a good two, three, four years, maybe, before hotels get back to the level of performance they had in 2019. Not all hotels are identical. Obviously some will come back quicker than others. The more they're dependent on group or the more they're dependent on international travel, probably the slower they will be to come back.

Having said that, I do think that we will see people get back on the road. And listening to not just business leaders, but my adult kids who are working remotely, their peers, friends, talking to all the folks we Zoom with or Teams with, or get on the telephone with. I think collectively, we are itching to get back at least some measure of the way towards where we were before: Let me get back on the road a little bit. Let me get out of my house a little bit. Let me meet with some others a little bit, because there's no substitute for being together. And I think as we can do that safely, we'll step back and do most of what we did before.

SAFIAN: You've got some strong feelings, I know, about remote work versus face to face. I understand you got kind of worked up when Google announced that they'd allow remote work through 2021. Why do you feel so strongly about it?

SORENSEN: Well, for lots of reasons. I blogged about this advice that I often give to young people starting their careers, which is summarized by, "Just say yes." Early in your careers, opportunities are going to come from places you don't anticipate. And you may find somebody who suddenly says, "You know what, Bob? I want you to run a huge radio program." And you may not have even thought about doing that before, but that person is giving you an opportunity that could be very unique. And the likelihood is the right answer is just say yes.

Well if you're not present to hear about that opportunity, that opportunity may never arise. It's going to be particularly important early in your career, or at transition points in your career. It is similarly important when you're thinking about not just solving the task which is before you, which we can do remotely fairly easily, but trying to figure out what

tasks are the most important for us to get at. What are the questions we have to answer? And the more that is the challenge, and it's going to be the challenge regularly, the more important it is to be together, because it's only when we're together that we really do the most collaborative and creative things.

I think the third thing I'd put on the list is: our cities are under enormous pressure today. And they're under pressure because we've got small businesses all around the places where we go to work. And when we're not going to work, they don't have a reason for being. Whether it's a dry cleaners or a parking garage or a florist shop or a clothing store, they're closed, and they're not coming back until we step back out of our houses and go back. And our economy won't come back the way it should unless those businesses are reopening again.

So all of these things to me pile on together and say, we don't want to be unwise. We don't want to be taking risks that we shouldn't be taking. We should pay attention to what the risks of the virus are. But we can go back to the offices safely with reduced density, with social distancing, with mask wearing, and we can start to build our careers again. And we can start to build the economy again.

SAFIAN: There are folks who have digital based businesses who feel like this is just an acceleration of a trend. In some ways, all those stores were going to go away anyway, eventually, because you are going to interact with everyone digitally. It sounds like you don't really buy that argument.

SORENSEN: I think it would be a very sad world to live in that didn't have restaurants on the street for us to walk to, or drive to, or get together with our friends at. I'm not for a second suggesting that digital transformation is going to stop, it won't. It's going to continue. And the tools that we're using now during the pandemic are very powerful tools that will continue to be used, but they should create incremental economic opportunities for us, not just put a death knell in what we used to do in the past.

[AD BREAK]

SAFIAN: There's been a lot of discussion this year about the propriety, and at times the peril of political and social statements by businesses. What is the role, the responsibility of a business, of a CEO in engaging in social issues?

SORENSEN: Yeah, this is a place we could spend hours talking about, because I think it's evolved dramatically in the last five years. And I think the answers tend to be in shades of gray. It's not crystal clear what is always right, or what is always wrong. I think one of the reasons it's evolved so much is that we collectively have less faith in our institutions than we did in the past. And as a consequence, we are looking towards more people to speak for us.

I mentioned, we thought we had 750,000 people that wore our name badge every day before the pandemic. They are our community. And they are an extraordinarily diverse group of people from all around the world, all identities, who have some cynicism and doubt about whether government speaks for them, but who want to be spoken for. They want to know that their voice is being heard.

Increasingly that community for Marriott and similar communities for other companies, or for other institutions, say, "Where's our voice in this? And we expect you to speak out." When there's a killing of George Floyd, we expect your voice to be heard. When there is something that is germane to our community, we want to know that we are there with a voice that is being articulated and representing us. I think there is an obligation to speak out. I don't think it's about every issue. I have spoken out, of course, in the context of the George Floyd killing and the racial inequities that we've been wrestling with, again, being reminded that we never stopped wrestling with, in the way the events happened this summer.

But there are other issues that I haven't spoken out about. I have personal views about choice issues, as an example. I haven't spoken out about those because it's not particularly germane to Marriott's business. It is germane to many members of our community, but it is not really relevant to the jobs that they have with us. And so there's some issues that I think it's fundamental to speak out on, and there's some that I think it is probably not germane.

SAFIAN: And sometimes they're business issues that become political, even if you didn't expect them to.

SORENSEN: We obviously welcome many, many, many people into our hotels all the time. They have very different political points of view, and many times they're meeting in our hotels. And so it is a very regular occurrence for us to hear from one side or the other saying, "How on earth could you have let that group meet in your hotel?" And, "We're going to boycott you unless you basically kick them out of the hotel."

Ultimately our view there is, we're not going to sit in judgment on what group A or group B believes. Nobody, I think, really wants us to do that. Do people really want me, individually, as the CEO of Marriott, to say, "That group's okay because I've approved their point of a view, and that group's not okay because I haven't?" And the best decision we can make is generally everybody's welcome to our hotels, no matter what they think.

SAFIAN: And so just to push you a little bit more on this, if an anti-vaccine group wanted to have a meeting at your hotel or a Holocaust denier group, are all those allowed too?

SORENSEN: We can go a long way here with an individual hypothetical. If it's illegal, or if there's a safety risk because of violence, those are two particular things that we're going to be mindful of. But say if President Trump and a delegation is staying in one of

our hotels, or Vice President Biden, and a bunch of his folks are staying in one of our hotels, does anybody expect us to exclude them? Even though there are many who believe the other should definitely not be elected, right? "How could you possibly support them?"

And I think the answer has got to be that we've got enough regard for a divergence of opinion, that we cannot be afraid of those that have opinions that are different than ours. We cannot be afraid of them getting together with folks who are like-minded with them. And again, as long as it doesn't promote violence or safety issues, or legality, we're not going to sit back and say, "Okay, now you are just over the line here. And we're not going to let you come in."

SAFIAN: You mentioned George Floyd's killing, and I know you posted right after that, that you wanted to use your perch at Marriott to advance opportunity for all. I just wanted to ask how that has manifested itself since then?

SORENSEN: Marriott has, for years, worked on a diversity and inclusion agenda. Our board is more than half diverse, if you include gender and race. Our senior management ranks, top seven or 800 people, is roughly half diverse, if you include gender and race. And those are good statistics. But I think what we were reminded of this year is, is it good enough? And the answer is no, it's not good enough. We've got to make sure we continue to move. But are we making sure that healthcare is available across the entire community? Are we making sure the effectiveness of that healthcare is comparable? Are we understanding the social and economic challenges that our folks are wrestling with? Are we using our procurement leverage to make sure that we are helping an inclusive world?

Then we've got to make sure that we are using our voice with other voices in the community. So with the business roundtable, I'm on their Executive Committee, and chair their Healthcare Inequities Task Force, which was set up in the wake of George Floyd's killing. We're really looking at what are the things that we can do from a policy perspective. Because Marriott alone can't solve these, or a single institution can't solve them. But if we band together, we can have a voice, which is that much more audible. And should be able to cause some change.

SAFIAN: It is an incredibly complicated and unsettling time between the political situation, the social situation, the health and the Covid, and the economic situation. There's a lot of challenges in managing all that, when you're dealing with your team. How do you manage the practical versus the sort of psychological and emotional challenges that your team is struggling with?

SORENSEN: I don't know that I've got a real crisp answer to that. I mean, communications and transparency both are, to me, tools that we must use. And we must use them with all of our constituencies. To make sure that we are explaining what we're

doing, that we're listening to what their concerns are, that we are being transparent with the kinds of priorities that we're setting. In order to not get too depressed and to be effective, we've got to make sure we understand what we can influence and what we can't. That doesn't mean the things we can't influence, we should not care about. And there'll be times when we can influence things and times when we can't. So my team at Marriott of a dozen or so, I'm talking to them individually every week, certainly if not more frequently than that, we are focused on the things that we can impact most frequently.

SAFIAN: Has your experience battling cancer provided perspective in this time, or impatience about the other things don't happen faster, a little of both?

SORENSEN: That's a good question. Patience is not one of my virtues. At the same time, I think it's a lifelong lesson for me to continue to delegate and rely on others. And I say lifelong, this is not about the last two years battling cancer and Covid-19, but it is about recognizing that the bigger the institution, of course, the more fundamental this is, you can't touch everything. And the more you expect the opportunity to touch everything, the more the organization is going to freeze up. And because you can't touch everything, you've got to empower people to know that they've got the right to make a decision.

You've got to get comfortable with the fact that the decision might be wrong, and we're much better forgiving our own decisions if they're wrong than forgiving somebody else's decision if they're wrong, but it's equally important that we allow those decisions to be made, and we learn from them. I think if anything, the cancer battle and Covid-19 has been a fresh reminder of the importance of that because there's so much that has to get done, and there is less time and maybe less stamina in order to do that, and so you got to rely on that team. You got to rely on those folks who are willing to step up and say, "I got this. We're going to get this done."

SAFIAN: What's at stake in this moment?

SORENSEN: How do we come out of this with as much strength and momentum as we possibly can? Not just, how do we survive? We're going to survive. Human resiliency is such that we will survive as people, and overwhelmingly, even if we've lost our jobs, or we're wrestling with health aspects of Covid-19, we will get through it. And people have proven that through history over and over again.

But how do we collectively move, so that the economy is as strong as it can be, so that individuals, they suffer no more than they need to? So that we can come out of this as individuals, as companies, as society with as much momentum as we possibly can, so that we can be on the other side with employment, with the wherewithal to live our lives, and not to sound too corny, but to be able to get back to a place where we can get joy in our lives and joy from each other because we're not worried about the most fundamental things. At least, we're not worried about it all day long, every day. And if we play our cards right, I think we can do that.

SAFIAN: With all the uncertainty and the challenges, you still seem optimistic.

SORENSEN: I am optimistic. I am probably, by personality, I suppose, in some respects, but I'm an avid reader of history and of fiction, both. The history is obvious that you learn from the past. I think fiction is less obvious, but we learn from the portrayals that authors give us of people. I think both of those things tell us that we've gotten through – as a globe, as a country, as communities – we've gotten through enormously difficult times, and there's no reason we can't get through this one.

SAFIAN: Well, thank you. Thanks for making the time. We really, really appreciate it.

SORENSEN: Bob, this has been great. It's really been an enjoyable conversation, and thank you for all that you're doing with Masters of Scale.