**Task 4: Revenue and Cost Drivers - Mohammed**

**Marriott International Inc.**

**Revenue Drivers**

Marriott Inc., major revenue drivers include **Based Management Fees** (Base and incentive management fees earned from hotel management services), **Franchise Fees** (application and royalty fees for the use of Marriott Inc., franchise and brand names), **Owned, Leased, and other Revenue** ( rent and fees earned from Marriott’s owned hotels accommodation and services from guest), **Cost Reimbursement Revenue** (reimbursement of costs incur on behalf of the managed, franchised, and licensed properties), and **Incentive Management Fees**.

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.

**Base Management Fees**

* Increasing trend over the years with growth rates of 51.02% and 56.05% for 2021 and 2022 respectively - ***see excel sheet***.
* Contributes about 4.19%, 4.83% and 5.03% to gross revenue for 2020, 2021 and 2022 respectively - ***refer to diagram below***.
* Higher base management fees contribute positively to the gross revenue growth.

**Franchise Fees**

* Increasing trend over the years with 2020 ($1,153m), 2021 ($1,790m) and 2022 ($2,505m) - ***see excel sheet.***
* Contributes about 10.91%, 12.92% and 12.02% for 2020, 2021 and 2022 respectively to gross revenue - ***refer to diagram below***.
* Growing franchise fees have a significant positive impact on gross revenue.

**Incentive Management Fees**

* Increasing trend over the years 2020 ($87m), 2021 ($235m), 2022 ($529m) - ***see excel sheet***.
* Contributes about 0.82%, 1.70% and 2.55% for 2020, 2021 and 2022 respectively to gross revenue - ***refer to diagram below***.
* One of the least revenue drivers and the rise in incentive management fees positively influences gross revenue.

**Owned, Leased, and other Revenue.**

* Increasing trend over the years growing significantly from 40.14% in 2021 to 71.73% in 2022 - ***see excel sheet***
* This type of revenue contributes to the overall growth of gross revenue.
* Contributing about 5.37%, 5.74% and 6.58% for 2020, 2021 and 2022 respectively to gross revenue - ***refer to diagram below***.

**Cost Reimbursement Revenue.**

* Increasing trend over the years with $8,452m for 2020, $10,442m for 2021 and $15,417m for 2022 - ***see excel sheet***.
* Cost reimbursement revenue has a substantial positive impact on gross revenue, and it is the highest revenue driver for Marriott Inc., over the years.
* Contributing more than three-quarters of the entire revenue for Marriott thus. 79.95%, 75.36% and 74.22% for 2020, 2021 and 2022 respectively - ***refer to diagram below***.

Overall, Marriott’s revenue streams have been robust with the cost reimbursement driver contributing three-quarters of the entire revenue. Moreover, each revenue driver is experiencing positive growth resulting in a significant increase in gross revenue over the years.

**Major Cost Drivers**

Three Major Cost Driver have been identified. The diagram below summarizes the percentage impact of each cost driver on revenue.

**Owned, Leased, and other-direct Cost.**

* Increasing trend over the years $677m (2020), $734m (2021), $1,074m (2022) - ***see excel sheet***.
* Decreasing trend in terms of impact on revenue (6.40%, 5.30% and 5.17% for 2020, 2021 and 2022 respectively) - ***refer to diagram below***.
* Negatively correlates with the increasing trend in gross revenue over the same period.

**General, Administrative, and other Cost**

* Increasing trend over the years $762 (2020), $823 (2021), $891 (2022) - ***see excel sheet***.
* Decreasing trend in terms of effect on revenue (7.21%, 5.94% and 4.29% for 2020, 2021 and 2022 respectively) - ***refer to diagram below***.
* Negatively correlates with the increasing trend in gross revenue over the same period.

**Reimbursed Expenses:**

* Major cost driver with increasing trend over the years $8435m (2020), $10322m (2021) and $15,141m (2022) - ***see excel sheet***.
* Taking on average 75% of Revenue over the years.
* Decreasing trend in terms of effect on revenue (79.79%, 74.49% and 72.89% for 2020, 2021 and 2022 respectively) – ***refer to diagram below***.
* Negatively correlates with the increasing trend in gross revenue over the same period.
* NOTE: This cost item is reimbursed as revenue stream for the company which ends up cancelling out each other.

**Peer Comparison and Summary**

* The cost drivers correlate negatively with the increasing trend in gross revenue.
* Overall, the correlation suggests that as the cost drivers decrease, they tend to have less corresponding impact on Marriott’s gross revenue.
* A comparison to Hyatt Hotels Corporations indicates that, just like Marriott Inc., the major revenue driver of Hyatt is their 'revenues for the reimbursement of costs incurred on behalf of managed and franchised properties' contributing more than half of the total revenue.
* Hyatt costs have been growing over the period to the extent they have been making net losses for 2020 and 2021 but improved marginally in 2022.
* The revenue drivers increased substantially in 2022 which offset the increased costs.
* Generally, Marriott Inc., is relatively healthier financially vis-à-vis Hyatt Hotels Corp.

**Johnson and Johnson (J&J)**

**Major Revenue Drivers**

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

J&J revenue mainly comes from sales of three major product segments, **consumer health, pharmaceutical, MedTech Segment products**. Pharmaceutical segment products constitute about 55% ($52.6m) of total sales, followed by MedTech segment products’ sales ($27.4m) with Consumer health segment products’ sales amounting to $15m in 2022 (Financial Statement Report, 2022).

* J&J sales (revenue) increased in nominal terms from $93775m in 2021 to $94943m in 2022 - ***see excel sheet***.
* However, in growth terms, the sales dropped to 1.3% in 2022 as compared to 13.6% growth in 2021.
* The dropped in sales growth in 2022 (according its Financial Statement Report, 2022) was due to three variables thus:
* Sales volume dropped from 12.9% in 2021 to 6.9% in 2022.
* Sales price also marginally dropped - $0.7 per unit in 2021 to -$0.8 per unit in 2022.
* Fluctuation in currency depreciated from 2021 figure1.4 to -4.8 in 2022.

All resulting in a total sales decrease of 1.3% (2022) from the 13.6% recorded in 2021.

**Major Cost Drivers**

Three major cost drivers identified include cost of products sold, Selling, Marketing & Administrative cost and research and development expense.

**Cost of Products Sold**

* The cost of products sold grew in 2022 by 4.13% from 5.02% in previous year and in absolute figures from $29,855m in 2021 to $31,089m in 2022 - ***see excel sheet***.
* Fluctuating trend in terms of percentage of cost of products sold on revenue (34.42%, 31.84% and 32.74% for 2020, 2021 and 2022 respectively) - ***refer to diagram below***.
* Varies correlates with the increasing trend in gross revenue over the same period.
* The increased in cost of products sold is primarily driven by:
* *“One-time COVID-19 vaccine manufacturing exit related costs*
* *Currency impacts in the pharmaceutical segment*
* *Commodity inflation in the MedTech and Consumer Health segments partially offset by*
* *Supply chain benefits in the Consumer Health segment”,* (Financial Statement Report, 2022).

**Selling, Marketing & Administrative Cost**

* Selling, Marketing & Administrative cost also grew marginally in absolute value from $24,659m in 2021 to $24,765m in 2022 but substantially decreased in growth from 11.66% in 2021 to 0.43% in 2022 - ***see excel sheet***.
* Decreasing trend in terms of percentage of selling, marketing and administrative expenses on revenue (26.74%, 26.30% and 26.08% for 2020, 2021 and 2022 respectively) - ***refer to diagram below***.
* Negatively correlates with the increasing trend in gross revenue over the same period.
* The Selling, Marketing and Administrative Expenses increased (absolute terms)/decreased (grow rate) was also driven by *“Reduction of brand marketing expenses in the Pharmaceutical and Consumer Health businesses.”*

**Research and Development Expenses**

* Research and development expenses, however dropped marginally from $14,714m in 2021 to $14,603m in 2022 - ***see excel sheet***.
* Fluctuating trend in terms of percentage of research and development expense on revenue (14.72%, 15.69% and 15.38% for 2020, 2021 and 2022 respectively) - ***refer to diagram below***.
* Varies in correlates with the increasing trend in gross revenue over the same period.

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**Peer and Industry comparison**

* Pfizer, a close competitor to J&J, observed nominal grow in revenue to $100,330m in 2022 from $81,288m in 2021, however in terms of growth rates, it substantially dropped from the previous year 95.16% to 23.43% in 2022.
* Pfizer cost of products sold also significantly dropped in growth terms to 11.43% in 2022 from 263% in 2021 while research and development expense also decreased from 18.96% growth in 2021 to 10.31% growth.
* According to a 2023 article by zoomrx.com, the top fifteen pharmaceutical companies experienced collective revenue growth of around 9%.
* It concluded that *“the pharmaceutical industry has encountered significant challenges in 2022, but leading manufacturers have demonstrated adaptability in response to market changes. COVID-19 revenues have been a crucial growth driver in 2022.”* (zoomrx.com, 2023)

Therefore, J&J appears to be doing averagely below its competitors particularly in 2022.

**Reference**

Zoomrx.com, (May 2023). 2022 Earnings Story of Pharma Giants: A Look at Their Financials, R&D, and M&A Strategies. <https://blog.zoomrx.com/2022-earnings-story-of-pharma-giants/#:~:text=In%202022%2C%20the%20top%20fifteen,with%20a%20robust%20oncology%20portfolio>.