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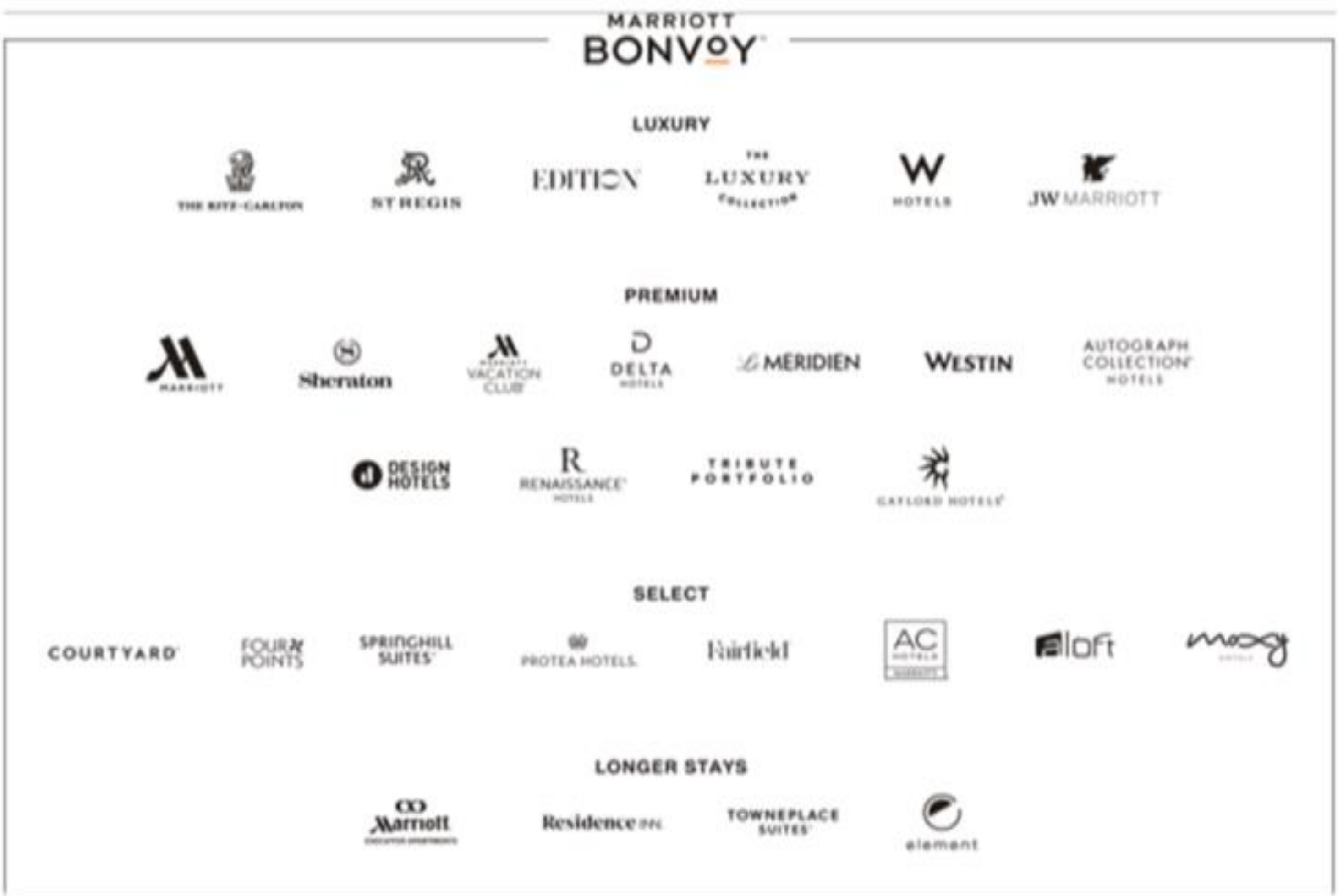
Task 4 Revenue & Cost Drivers

Marriot Overview – Revenue & Cost Drivers

Key revenue drivers for Marriott include franchise fees, base management fees, and incentive fees. However, upon closer examination, all of these revenue drivers for Marriott are all ultimately based on the number of hotels and each individual hotel's financial success. From its luxury JW Marriott



(Source: HotelTechReport.com 2023)

brand to its Residence Inn brand, all of Marriott's revenues stem from fees charged to hotel managers/owners or other streams of income such as renting or leasing. Here's how Marriott makes its fee money:

- Franchise Fees: Marriott charges a 6.0% royalty fee as well as a per-room fee (between $10-$18 dollars per room) every year. Marriott had almost one million rooms owned or licensed by franchisees in 2023.
- Base Management Fees: Marriott charges an average rate of $5,450 per month if a hotel owner decides to let Marriott manage the hotel although it is partially based on hotel performance. Marriott had almost 600,000 rooms that it managed in 2023.
- Management Incentive Fees: Marriott charges an average 4,2% fee based on manager performance. Certain financial benchmarks have to be met for this fee to be incurred which results in a bonus for the manager and a fee paid by the hotel owner to Marriott. This fee applies to all Marriott managed rooms.

As one can see, most of Marriott's revenue is derived from the number of hotels and hotel performance. Because of this, each business segment (luxury, premium, select, residence) will be used as a revenue driver while also looking at RevPAR (revenue per available room), occupancy rates, and the average daily rate.

	RevPAR		Occupancy		Average Daily Rate	
	2023	vs. 2022	2023	vs. 2022	2023	vs. 2022
Comparable Company-Operated Properties						
U.S. & Canada	$ 171.81	10.2 %	68.9 %	3.7 % pts.	$ 249.25	4.3 %
Greater China	$ 88.18	80.3 %	68.9 %	22.4 % pts.	$ 128.03	21.7 %
Asia Pacific excluding China	$ 117.33	41.9 %	69.5 %	11.5 % pts.	$ 168.86	18.4 %
Caribbean & Latin America	$ 168.44	13.8 %	64.0 %	4.4 % pts.	$ 263.19	6.0 %
Europe	$ 183.67	21.2 %	70.7 %	7.7 % pts.	$ 259.65	8.0 %
Middle East & Africa	$ 128.99	12.5 %	67.6 %	3.2 % pts.	$ 190.71	7.2 %
International - All [1]	$ 120.78	35.6 %	68.8 %	13.1 % pts.	$ 175.62	9.7 %
Worldwide [2]	$ 142.69	21.2 %	68.8 %	9.1 % pts.	$ 207.27	5.1 %
Comparable Systemwide Properties						
U.S. & Canada	$ 128.25	8.9 %	69.8 %	2.7 % pts.	$ 183.83	4.7 %
Greater China	$ 82.77	78.6 %	67.9 %	22.2 % pts.	$ 121.91	20.2 %
Asia Pacific excluding China	$ 117.89	43.2 %	69.4 %	10.9 % pts.	$ 169.93	20.7 %
Caribbean & Latin America	$ 142.85	13.9 %	64.7 %	4.2 % pts.	$ 220.73	6.5 %
Europe	$ 142.88	21.8 %	68.7 %	8.3 % pts.	$ 207.86	7.2 %
Middle East & Africa	$ 120.67	14.7 %	66.6 %	2.9 % pts.	$ 181.18	9.7 %
International - All [1]	$ 116.81	32.6 %	67.9 %	11.7 % pts.	$ 172.05	9.7 %
Worldwide [2]	$ 124.70	14.9 %	69.2 %	5.5 % pts.	$ 180.24	5.8 %

(1) Includes Greater China, Asia Pacific excluding China, Caribbean & Latin America, Europe, and Middle East & Africa.
(2) Includes U.S. & Canada and International - All.

(Source: Marriott 10K 2023)

RevPAR, occupancy rates, and the average daily rate help determine where the actual costs and revenues are coming from and how that affects Marriott's bottom line. This was calculated using price volume analysis (PMV) by breaking down revenue into quantity of rooms (coupled with occupancy), revenues, and average prices for hotel rooms in each segment compared from 2022 to 2023. Cost drivers were also calculated using PMV with expenses substituting for revenues and then spread over total hotel rooms to get an average cost-per-unit. It was found that the 2023 revenue increase of $2.94 billion from 2022's revenue was due to the $25.5 billion dollar increase in total hotel revenue thus increasing Marriott's fee revenue.

	Revenue PY	Revenue CY
Average Luxury	13,750,818,682	17,786,359,503
Average Premium	38,234,423,226	49,622,310,453
Average Select	29,190,367,254	38,734,538,030
Average Residence	1,612,199,160	2,164,912,551
Total	82,787,808,322	108,308,120,538

Average Price PY	Average Price CY	Mix PY	Mix CY	Mix Change
$ 432.43	$ 504.00	8.92%	8.80%	-0.13%
$ 253.97	$ 296.00	42.25%	41.79%	-0.46%
$ 175.89	$ 205.00	46.57%	47.10%	0.53%
$ 200.77	$ 234.00	2.25%	2.31%	0.05%

Almost 60% of the revenue increase was due to price increases as average room prices went up 14.2% from 2022 to 2023. Around 42% of the revenue increase was due to increased volume or more hotel rooms sold compared to 2022. The product mix change contributed negatively to revenue by around negative 2% as fewer high-end brands such as luxury and premium were sold while more low-end brands such as select and residence were sold in the product mix compared to 2022.

Key cost drivers included labor, marketing, insurance, owned/lease costs, property management costs, legal costs, and technology costs with property management and technology costs being the biggest contributors to total expenses (Legal costs and restructuring occur every year and are considered key cost drivers for this paper)

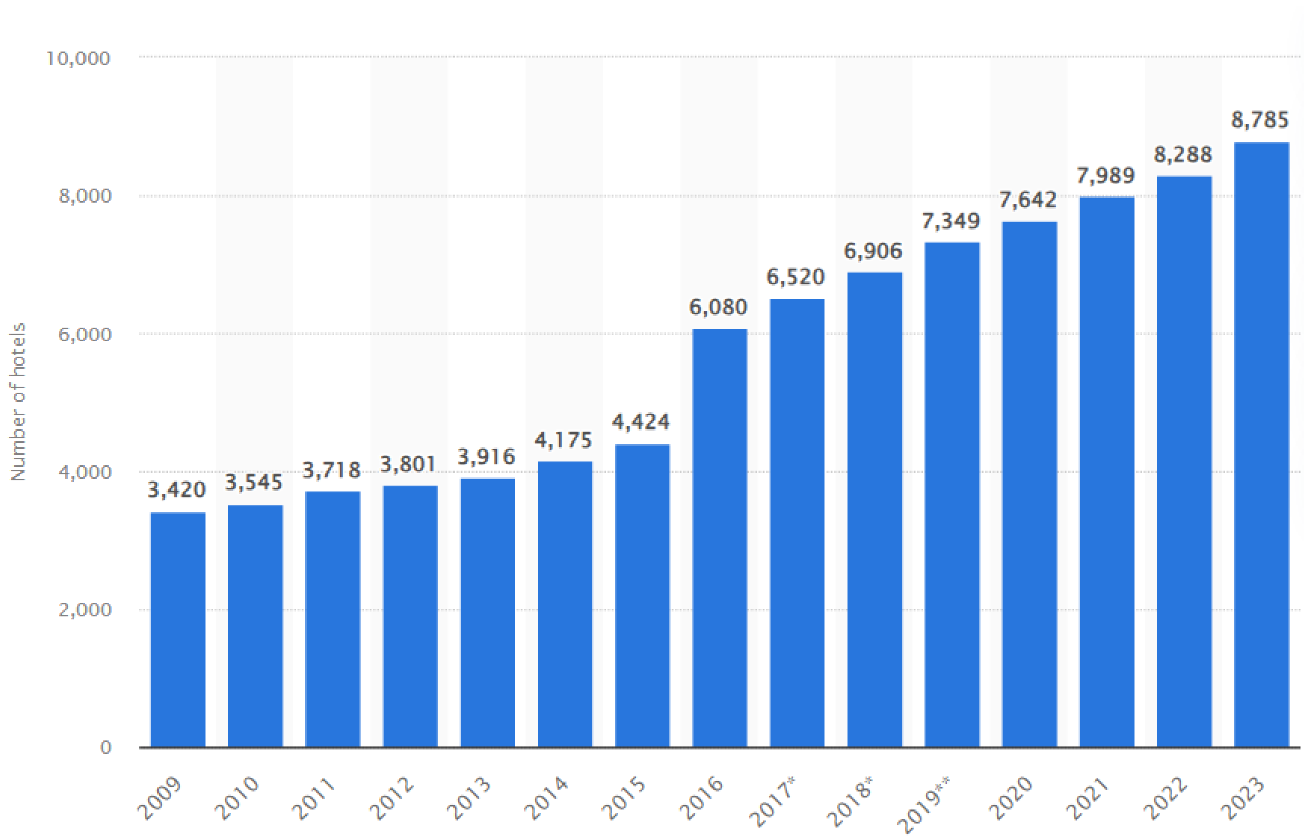
	Cost PY	Cost CY
Labor Costs	891,000,000	1,011,000,000
Marketing Costs	635,000,000	794,000,000
Insurance Costs	130,000,000	172,000,000
Owned/Lease Costs	1,074,000,000	1,165,000,000
Prop. Management Costs	7,986,000,000	9,700,000,000
Legal Costs (Item 3)	1,000,000	1,000,000
Technology Costs (Bonvoy)	6,594,000,000	7,006,000,000
Total	17,311,000,000	19,849,000,000

Av. Cost per Unit PY	Av. Cost per Unit CY	Mix PY	Mix CY	Mix Change
$ 2.50	$ 2.52	5.15%	5.09%	-0.05%
$ 1.78	$ 1.98	3.67%	4.00%	0.33%
$ 0.36	$ 0.43	0.75%	0.87%	0.12%
$ 3.01	$ 2.90	6.20%	5.87%	-0.33%
$ 22.41	$ 24.18	46.13%	48.87%	2.74%
$ 0.00	$ 0.00	0.01%	0.01%	0.00%
$ 19.66	$ 16.44	38.09%	35.30%	-2.79%

While total costs did go up in 2023 (due to the mostly variable nature of hotel costs), individual costs for certain items such as technology (Marriott's Bonvoy rewards/booking app), labor, and own/lease costs went down.

However, only the technology decrease is meaningful as the decrease in labor and own/lease costs was because of a higher number of franchisees versus Marriott managed hotels in 2023 which automatically will decrease Marriott's labor and own/lease costs in comparison. The total amount of costs did increase by over $2.5 billion in 2023 as most costs besides legal costs are variable and dependent on number of hotels and hotel rooms sold (occupancy). The cost mix was negative mostly due to the increased cost of property management for Marriott managed hotels.

Marriott – Number of Hotels (Domestic & International)



(Source: Statista 2024)

Marriott Overview – Company Performance & Peers

When looking at each business segment individually, select hotels are being sold at a higher rate in 2023 when looking at the total product mix. This negatively impacts product mix since select has the lowest average price and is being sold at a higher rate than other more profitable business segments. This could be corrected by raising prices on select segment hotels, but that could possibly have a negative impact on volume sold. However, Marriott overall has increased volume (sales) of every business segment while simultaneously raising prices. This is a sign of good management, especially considering the aftereffects of Covid on travel and the hotel market.

Marriott has done relatively well on cost-cutting especially for its Marriott Bonvoy rewards app. While spending on Bonvoy did increase in 2023, it actually decreased by 2.79% when compared to total costs. Almost 20 million new Bonvoy users were added in 2023 alone without dramatically increasing costs as Marriott has been able to streamline the customer experience for cheaper. As more rooms and properties are added to Marriott’s portfolio, it is expected for volume (total costs) to increase year-over-year.

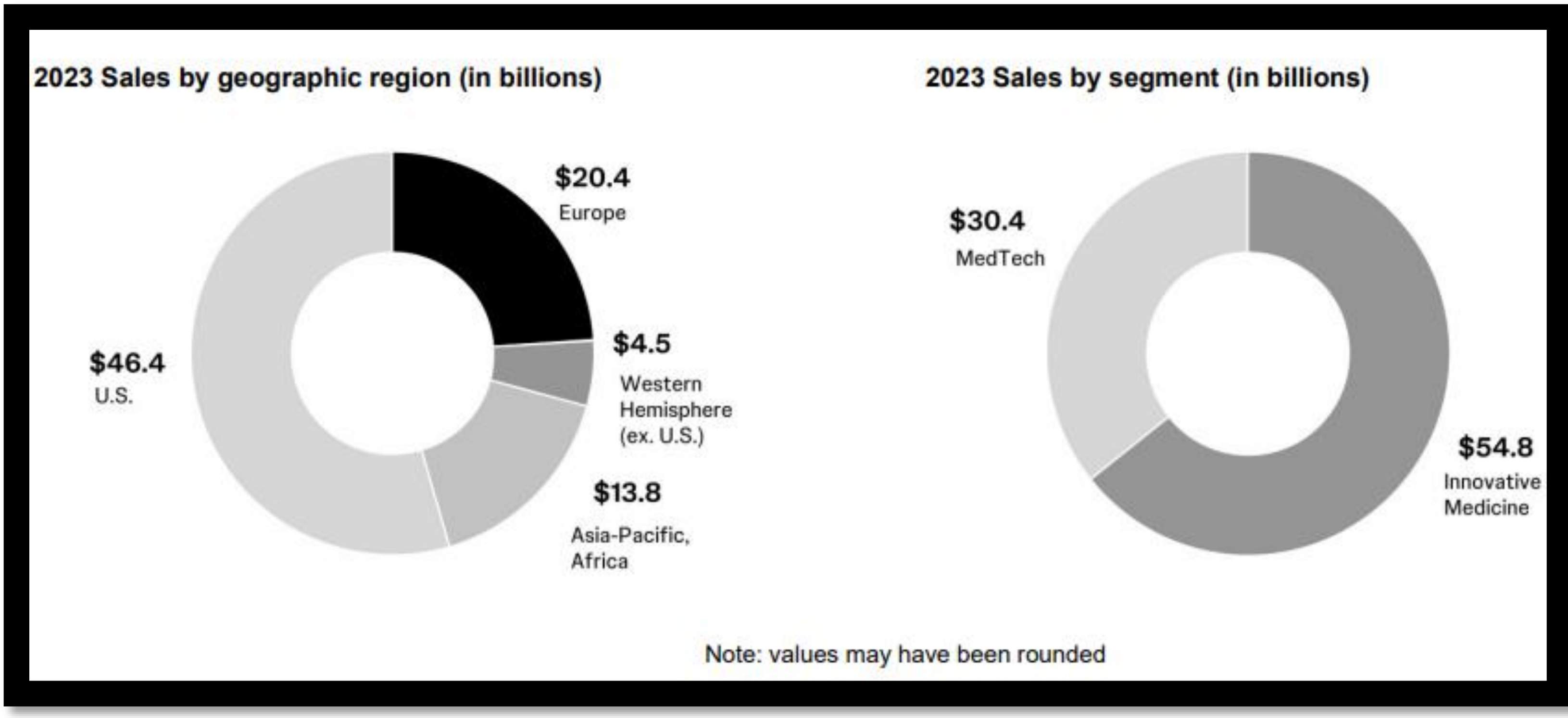
When compared to competitors, Marriott as of 2023 is the dominant player in the hotel market. RevPAR rates are considered the “golden ruler” when comparing hotel companies. Marriott beat one of its closest competitors Hilton Hotels and other competitors by 3.05% and 9.29% in RevPAR rates respectively.

RevPAR Rates			
	Marriott	**Hilton**	**Global**
2022	$ 123.30	$ 101.90	$ 93.76
2023	$ 142.69	$ 113.90	$ 97.97
Change	13.59%	10.54%	4.30%

Number of rooms in addition to RevPAR is also an excellent indicator of hotel performance. Marriott not only has a higher RevPAR than other companies, but also has a larger number of rooms. Marriott in 2023 had the highest number of rooms while also maintaining one of the highest RevPAR rates when compared to competitors. When looking at other factors such as sales, net income, market cap, cash flow, and assets such as real estate, Marriott is the market leader by a substantial margin.

Johnson & Johnson Overview – Revenue & Cost Drivers

Key revenue drivers for Johnson & Johnson (J&J) are its two business segments, Innovative Medicine and MedTech (J&J divested its consumer health business segment Kenvue in 2023 which will not be included in this overview. Revenue from consumer health in 2022 will be included in MedTech). Both of these business segments can be broken down into several departments such as immunology, oncology, surgery, and others which will be used as the revenue drivers for J&J. J&J receives over 60% of its revenue from its Innovative Medicine segment derived from various drugs such as its bestsellers Stelara and Darzalex.



(Source: Johnson & Johnson 10K 2023)

Revenue is driven completely by product/treatment sales from both business segments as J&J does not have any other significant sources of income.

	Quantity PY	Quantity CY	Revenue PY	Revenue CY
Innovative Medicine				
Immunology	3,002,634	2,714,178	$ 16,935,000,000	$ 18,052,000,000
Infectious Diseases	3,129,911	2,151,973	$ 5,449,000,000	$ 4,418,000,000
Neuroscience	1,081,354	949,847	$ 6,893,000,000	$ 7,140,000,000
Oncology	3,028,745	2,838,020	$ 15,983,000,000	$ 17,661,000,000
Pulmonary Hypertension	1,918,801	1,816,667	$ 3,417,000,000	$ 3,815,000,000
Cardiovascular/Other	7,639,544	6,118,333	$ 3,887,000,000	$ 3,671,000,000
MedTech				
Surgery	466,089	456,227	$ 9,690,000,000	$ 10,037,000,000
Orthopaedics	590,971	581,556	$ 8,587,000,000	$ 8,942,000,000
Interventional Solutions	47,872	66,807	$ 4,300,000,000	$ 6,350,000,000
Vision	1,080,256	1,067,789	$ 4,849,000,000	$ 5,072,000,000
Total	21,986,177	18,761,398	$ 79,990,000,000	$ 85,158,000,000

Average Price PY	Average Price CY	Mix PY	Mix CY	Mix Change
$ 5,640.05	$ 6,651.00	13.66%	14.47%	0.81%
$ 1,740.94	$ 2,053.00	14.24%	11.47%	-2.77%
$ 6,374.42	$ 7,517.00	4.92%	5.06%	0.14%
$ 5,277.10	$ 6,223.00	13.78%	15.13%	1.35%
$ 1,780.80	$ 2,100.00	8.73%	9.68%	0.96%
$ 508.80	$ 600.00	34.75%	32.61%	-2.14%
$ 20,790.00	$ 22,000.00	2.12%	2.43%	0.31%
$ 14,530.32	$ 15,376.00	2.69%	3.10%	0.41%
$ 89,822.25	$ 95,050.00	0.22%	0.36%	0.14%
$ 4,488.75	$ 4,750.00	4.91%	5.69%	0.78%

The biggest revenue drivers are J&J's immunology, oncology, and surgery departments with interventional solutions (trauma surgery) being the most expensive service offered. Using PMV, price increases from 2022 to 2023 were the biggest reason for increased revenue from sales in 2023. This was partially offset by a decrease in volume sold of around 3.2 million fewer average units sold in 2023 compared to 2022. This loss in volume was possibly a combination of factors such as decreased sales from the Covid-19 vaccine/boosters (a major driver of revenue for 2020-2022) plus lack of demand for name brand drugs. J&J seems to have increased drug prices substantially to make up for decreased volume which still yielded a net profit at the end of the year. Product mix was improved as fewer less profitable products such as cardiovascular and infectious diseases were sold while more profitable products such as interventional solutions were sold when compared to total revenue in 2023.

The biggest cost drivers for J&J are acquisitions/administrative, labor, and research and development (R&D) costs. The only fixed cost driver is owned/lease costs as all other costs are variable since they are based on how many products are sold. Cost mix is the largest contributor to total costs, mostly due to the large swings in cost for acquisition/legal fees from 2022 to 2023.

	Cost PY	**Cost CY**
Labor/Material Costs	24,596,000,000	26,553,000,000
Employee Benefit Costs	850,000,000	777,000,000
R&D Costs	14,100,000,000	15,100,000,000
R&D Impairments	783,000,000	313,000,000
Acquistions/Legal	19,127,000,000	26,164,000,000
Restructing Costs (recurring)	275,000,000	489,000,000
Marketing Costs	700,000,000	500,000,000
Owned/Lease Costs	200,000,000	200,000,000
Total	60,631,000,000	70,096,000,000

Av. Cost per Unit PY	**Av. Cost per Unit CY**	**Mix PY**	**Mix CY**	**Mix Change**
$ 1,118.70	$ 1,415.30	40.57%	37.88%	-2.69%
$ 38.66	$ 41.41	1.40%	1.11%	-0.29%
$ 641.31	$ 804.84	23.26%	21.54%	-1.71%
$ 35.61	$ 16.68	1.29%	0.45%	-0.84%
$ 869.96	$ 1,394.57	31.55%	37.33%	5.78%
$ 12.51	$ 26.06	0.45%	0.70%	0.24%
$ 31.84	$ 26.65	1.15%	0.71%	-0.44%
$ 9.10	$ 10.66	0.33%	0.29%	-0.04%

J&J acquires new technology, drugs, and patents every year to supplement its drug and medical service pipeline resulting in variable acquisition costs every year. J&J also is frequently involved in lawsuits every year either from new or continuing court cases which can raise costs dramatically when J&J settles or is found guilty of various misdemeanors which can cost billions. These swings make it look like J&J's individual cost line items are going down when in reality legal fees make everything decrease by comparison. Only certain costs such as marketing, employee benefits, and R&D impairments have actually decreased. Total cost volume also increased as variable costs increased.

Johnson & Johnson Overview – Company Performance & Peers

It is to be noted that total sales in 2022 were $94.9 billion but J&J somehow had positive growth in sales of 6.5%. This is because J&J's divesture of Kenvue (its consumer health division) in later 2023 was subtracted from 2022's sales numbers to get an apples-to-apples comparison shown below. Kenvue was divested not because of profitability, but it did not match with J&J's main business segments which focused on drugs and treatments. This freed up extra resources and capital to be spent on improving J&J's primary products.

	Q4			Full Year		
($ in Millions, except EPS)	2023	2022	% Change	2023	2022	% Chang
Reported Sales	$21,395	$19,939	7.3%	$85,159	$79,990	6.5%
Net Earnings	$4,132	$3,227	28.0%	$13,326	$16,370	(18.6)%
EPS (diluted)	$1.70	$1.22	39.3%	$5.20	$6.14	(15.3)%

(Source: Yahoo Finance 2024)

J&J became the industry leader in 2023 after Pfizer dropped out of the top spot due to weakening Covid vaccine/booster sales. But when compared to competitors, J&J may not be doing as well as they could be when looking at financial indicators such as Price-to-Earnings and revenue growth. When examining the industry average, J&J is underperforming compared to most of its competitors. J&J still underperforms in some metrics even when the high outlier Takeda Pharmaceutical Co. is taken out of the average. However, J&J is still restructuring after its major Kenvue divestiture and its recent large drug patent buyouts and new drug developments for 25 new pipeline drugs.

COMPANY	P/E	P/B	P/S	ROE	EBITDA (IN BILLIONS)	GROSS PROFIT (IN BILLIONS)	REVENUE GROWTH
Johnson & Johnson	23.88	5.31	4.48	6.62%	$7.8	$15.58	4.31%
Eli Lilly and Co	118.45	56.52	20.22	19.02%	$3.12	$7.09	25.98%
Novo Nordisk A/S	45.95	41.19	16.80	24.73%	$36.91	$55.43	22.45%
AstraZeneca PLC	38.44	6.21	5.03	5.01%	$4.12	$10.76	13.33%
Novartis AG	22.80	5.41	4.71	7.97%	$5.25	$9.7	9.6%
Sanofi SA	28.51	1.65	2.54	1.53%	$2.03	$7.97	6.53%
Zoetis Inc	34.69	16.24	9.50	11.91%	$0.93	$1.55	9.5%
GSK PLC	13.38	4.29	1.74	7.69%	$2.07	$5.39	5.93%
Takeda Pharmaceutical Co Ltd	45.45	0.87	1.54	-0.04%	$86.09	$668.37	9.91%
Dr Reddy's Laboratories Ltd	20.43	3.85	3.93	4.84%	$21.72	$46.34	13.87%
Jazz Pharmaceuticals PLC	18.69	1.85	1.98	-0.39%	$0.23	$0.81	1.03%
Corcept Therapeutics Inc	34.23	6.78	7.52	6.14%	$0.04	$0.16	39.15%
Prestige Consumer Healthcare Inc	16.98	2.13	3.16	3.04%	$0.09	$0.15	-3.11%
Average	36.5	12.25	6.56	7.62%	$13.55	$67.81	12.85%

(Source: Nasdaq.com 2024)

J&J has been slowly accumulating new drugs and treatments to either gain first-mover advantages or gain a short monopoly over drugs that treat specific diseases such as multiple myeloma (J&J aims to have a complete treatment line by 2030) in the next ten years. J&J may be underperforming currently, but it is one of the few pharma companies that can use its massive size and capital to develop several potential billions of dollars drugs into the market over the next decade. J&J needs to continue focusing on acquiring new drugs designed for underserved populations as well as being the first to do so. Diversifying its drug portfolio instead of relying on one type of treatment/drug like Pfizer did will solidify J&J's place as industry leader.