Marriot Inc.

Revenue Drivers:

1. Room Revenue





* Room revenue is highly influenced by occupancy rates, which depends on factors such as location, seasonality and economic environment. An increased number of rooms booked can lead to higher revenue. For example, in high-growth markets like Asia-Pacific, Marriot’s expansion has led to increased room bookings.
* The average revenue earned per room will impact revenue. Premium brands such as Ritz-Carlton and St. Regis will cost a higher rate, contributing to revenue growth.

1. Franchise and Licensing Fees

* As Marriot expands its portfolio, particularly through franchising, the volume of properties contributing franchise fees increases, driving up revenue.
* Higher average cost per room and occupancy rates in franchised hotels can increase the franchise fee per property, contributing to overall revenue growth.

1. Loyalty Programs (Marriot Bonvoy)



* The number of loyalty program members and their engagement (repeat stays, point redemptions) will impact revenue. More members and/or higher redemption rates can boost room occupancies and revenue.
* While loyalty programs offer discounts, they increase customer lifetime value. By fostering loyalty, Marriot can maintain or increase bookings, balancing out potential price reductions with higher overall spending.

1. Food and Beverage Services

* The more guests using on-site dining and catering services will help to increase revenue. High occupancy rates lead to higher food and beverage sales.
* Upscale properties often charge premium prices for food and beverage services, contributing to revenue.

1. Expansion in High-Growth Markets



* The increase in the number of properties and rooms in emerging markets directly drives revenue growth. As Marriot opens more hotels in these regions, the volume of rooms available for booking increases, contributing to higher overall revenue.
* These markets may start out with lower prices compared to mature markets, over time, as brand presence strengthens and local economies grow, Marriot can increase its pricing, leading to revenue growth.

Cost Drivers:



1. Labour costs

As room occupancy rates increase, more staff are required to service guests leading to higher labour costs. These labour costs can be partially offset by increased revenue, as higher occupancy and premium services generate more income. In luxury properties, this is similar as premium services will require more skilled labour, which is costlier. This is positively correlated with revenue.

1. Operational costs

These will include utilities, maintenance and administrative expenses. This is positively correlated with revenue. As hotel occupancy increases, so does utility usage (electricity and water) and maintenance needs. Higher operational costs are often accompanied by higher revenue, particularly in full-service hotels where additional services (spas, pools) drive both costs and revenue.

1. Marketing and Sales Costs

Marketing and sales expenses have a strong positive correlation with revenue. Increased marketing spend can lead to higher brand visibility, which can drive higher occupancy rates, boosting revenue. For example, targeted marketing campaigns for Marriot Bonvoy members can increase direct bookings, which are more profitable than bookings through third parties.

1. Property Maintenance and Renovation Costs

These have a cyclical correlation with revenue. These costs might temporarily depress profit margins, but they are necessary for sustaining and increasing long-term revenue. Renovations enhance property appeal allowing Marriot to charge higher prices and maintain higher occupancy rates, driving future revenue.

1. Supply Chain Costs

These include food, beverage and other operational supplies and these are positively correlated with revenue. As guest volumes increase, the demand for food, beverages and other consumables rises, driving up supply chain costs. However, this can lead to increased revenue from food and beverage services.

Marriot has seen revenue fluctuations and cost adjustments over the past decade, reflected by both external and economic conditions and internal strategy. Pre-Covid, the company saw consistent revenue growth driven by global expansion and increased demand for travel. Their revenue rose from $13.8 billion in 2014 to nearly $21 billion by 2019. This growth was fuelled by an increase in hotel properties, better loyalty programs and a strong global economy. Between 2020-2021, the hospitality industry was severely impacted by the pandemic. Marriot’s revenue dropped from $21 billion in 2019 to $10.6 billion in 2020 and $13.9 billion in 2021. This was driven by travel restrictions, hotel closures and a sharp decline in global tourism. Post-Covid, Marriot had a good recovery. Revenue increased to $23.9 billion in 2022 and further to $26.5 billion in 2023. This recovery was driven by increased travel demand, expansion into new markets and a rebound into both leisure and business travel.

Labour costs contribute a significant amount to Marriot’s total costs. These are essential to deliver quality service, and they fluctuate with occupancy rates and operational scale, rising during growth periods and falling during downturns. Marriot also has substantial costs related to property maintenance, utilities and renovations. These costs remain relatively fixed, they will increase due to expansion of their property portfolio. During the Pandemic, Marriot implemented cost-saving measures such as layoffs, furloughs and reductions in capital expenditures. This helped to align costs with the reduced revenue. Continuing with effective cost-management, Marriot was able to rebound well post-Covid.

Overall, Marriot has had a strong performance over the last ten years. They navigated the pandemic well enough and was able to come back strong post-Pandemic. Continuing with effective cost-management will be critical in maintaining profitability amidst evolving market conditions.

Marriot has many peers, including Hilton, Hyatt and IHG. However, revenue wise, Marriot is by far the larger hotel chain. For example, Marriot’s annual revenue in 2022 was $23.9 billion. Compare this to Hilton ($10 billion), Hyatt ($5.9 billion) and IHG ($3.6 billion) in 2022 Marriot is by far the dominant competitor. Marriot leads its peers in terms of revenue and global presence largely due to its extensive brand portfolio and strategic acquisitions. Marriot focuses well on expansion into high-growth markets and leveraging its loyalty programs, helping to maintain a competitive edge.

Johnson & Johnson

Revenue Drivers:

1. Pharmaceuticals (innovative medicine)



* There is an increased demand for key drugs like DARZALEX, ERLEADA and STELARA. The number of patients treated with these drugs is a direct volume driver. More patients needing these drugs will lead to revenue growth.
* J&J can charge premium prices for innovative therapies. For example, drugs like DARZALEX are priced higher due to their specialised nature, contributing significantly to revenue growth even with modest increases in volume.

1. MedTech



* The volume of sales in the MedTech segment is influenced by the number of procedures performed using J&J products, such as cardiovascular devices. An aging global population and increased access to healthcare services drive the number of surgeries and medical interventions, thereby increasing the volume of MedTech products sold.
* While MedTech products often face pricing pressure due to competition, J&J’s ability to innovate allows it to maintain or even increase profits, especially for cutting-edge technologies, contributing to revenue growth.

1. Consumer Health

* Volume in this segment is driven by global demand for over-the-counter products like TYLENOL and NEUTROGENA. Expanding into emerging markets and increasing distribution channels directly boost the volume of unit sold.
* Pricing power in this segment is generally lower due to the competitive nature of consumer goods, but J&J can still leverage brand strength to maintain premium pricing for certain products, particularly in skincare and beauty.

Cost Drivers:

1. Research and Development (R&D)



There is a strong positive correlation between R&D costs and revenue. High R&D spending allows J&J to develop innovative products that command premium pricing, leading to significant revenue growth. For example, successful drugs such as DARZALEX and STELARA originated from extensive R&D investments, directly translating into higher sales and revenue.



1. Manufacturing Costs

These have a moderate to strong positive correlation with revenue. As sales volume increases, manufacturing costs rise due to the production of more units. However, effective manufacturing processes and economies of scale can mitigate increased costs. In pharmaceuticals, drugs such as DARZALEX are expensive to produce, but their high market demand and price justify the costs and contribute to revenue.

1. Regulatory Compliance and Quality Control

There is a moderate positive correlation between these costs and revenue. High compliance and quality control costs are necessary to ensure that products meet global standards. These costs are essential for preventing costly recalls or legal issues, which can negatively impact revenue.

1. Marketing and Sales Costs

Marketing and sales costs have a strong positive correlation with revenue. Effective marketing strategies are crucial for driving product adoption, increasing market share and launching new products. In pharmaceuticals, targeted marketing efforts help to increase the uptake of new and existing drugs, leading to higher sales and increased revenue.

1. Acquisitions and Integration Costs

There is a long-term positive correlation between acquisition costs and revenue. These can be expensive initially, but they leaf to new revenue streams and market expansion. For example, the acquisition of Abiomed has bolstered J&J’s MedTech segment, leading to increased sales of cardiovascular products. Over time, as the integration of acquired companies is completed, these investments can result in higher revenue and market presence.

From 2014-2019, J&J experienced steady revenue growth, driven by strong performances in both the Pharmaceuticals and Medical devices industries. The company’s focus on innovative products and expanding their market reach has contributed to this growth. From 2020 to the present day, the global healthcare industry has been significantly impacted by the Covid-19 Pandemic. J&J were able to adapt well, in particular the development and distribution of a Covid-19 vaccine provided a revenue boost.

Revenue growth can be attributed to key drug launches and ongoing sales from established products. Drugs including STELARA, ERLEADA and DARZALEX are major revenue contributors. The acquisition of Abiomed bolstered their portfolio as well. Their consumers health products also provide a steady stream of revenue. Products such as TYLENOL and NEUTROGENA perform well due to strong brand recognition and consumer trust.

J&J have had consistent investment into their Research and Development to drive innovation. This investment has been critical for sustaining growth and introducing new products. The company also keeps manufacturing and supply chain costs low by focussing on improving manufacturing efficiencies and managing supply chain disruptions. The company has also faced legal issues in the past, which has led to substantial legal costs, however J&J has done well to absorb these within its broader financial strategy.

Overall, J&J has shown resilience and adaptability in the very dynamic healthcare landscape. Despite challenges varying from the Pandemic to legal issues, the company has managed to retain strong revenue growth and profitability, driven by strategic investments, acquisitions and effective cost management. The diversified nature of their business strategy has provided stability and growth opportunities, placing J&J as a leading global healthcare company.

Some of J&J’s peers include Pfizer Inc., Merck & Co Inc., and GSK. Over the last decade, each company has demonstrated good revenue growth and strong profitability. They all have effective cost-management, with substantial investments into Research and development. Overall, J&J’s performance is strong and competitive in comparison to its peers. The company’s diversified portfolio and strategic investments places it in a good position. J&J’s ability to maintain growth and profitability, alongside managing costs and driving innovation, keeps it competitive with its peers.