**Marriott Inc.**

**Revenue Drivers**

The bar chart below represents the four revenue drivers for the globally acclaimed hotel chain Marriot during 2022.

(Marriott Annual Report, 2022)

Basic and incentive management fee revenue represented nearly $1.6 billion. These are paid by the hotel owners, base fees are received by Marriott for providing obliged hotel management services, usually being a percentage of revenue. Incentive fees are received based on how profitable the hotel branch is.

Franchise fees represent $2.5 billion, this typically consists of initial application fees and royalty fees for using the brand name.

Owned and Leased hotel revenue stood at nearly $1.4 billion, representing an agreed fixed nightly fee for the goods and services provided by Marriott.

Cost reimbursement revenue is the highest form of revenue, well over $15 billion. Marriot is reimbursed under franchise and management agreements due to some costs incurred, such as payroll and other related expenses.

Price: Both management and franchise fees are variables, their transaction price depends on how well a particular hotel branch is performing regarding its revenue and profits.

Volume: Generally depends on the country the hotel is based, and whether tourists would visit and stay there. Marriot’s number of rooms is the highest in the world, and so this returns high revenues.

Data: For a massive company like Marriot, they would need customer insights on their experience to learn where they could improve, with more customers satisfied, revenues can increase as this will develop loyalty.

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.

A screenshot of a graph

Description automatically generated

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.

**Cost Drivers**

Marketing - can be fixed or variable and is positively correlated with revenue, the higher the advertisement, the more revenue is returned.

Operating expenses - include day-to-day operations such as hotel supplies and maintenance etc., these can also be fixed or variable. This would typically increase with more hotels and is directly related to revenue.

Franchising fees - are driven by the number of franchises, these are often seen as a strategic investment which generates revenue returns, if some franchises fail, not enough revenue is generated to cover the costs. If successful, however, then the company brand would be massively enhanced and would lead to increasing revenues in the future.

**Company Performance & Comparison**

As discussed in the cost drivers, there is mostly a positive correlation between the cost drivers and revenue, this is also reflected in the 2022 annual reports. In 2021, costs have increased by nearly $1.6 billion, identically, revenue has also increased by about $3.3 billion. In the following year 2022, costs have increased by over $5 billion, which is a massive increase in comparison to the previous year, revenue therefore increased by about $7 billion. This shows quite a strong performance in the post-pandemic recovery and how Marriott has quickly recovered from the industry crisis which saw travel being stalled.

The biggest increase in cost and revenue that occurred was in reimbursement expense, and cost reimbursement revenue. Reimbursement expenses are day-to-day expenses that Marriott pays in running a hotel, such as food and services, and they usually get reimbursed by owners for doing so, therefore this is the revenue. This mainly comes from strong travel demands and higher room rates in the fourth quarter of 2022 where they reported their strongest financial results. This also comes from strong franchise performance which attracts investors and franchisees for the brand. According to Forbes, company rooms have gone up by 108,000 rooms, with nearly 40% of these being high-end luxury, and the rest supporting budget-friendly travellers, and with many of their properties still in development which would boost that even more (Kelleher, 2023). Generally, Marriott has recovered well after being at an all-time low in 2020, they have further invested in the business by offering more franchises and building more properties, and this was enough to cover their costs,

Comparing Marriott’s performance with one of their peers Hyatt, their revenue and cost drivers are very identical mainly including reimbursed expenses and revenue, Hyatt’s 2022 revenue is nearly $6 billion after an increase in cost, whilst Marriott’s 2022 revenue is more than triple at over $20.7 billion. Both companies also share loyalty programs with their customers which is also used to boost company revenue. In conclusion, both companies have been doing reasonably well throughout the past two years or so.

**Johnson & Johnson**

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

**Revenue Drivers**

The next section will cover the pharmaceutical firm of Johnson & Johnson. It is one of the largest healthcare firms in the world, and its revenue drivers mainly consist of three sections.

Pharmaceuticals – mainly consist of prescription drugs and vaccines, they have done a wide amount of research and have developed drugs for diseases and other medical conditions. Successful launches of new medicine especially if it meets market needs would usually enhance revenue, an example of this would be during the COVID-19 pandemic, when Johnson and Johnson developed and distributed the Janssen vaccine which saw substantial revenue growth mainly attributed to the high volume of demand.

Medical devices – include implants, equipment used in surgery, and other medical items, these are key products that are needed worldwide, and their prices depend on the type of device, larger equipment used in surgery would typically return higher revenue due to high prices set for the products. Other smaller items would typically be priced less. Johnson and Johnson have innovated by creating a project called MedTech, where technology was used to transform the industry, these technological devices would also be priced at the higher end of products.

Consumer health – these include hygiene and personal care products, they are considered over-the-counter products, and demand for these products has also increased during the global pandemic. Johnson and Johnson would need valid consumer data to understand customer preferences and market dynamics in order to increase customer loyalty, these types of products usually have substitutes in place, so customers may tend to choose cheaper options. It is vital for Johnson and Johnson to put in place valid marketing strategies and maintain product quality to retain customers.

**Cost Drivers**

Production Costs – these include the production of pharmaceuticals, medical devices, and personal care products. There is a positive correlation between these costs and revenue, whenever one increases, the other also does. This is a variable cost, and it depends on the market and how much demand is actually needed for these products.

Research and Development – firms operating in this industry require a lot of investment in researching new medicines, tech devices, etc. This is also a variable cost as it depends on the type and length of research. Higher R&D costs may not necessarily lead to higher revenues, some research might be abandoned and failed and would therefore be a loss of time, effort, and money. Others might succeed such as MedTech where Johnson and Johnson produced successful medical devices with new technologies. Therefore, there is a lot of risk in conducting product research.

Marketing – can be fixed or variable. As J&J continue to operate globally, they might find it useful to explore new ways of marketing in new countries. Although this might lead to larger sales, they would also have to pay compliance costs for operating in new countries, it would be a real challenge for them to return revenue.

Exchange Rate Costs – as a lot of J&J’s income comes globally, exchange rate costs are variable as they depend on the conditions in each country, they will have to consider these fluctuations, some fluctuations might be favourable, and others unfavourable, so it can really affect revenue either way.

**Company Performance & Comparison**

Company performance for 2022 was very successful, according to Chairman and CEO Joaquin Duato, they performed financially well and increased value for shareholders whilst being under inflation, political tensions, and supply chain disruptions. Their total shareholder returns for 2022 performed substantially better than their Competitor Composite and the S&P 500, this was made possible by their strategic focus and hard work on the three business segments of pharmaceuticals, medical devices, and consumer health. (Johnson & Johnson Annual Report, 2022).

Looking at financial statistics, Johnson & Johnson had sales of nearly $82.6 billion and costs of $28.4 billion in 2020. In 2021, revenue and cost movement are in line, where revenue stood at $93.8 billion and costs at $29.8 billion. And finally, in 2022, revenue increased again where it was $95 billion, and costs moved up to $31 billion. This showcases the positive relationship between cost and revenue, where if costs such as increased marketing, and successful R&Ds, then this would eventually return revenue. The values also reflect first, the successful performance during 2020 when the world was shut down, demand was quite high for consumer health products. Moving to the 2021 period, costs increased slightly however revenue has increased significantly by around $11 billion, this is mainly attributed to the selling and distribution of their Covid-19 vaccine. Revenue continued to increase in 2022 up to nearly $95 billion and costs increased to $31 billion, this reflects the Chairman’s statement of incredible performance despite inflation and political conflicts.

In comparison with a peer such as Pfizer, Pfizer led the battle against Covid-19 and their vaccine was counted on worldwide. Global conditions as such massively enhanced their revenue, and according to their CEO, scientists worked effortlessly on the Pfizer vaccine. Their success in the distribution has doubled their revenue from $41 billion in 2020 to $81 billion in 2021, as it continued to increase in 2022 to $100 billion, their main cost and revenue driver therefore was R&D costs and sales for the vaccines which saw them reach cruising profits.

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