# **Revenue and Cost Drivers’ Analysis**

# **Marriott Inc. for FY23**

## **Revenue Drivers**

Marriott Inc. operates in hospitality industry globally. It generates its revenue from four segments;

* Base management fees,
* Franchise and royalty fees,
* Owned and leased hotel revenue,
* Cost reimbursement revenues.

Base managements fees is the earning of Marriott for providing hotel management services and a license to their properties to use their brand names. Franchise and royalty fees is the initial application fees being received by Marriott to source its brand to interested hotel operators across the world. It receives royalty for the use of its name annually from these operators. The revenue from owned and leased hotels is earned through providing accommodation and ancillary services to its guests. The bulk chunk of revenue comes from cost reimbursement, a whopping 73% of total revenue. It is the reimbursement of costs, with no added mark-up, which Marriott’s each hotel management incurs and is reimbursed by that individual hotel’s operator. It primarily consists of payroll and other operational expenditure at managed properties. Excluding cost reimbursement portion, the total revenue Marriott Inc. earns from its operations stands at a mere $6.3 billion, 17.6% higher from previous year. Despite registering an impressive growth in annual revenue, excluding reimbursements, it shows how competitive global hotel industry is, and earning higher revenue is more challenging than it is conceived.

## **Operating Cost Drivers**

Just like revenue, Marriott Inc. has four significant cost and expenditure drivers;

* Owned, leased, other hotel expense,
* Depreciation and amoritisation,
* General administrative,
* Reimbursement expenses.

The nature of expenditure for owned and leased hotels relates to the cost hotel incurred to provide services to its guests globally. Depreciation is the non-cash flow accounting cost of wear-and-tear of its non-current assets, while general administrative expenses relate to the cost of higher management that is responsible to run these hotels across the world. Reimbursement expenses primarily consist of payroll expense of staff that is employed individually by each hotel itself, and is responsible for smooth operation at each hotel. It also covers cost for providing accommodation and ancillary services to guests at franchised hotels. Reimbursement expenses make staggering 87% of total expenditure. It is almost same as cost reimbursement revenue and hence cancel out each other effect on gross profit and margin. Excluding both, the GP margin stands at a very impressive 60%.

## **Peers Operational Analysis**

Marriott Inc. competes staunchly with its competitors in the hospitality industry. Its peers Hilton Worldwide and Hyatt Hotels. Hilton grossed over $10 billion in revenue globally, and its revenue and cost drivers were similar to Marriott, except for its cost reimbursements from managed properties were almost 70% less than Marriott. Hyatt Hotels revenue stood at $6.7 billion and had the same drivers as the other two. Its cost reimbursements contributed 46% of its total revenue. Marriott had the highest proportion of cost reimbursements at 73%, while Hilton was second at 57%, and Hyatt at third.

# **Johnson & Johnson for FY22**

## **Revenue Drivers**

Johnson & Johnson Inc. operates in healthcare sector and is a pharmaceutical company. It’s a global company having sales across the world. It has three main segments from where it generates its revenue, namely;

* Consumer Health Segment,
* Pharmaceutical Segment,
* MedTech Segment.

In 2022, the worldwide sales of the company increased by 1.3% to $94.9 billion. The increase of 1.3% was as a result of 6.9% increase in sales volume, which is an encouraging point, while devaluation of foreign currencies against home currency US$ adversely impacted sales growth by 4.8% and product price increase due to inflation also dampened sales by 0.8%. The biggest sales segment of Johnson & Johnson is pharmaceutical department, which grosses over $52 billion in revenue worldwide, constituting 55% of total sales. The segment produces medicines for infectious diseases, neuroscience, oncology, and immunology, and has been showing robust growth in sales volume for many years, and recorded an impressive 7% growth in 2022. The company is committed to continue bolster volumes. The second highest sales segment is MedTech, which recorded an annual sale of $27.4 billion internationally. This department manufactures advance products to be used for surgery, orthopedics, and eye vision related. It also recorded a similarly strong growth of 6% in sales volumes, same as pharmaceutical segment. Consumer Health Segment of the company managed to put up only $15 billion in sales amid stringent supply constraints as a result of Covid19 pandemic. The company expects to unlock better growth avenues in consumer healthcare once the world settles in with supply challenges.

## **Operating Cost Drivers**

The operational cost for the company are split between;

* Cost for goods sold,
* Selling, Marketing, and Administrative,
* Research and Development.

Cost of goods sold stood at $31 billion, increasing by 4% year-on-year and constituted 32.7% of the total sales. This increase was primarily due to one-time covid19 vaccine manufacturing exit related costs in pharmaceutical segment and also because of commodity super-cycle inflation that impacted MedTech and Consumer Healthcare segments. Selling and marketing expense remained flat for the year at $24.8 billion and decreased as percentage of sales, due to abandoning of sales and marketing related expenditure for covid19 vaccines. The company was buoyant in its research and development spending as it highlights its strong commitment to discover, test, and develop new products and ensure product efficacy. It spend over $14 billion in 2022, on the back of $14 billion being spend in 2021. Research and development costs surged significantly by 21% in 2021, mainly due to covid19 vaccine testing and researches, while in 2022, the considerably higher than usual expenditure showcases their ambition and passion in delivering high quality and innovative products.

## **Peers Operational Analysis**

Johnson and Johnson faces even stronger competition from its peers than Marriott Inc. as it operates in a more dominating and fierce global industry. The healthcare products are needed all around the world, and requires constant investments in operations. Its peers are F. Hoffman-La Roche, Merck & Co, and Pfizer. Johnson and Johnson outperforms rivals in revenue as other three grossed $65 billion, $60 billion and $58 billion respectively. Interestingly during pandemic, Merck canned its own vaccine production after its two booster shots produced weaker immune responses than the others and combined with Johnson to produce Johnson’s covid-19 vaccines.