**Revenue and Cost Drivers Analysis**

**Marriot Incorporation**

**About the business**

Marriott International Inc (Marriott) is a hospitality service provider that operates hotels and restaurants. It operates, franchises, and licenses hotels, residential and timeshare properties under several luxury, premium, and select brand names. Its brands include the Ritz-Carlton, JW Marriott, St. Regis, Westin, Renaissance, Marriott Hotels, Le Meridien, Gaylord Hotels, Marriott Executive Apartments, Delta Hotels, Tribute Portfolio, Design Hotels, Courtyard and SpringHill Suites. Marriott offers accommodation, hotel reservations, timeshare vacations, flight and hotel packages, and car rental services. It also operates loyalty programs, including Marriott Bonvoy. The company’s operations span North America, Europe, Africa, the Middle East, Asia-Pacific, Caribbean, and Latin America. Marriott is headquartered in Bethesda, Maryland, the US.

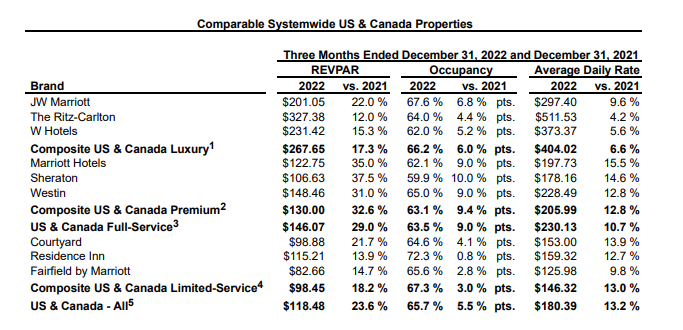
**Revenue Drivers**

Considering the business model Marriot operates, below are the company’s revenue drivers, However, it is important to note that the below drivers are dependent on Marriot’s properties in the US and its other regions

Revenue is driven as RevPAR \* No. Rooms where,

RevPAR is the function of ADR (price impact) \* Occupancy (volume impact)

Note that for each of the segments, North America (full service, limited service), APAC and Other international, RevPAR, Room count Occupancy and ADR are reported by the company. These will be forecasted based on historical trend analysis.



Large portion of Marriot’s cost is the reimbursed expenses which is directly related to reimbursed revenue. Management and franchise related operating expenses will have be derived as a % of revenue.

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| **Revenue Drivers** | **Price** | **Volume** | **Implications on Revenue Growth** |
| **Base Management and Incentive** | Based on the percentage (available in the contract) of revenue or profit of the property | Based on the Intellectual property | Marriot have performance obligations to provide  hotel management services and a license to their intellectual property for the use of their brand names. As compensation for such  services, they are generally entitled to receive base fees, which are a percentage of the revenues of hotels, and incentive  management fees, which are generally based on a measure of hotel profitability. Both the base and incentive management fees  are **variable consideration**, as the transaction price is based on a percentage of revenue or profit, as defined in each contract. |
| **Franchise fee and Royalty fee** | Based on the percentage (available in the contract) of revenue of the property. | Based on the hotel properties | Marriot have performance obligations to provide  franchisees and operators a license to their intellectual property for the use of their brand names. As compensation for such services, they receive initial application fees and ongoing royalty fees which are a percentage of the revenues of hotels as defined in each contract. The implication of this driver on the revenue growth is dependant on the revenue of the franchised hotels which is also subject to the available rooms and occupancy rate for these hotels. |
| **Owned and Leased Hotel Revenue** | Price varies dependent on locations of the hotels | Number of people checked in for the night (hotel guests) for each owned and leased hotels. | The impact of this driver on the company’s revenue growth is dependent on the occupancy rates and available rooms for each owned and leased hotel. Hence, the higher the number of rooms and owned and leased hotel properties. |
| **Cost Reimbursement** | **Not Available** | **Not Available** | Under the management and franchise contract, Marriot is entitled to receive reimbursements on costs incurred on managed, franchised and licensed properties. Hence, the implication of this driver is dependent on the value of the cost incurred in related to these properties |

*Information above is available in the company’s annual reports (FY-2022)*

**Cost Drivers:**

**It’s important to state that breakdown of the cost items was not provided in the annual report.**

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| **Cost Items** | **Direct/Indirect** | **Variable or Fixed** | **Correlation with Revenue** |
| **Owned and Leased costs-** | It can Direct costs | Variable as it depends on occupancy rate and number of guests for each night | These costs are associated with owned and leased properties |
| **Depreciation, amortization, and other** | Indirect cost | This cost can be variable/fixed which is largely dependent on the depreciation and amortization methods used by Marriot. | These are generally fixed costs which will be incurred regardless if the company generates revenue or not. |
| **General and administrative cost** | Indirect Cost | Certain cost items can be fixed and variable | These are generally fixed costs which will be incurred regardless if the company generates revenue or not. |
| **Restructuring, merger-related charges, and other** | Indirect Cost | Variable as it is not reoccurring expenses | These costs are not necessarily correlated to revenue earned. However, they are cost associated with one-time business strategic projects. |
| **Reimbursed expenses** | Direct Cost | Variable | These costs are related to the the management of franchised and managed properties |

**Company’s performance in relation to cost and revenue drivers:**

Marriot performance increased significantly in FY-2022 improved significantly compared to 2021 due to the continued recovery in lodging demand from the impacts of COVID-19. The discussion below presents an additional analysis of our consolidated results of operations for 2022 compared to 2021:

* The increase in base management fees primarily reflected higher RevPAR and unit growth.
* The increase in franchise fees primarily reflected higher RevPAR, higher co-branded credit card fees) and unit .
* The increase in incentive management fees primarily reflected higher profits at certain managed hotels and unit growth.

**Identifiable Peers:**

**Hilton Worldwide Holdings Inc (HWHI) is** a global hospitality company. It operates a chain of luxury and full-service hotels and resorts, extended-stay suites, and focused-service hotels. The company offers lodging, food, boarding, restaurants, dining, and loyalty programs. HWHI operates hotels under various brands such as Waldorf Astoria Hotels & Resorts, LXR Hotels & Resorts, Canopy by Hilton, Curio Collection by Hilton, Conrad Hotels & Resorts, Spark by Hilton, Hilton Hotels & Resorts, DoubleTree by Hilton, Embassy Suites by Hilton, Tru by Hilton, Hilton Garden Inn, Hampton by Hilton, Homewood Suites by Hilton, Signia by Hilton, Motto by Hilton, Home2 Suites by Hilton and Hilton Grand Vacations. The company manages customer loyalty program under the Hilton Honors brand. HWHI is headquartered in McLean, Virginia, the US.

The company’s revenue drivers are similar to Marriot. Considering that both companies offer same services which includes licencing, franchise, management of hotel properties and other hospitality and leisure products and services. Below are Hilton’s revenue and cost drivers

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| --- | --- |
| **Revenue Drivers** | **Cost Drivers** |
| Base Management and Incentive | Owned and Leased costs related to the management of owned and leased hotel properties |
| Franchise fee and Royalty fee | General and Administrative expenses |
| Owned and Leased Hotel fees | Depreciation and Amortization |

**Hyatt Hotels Corp (Hyatt)** is a global hospitality company. The company manages franchises, owns, and develops hotels, resorts, and residential properties. Hyatt operates under multiple brands including Unbound Collection by Hyatt, Alila, Destination by Hyatt, Park Hyatt, Andaz, Hyatt, Grand Hyatt, Hyatt Regency, Hyatt Place, Hyatt House, Hyatt Ziva, Miraval, Hyatt Residence Club, Hyatt Zilara, Thompson Hotels, Caption by Hyatt, Joie de Vivre, UrCove, and Hyatt Centric. The restaurants and bars inside hotels offer a wide variety of food and beverages and provide a range of services. The company’s hotels are usually located in high-density areas such as urban, airport, suburban, and convention and resort destinations. It has a business presence across Europe, North America, and Asia. Hyatt is headquartered in Chicago, Illinois, United States

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**Johnson & Johnson (J&J**) researches, develops, manufactures, and sells pharmaceutical products, medical devices, and consumer products. The company provides pharmaceuticals for immune diseases, cancer, neurological disorders, infectious, cardiovascular, and metabolic diseases; consumer products in oral care, baby care, beauty, over the counter (OTC) medicines, women’s health and wound care categories; and medical devices for use in the cardiovascular, orthopaedic, neurovascular care, general surgery and vision care fields. J&J distributes pharmaceutical and medical products to retailers, wholesalers, health care professionals and hospitals; and offers consumer products through retail outlets and distributors. The company offers its products in the US; Europe; Asia-Pacific and Africa; and Western Hemisphere (excluding the US). J&J is headquartered in New Brunswick, New Jersey, the US.

Each of the three segments, Consumer, Pharmaceuticals and Medical Devices have sub segments with product lines like Remicade, Darzalex , Stelara and Tremfya  or Surgery, Orthopaedics and Intervention solutions. All of these lines have US & International sales. US revenue can be driven by annual growth rates, international revenue growth has two components, organic growth and currency impact.

Cost Drivers – as % of revenue (trend analysis)

* Selling, Marketing and Administrative Expenses
* Research and Development Expenses
* In-process research and development
* Cost of products sold