MARRIOT INC

REVENUE AND COST DRIVERS

**About the company**

Marriot International Inc (the company) are a worldwide operator, franchisor, and licensor of hotel, residential, timeshare, and other lodging properties under numerous brand names at different price and service points. The company consistently focuses on management, franchising, and licensing, and hence own or lease very few of the lodging properties.

**Revenue drivers**

To understand the revenue drivers of the company we need to first break the total revenue of the company into 4 categories:

* Company operated property: Under this arrangement, the company receives a base management fee based on a & of the property's revenue and an incentive management fee based on a % of the profitability of the property.
* Franchise: Under Franchise, the company receives an initial franchise fee and subsequent royalty for the use of its brand name. These also include revenue from the Licensed IP of the co-branded credit cards issued by financial institutions associated with the loyalty programmes.
* Company owned and leased property: The company earns from the renting of hotel rooms/ residential property and other ancillary services provided.
* Cost reimbursement revenue: Under this head, the company records the reimbursement it receives from the properties for the cost incurred in the management of the property. Generally, includes revenue from loyalty programmes as well. These are just pass through cost and the company does not charges mark up on these costs. These will not affect the profitability of the company.

Below is a chart that provides the revenue drivers of the company:

**Cost drivers**

The main cost drivers of the company can be divided into two:

* Fixed: Rent, insurance, property tax, depreciation and amortization of PPE and intangible assets
* Variable: Inventory, travel agency commission, hourly wages of the staff, electricity/power consumption

Inventory, power consumption and hourly wages of staff are dependent on the occupancy rate of the property and hence would vary with the revenue of the company.

Travel agency commission is based on the number of rooms booked through the travel agency.

The company incurs expenses on all its hotels- owned/leased, managed, and franchised. However, it receives reimbursement from the property it manages and franchises with no mark up. Hence these are pass through costs and will not affect the profitability of the company.

**Company performance**

We will comment of the company’s performance in the FY 2023 comparing it with its performance in FY 2022. The company saw a significant increase in its revenue in the FY 2022 when compared to 2021 due to continued recovery and increase of demand in the lodging and tourism sectors from impacts of COVID-19 around the world. However, the company witnessed a steady growth in the current FY.

The total base management fee increased by 19% in the FY 2023 to $1,238 million. The franchise fee increased by 13% to $2,831 million during the same period. The company witnessed a significant 43% increase in its incentive fee to $755 million during the FY 2023 due to increased profitability in the managed properties.

From its owned/leased properties, the company had a similar trend. The revenue increased by 14% during this period to $1,564 million. The below charts summarize the revenue growth of the company.

The Average daily rate (ADR) and the Occupancy rate (OR), two very important metrics in assessing the growth of the company’s revenue, has also increased during the FY 2023 as compared to the previous year, further evidencing the continued recovery and increase in the tourism and lodging industry.

While analysing the costs of the company, we will only analyse the Owned, leased, and other-direct costs incurred by the company. This is because the cost incurred by the company on managed and franchise properties are reimbursed to the company by the property owners with no mark up and hence does not affect the profitability of the company.

The cost related to Owned, leased, and other-direct have increased by approximately 8% to $1,165 million during the year. This is attributed to the increase in the revenue of the company due to the increase in occupancy rate at the owned hotels.

**Company performance vs Peers**

Based on the provided graph, Marriott demonstrably stands out as a market leader in the hotel industry. This is evidenced by its comprehensive outperformance in key financial metrics such as revenue, EBIT (earnings before interest and taxes), and net income compared to its competitors.