MARRIOTT INTERNATIONAL REPORT

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Business Structure

Overview

Marriott International Inc. is a global leader in the hotel and hospitality industry. They are a worldwide operator, franchisor, and licensor of hotel, residential and timeshare properties. What began in 1927 as a nine-seat A&W root beer stand in Washington, DC has grown to become recognized as a top employer and for their superior business operations. With over 6,900 properties in 130+ countries and territories they are a force to be reckoned with. They boast a total of 5,100+ Properties in 2 countries and territories within North America, 715+ properties in 24 countries & territories within the Asia Pacific segment, 580+ properties in 41 countries and territories within Europe, 250+ properties in 40 countries & territories within the Middle East & Africa and 245+ properties in 33 countries and territories within the Caribbean & Latin America. Their portfolio boasts over 30 brands spanning a variety of tiers from luxury to select they are able to cater to all travelers. They operate on an asset light strategy of business which is very attractive to potential investors as it allows them to retain a low-risk profile with most cash flows coming from hotel base and franchise fees.

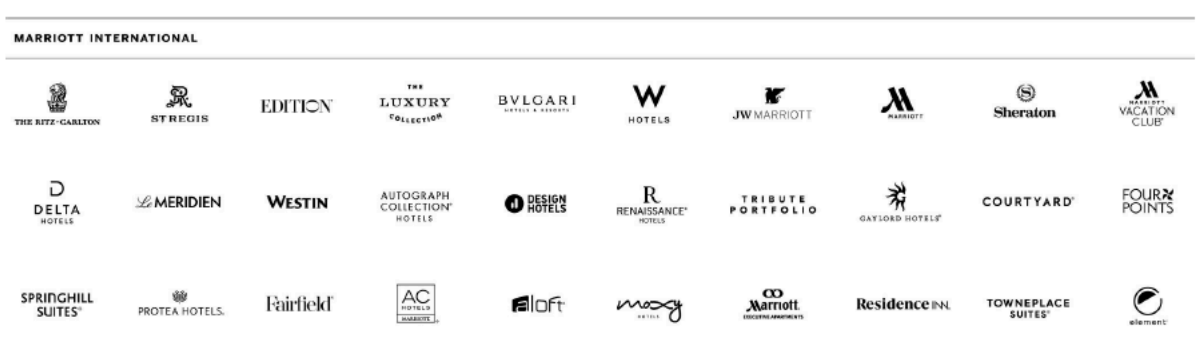

Figure 1 Source: (2018 Annual Report)

Company Operated Properties

Currently Marriott International consists of 2,020 company-operated properties, comprising less than half of the total hotels under their portfolio of brands. The responsibilities entailed under operating these properties include hiring, training, and supervising the staff at these locations, purchasing supplies, providing a central reservation system, providing advertising, marketing, and promotional services and providing accounting and data processing services. Owners of these properties are required to reimburse Marriott for all of these costs. The profits from managing these properties come in the form of a base management fee calculated as a percentage of revenue, an incentive management fee based on profits of the property and includes reimbursement of costs of operation. Their lease agreements are structured a bit differently with the inclusion of a fixed annual rental and additional fees based on percentage of annual revenue that exceeds a fixed amount.

Franchised and Unconsolidated Joint Ventures

Marriott's franchise and licensing agreements entail 4,735 properties and 151 unconsolidated joint venture properties. This comprises most of their revenue and overall properties under their brands. They generally receive an initial application fee and continuing royalty fees which are comprised of 4%-6% of room revenue and 2%-3% of food and beverage revenues. Marriott contributes to the marketing and advertising programs for these properties along with providing use of their centralized reservation systems. Their unconsolidated joint ventures are managed and partially owned by Marriott and provide services to other franchised hotels. Marriott contributes to marketing and advertising programs to these hotels as well and provides them with access to its reservation systems.

Residential

Marriott also endeavors in the real-estate sector by licensing its trademarks for the sale of residential real-estate. They receive “branding fees’ for the sale of these properties. These properties are generally owned and constructed by third-parties so they offer limited capital risk to the corporation. “The luxurious nature of their residential properties, the quality and exclusivity associated with their brands, and the hospitality services that they provide, all serve to make residential properties bearing their trademarks distinctive” (2018 Annual Report).

Brand Portfolio

Marriott divides its brands into three separate categories, Luxury, Premium and Select with each catering to a different client base. Luxury provides its guests with “superb amenities and services” which includes brands such as JW Marriott, The Ritz-Carlton, and St. Regis. Our Distinctive Luxury hotel brands include W Hotels, The Luxury Collection, EDITION, and Bulgari. Its Premium portfolio provides guests with “Sophisticated and thoughtful amenities and services” which includes brands such as Marriott Hotels, Sheraton, Delta Hotels, Marriott Executive Apartments, and Marriott Vacation Club, Westin, Renaissance, Le Méridien, Autograph Collection, Gaylord Hotels, Tribute Portfolio, and Design Hotels. While their select portfolio provides “Smart and easy amenities and services” including such brands as Courtyard, Residence Inn, Fairfield by Marriott, SpringHill Suites, Four Points, TownePlace Suites, and Protea Hotels, Aloft, AC Hotels by Marriott, Element, and Moxy (2018 Annual Report). This multi-tiered approach allows Marriott to provide guests with the quality and price they demand while increasing revenue by emphasizing its luxury brands and what they have to offer.

Internationalization Scope

Marriott is a giant MNC but even so it does not capture as much of the international market share as it would like too. It controls a very impressive 15% of U.S. market share but only controls >4% of the market share outside of the U.S. There are a couple of factors that are affecting their internationalization and expansion into foreign markets. One is that branding is much less prevalent outside of the U.S, and most foreign markets are being served by independent operators that do not feel a need to brand themselves with large chains. However, Marriott believes this will soon change as local economies grow, trade barriers decline, international travel accelerates, and hotel owners seek the economies of centralized reservation systems along with marketing programs. For hotel owners seeking a management company brands are very attractive as they help them achieve higher revenue per available room than competitors due to strong guest preference for these brands coupled with being able to charge a premium for their services. Marriott's properties are constantly updated to maintain competitiveness and are able to share ideas and goals for improving their hotels.

In the graph referenced below you can see Marriott's distribution of properties based on ownership type and location. This data gives us a good insight into how the company operates, as you can see the bulk of its ownership is though franchise agreements and management agreements highlighting its asset-light strategy of business. While the bulk of their operations are currently in North America, they are working hard to increase their internationalization and gain more traction abroad. Asia Pacific is their largest international segment as of now and the only one they provide detailed reports for.

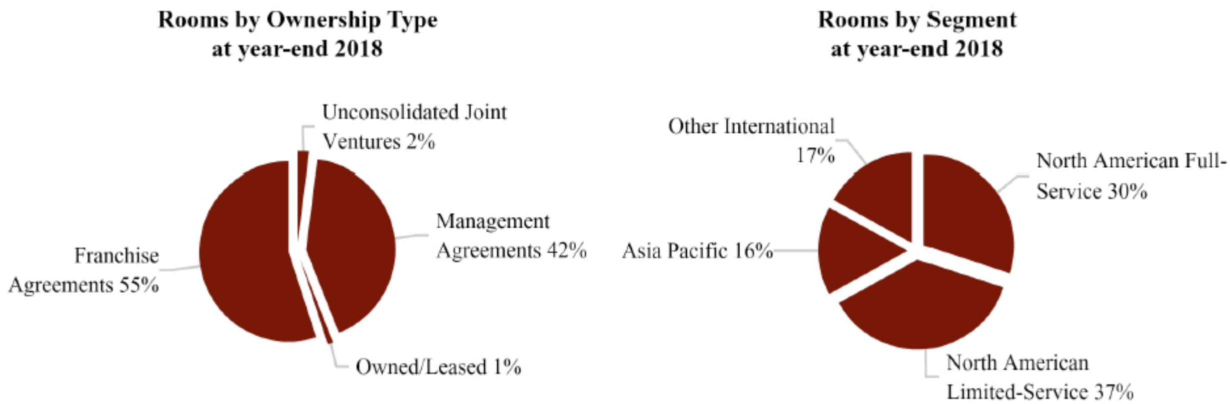

Figure 2 Source: (2018 Annual Report)

Foreign Markets

General

In 2018, 494 Marriott owned properties were added across the globe, 45% of these were outside of North America highlighting Marriott's goals to expand internationally. 12% of these properties were conversions from competitors' brands. Marriott also signed management and franchise agreements for 816 new properties. Marriott attributes this growth momentum to "hotel owners turning to Marriot due to its world-class teams, leading business platforms and unmatched global scale and captivating brands" (2018 Annual Report). During 2018 Marriott grew its global footprint making debuts in Finland, New Zealand, Lithuania, Mali and Ukraine. They also experienced record international room signings in Europe, Middle East & Africa and Asia Pacific, this was due to interest in international travel surging in these locations and record new members to their unified loyalty program. Their loyalty program boasts an impressive 120 million members, providing a growing base of members seeking unique travel experiences. All of their properties benefit from this strong base of members seeking along with all the members benefiting from an ever-growing number of properties to choose from. When asked about future expansion Marriott's Executive Vice President and Global Chief Development Officer Tony Capuano had this to say, "With the world's largest pipeline of hotels, a growing loyalty base of 120 million members and a compelling value proposition to our partners, Marriott is positioned to fuel expansion further in 2019" (40BY2020 VISION).

Looking back to 2017 Marriott opened hotels in 5 new countries and territories and signed more than 750 new contracts for long-term management and franchise agreements representing over 125,000 rooms. During this year they increased their global pipeline to over 460,000 rooms with a large proportion comprising their most valuable tiers. Their continued focus on quality created an emphasis on driving economic value and not just room additions, over 80% of their new signings were in their Luxury and Upscale tiers. These properties drive significant revenue per room available and fee revenue, at year end Marriott's seven luxury brands represented 469 open hotels (Year of Historic International Expansion).

Asia-Pacific

Asia-Pacific is Marriott's largest region outside of the U.S. representing 16% of their total rooms. They have a 2020 Vision to have 1,000 hotels open and create more than 50,000 job opportunities. In 2019 they hope to open 100 new hotels and have brand debuts planned in Australia, Hong Kong, The Philippines, Nepal and India. Their Asia-Pacific portfolio encompasses 710 properties in 23 countries and territories with 23/30 of Marriott's global brands. Major growth drivers in the region include China, India and Southeast Asia as they are positioned to capitalize on global travel trends being three of the worlds four most populated nations. China is the biggest growth driver in the region providing more than 50% of Marriott's Asia Pacific pipeline. China is followed by India with more than 50 properties, given India's robust economy and rising middle class the country provides an exciting opportunity for growth with high demand for select brands and a growing interest in upscale and luxury brands.

Marriott has also experienced significant growth in Australia, New Zealand and Pacific regions, they remain on track to hit a target of 50 hotels in these regions by the end of 2020. At the moment they have 24 hotels in operation with an additional 18 approved for construction. They currently provide 2,500 hotel jobs and more than 4,500 rooms in the region and continue to grow leadership positions in gateway markets. In response to the market's continual growth in demand from travelers and developers Marriott had this to say, "We are growing an in-market development team, including specialist feasibility and architecture, and construction capabilities, which will make a huge difference in our ability to respond to a high level of new project enquiry." (Marriott International Targets Australia). Marriott is set to expand rapidly across Australia, they already have a strong presence in gateway cities including Sydney, Melbourne, Perth and Brisbane with plans to enter primary and secondary destinations in the coming years.

There are many factors that drive growth in the region including a rapid increase in consumer demand for quality and premium lodging options. Marriott also offers a plethora of strong brands that yield high returns to owners increasing investor interest. Australia also boasts over 1 million members of Marriott's global rewards program. With strong visitor arrivals and a significant shortage of hotel rooms in major cities across the country Marriott is in a position to capitalize on this high demand. *Craig S. Smith, president and managing director Asia Pacific* had this to say regarding Australia's' potential for growth In the market *"Australia is* *doing a fantastic job of driving interest from this segment by showcasing the premium product and experiences available here, but, as across the board in this market, demand is still outweighing the hotel product available," (Marriott International Targets Australia)*

Middle East & Africa

Marriott has strong expansion plans for their Middle East & Africa segment. Regarding Africa they see strong potential in establishing select brands in the region as they see strong demand and many conversion opportunities. During 2018 they had 5 new hotel signings solidifying their presence in Ghana, Kenya, Morocco, and South Africa with a debut in Mozambique. This puts the company on track to reach its goal of increasing Africa's portfolio by 50%, reaching 200 hotels and creating 12,000 jobs by 2023. Countries across Africa have been placing an increased emphasis on the travel and tourism sector making it ever more attractive to potential investors. Marriott estimates that five of their new projects will generate investment of over $250 million and generate substantial economic activity in the area. The company is set to expand into several new markets including Benin, Botswana, Ivory Coast, Mauritania, Mozambique and Senegal in the coming years. Alex Kyriakidis, President and Managing Director, Middle East and Africa, Marriott International had this to say regarding Africa's potential for growth *"African economies have sustained unprecedented rates of growth, which have mainly been driven by a strong domestic demand, improved macroeconomic management and increased political stability. The continent is still under capacity as far as branded hotel supply is concerned, presenting us with a fantastic opportunity to grow our brands and enhance our footprint," (Robust Expansion Plans Across Africa).*

The UAE also presents a strong opportunity for growth in the region, at the moment Marriott is the leading hospitality company in the UAE. They expect to add an additional 11 properties by the end of 2019, adding to its portfolio of 59 properties across 6 emirates. They have had two recent brand debuts in the region with the addition of Element Hotels brand in Dubai and EDITION brand in Abu Dhabi. Their expansion plan for the next five years includes adding more than 20 new properties generating over 5,000 new jobs. Marriott remains dedicated to aiding the UAE in strengthening the tourism sector by working with UAE governments to expand mid-scale segments in the region by growing their select portfolio. Marriott is also seeing an increased demand for branded residences in the region and plans to expand accordingly by working with investors to setup contracts to license their brands for construction of such properties. When asked about their success in the region Arne Sorenson, President and Chief Executive Officer, Marriott International has this to say *"Our success in the Middle East stems from our long-established presence in the market and the value we deliver to our owner-partners. It is the trust owners have in Marriott International, combined with our differentiated brands and collective strength of our global platform, that has put us in a position to further expand our portfolio in the country and strengthen guest loyalty." (Expects to Expand Its Portfolio in the UAE).*

Caribbean & Latin America

Marriott's strongest presence in the Caribbean & Latin American segment lies in Mexico with a portfolio of over 70 hotels in 2016 with an additional 17 being signed that year and plans to add an additional 38 by 2020. The company currently operates over 200 hotels in the segment in over 33 countries and territories consisting of 20/30 of their global brands. There is a growing demand in Mexico for full-service options and Marriott is responding to this with the opening of their Renaissance hotel in Cancun, Mexico falling in line with their aggressive expansion plan geared towards key markets in the region.

This strong performance in Mexico is contrasted by economic slowdown in the southern parts of the segment due to the downfall of commodity prices and subsequent devaluation. This provides a strong opportunity for investors with a long-term prospective as they are able to take advantage of reduced prices of assets, land and construction costs to develop new hotels. The president of Caribbean & Latin America has noticed this and announced a plan to increase hotel distribution by 75% with more than 60 hotels under development in the region including a tripling of the companies' presence in Brazil by adding an additional 11 hotels in the country. Brazil's economy is currently meeting structural and policy changes however, it remains one of the world's largest 8 economies presenting itself as a great long-term prospect. When asked about future expansion in Brazil Sheldon, President of Marriott's Caribbean and Latin America sector had this to say, "*The lack of reliable domestic hotel product and services represents a large opportunity for our moderate-tier brands, which we have adapted to the tastes of the Brazilian travelers – providing them both value and options." (New Hotels in the Caribbean and Latin America)*

Economic Performance

General

Marriott has been experiencing significant economic growth across all of its segments throughout the past years with exceptional performance in its Asia-Pacific region. As referenced in the chart below (fig.3) it can be seen that they have experienced growth in RevPAR (revenue per available room), Occupancy and Average Daily Rate across the board in all regions with the exception of the Middle East & Africa. The lowering of RevPAR and Average Daily Rate in the Middle East & Africa can be attributed to the expansion of their select brands in the region to match consumer demand. This tier does not provide as much revenue per available room as their more luxurious brands and for this reason they experienced this decline however, their occupancy has increased signaling strong growth in the region despite lower profit margins.

2018 Compared to 2017

Comparable Company-Operated Properties

	RevPAR		Occupancy		Average Daily Rate	
	2018	vs. 2017	2018	vs. 2017	2018	vs. 2017
North American Luxury [1]	$ 258.71	3.3 %	76.9%	(0.5)% pts.	$ 336.58	3.9 %
North American Upper Upscale [2]	$ 151.44	1.9 %	76.0%	— % pts.	$ 199.35	1.9 %
North American Full-Service [3]	$ 169.44	2.2 %	76.1%	(0.1)% pts.	$ 222.60	2.3 %
North American Limited-Service [4]	$ 109.72	0.3 %	74.9%	(0.4)% pts.	$ 146.55	0.8 %
North American - All [5]	$ 150.42	1.8 %	75.7%	(0.2)% pts.	$ 198.66	2.0 %
Greater China	$ 94.54	7.6 %	72.3%	2.6 % pts.	$ 130.77	3.7 %
Rest of Asia Pacific	$ 129.25	7.3 %	75.6%	1.6 % pts.	$ 170.99	5.0 %
Asia Pacific	$ 107.43	7.5 %	73.5%	2.2 % pts.	$ 146.14	4.2 %
Caribbean & Latin America	$ 131.52	8.6 %	64.8%	0.1 % pts.	$ 202.84	8.5 %
Europe	$ 151.86	4.8 %	74.0%	0.7 % pts.	$ 205.15	3.8 %
Middle East & Africa	$ 102.39	(1.8)%	66.4%	2.4 % pts.	$ 154.17	(5.3)%
International - All [6]	$ 118.86	5.2 %	71.6%	1.7 % pts.	$ 165.91	2.7 %
Worldwide [7]	$ 134.58	3.3 %	73.7%	0.8 % pts.	$ 182.67	2.2 %

Comparable Systemwide Properties

	RevPAR		Occupancy		Average Daily Rate	
	2018	vs. 2017	2018	vs. 2017	2018	vs. 2017
North American Luxury [1]	$ 245.35	3.5 %	77.0%	(0.3)% pts.	$ 318.54	3.8 %
North American Upper Upscale [2]	$ 132.64	1.8 %	73.5%	(0.1)% pts.	$ 180.54	1.9 %
North American Full-Service [3]	$ 143.64	2.1 %	73.8%	(0.1)% pts.	$ 194.59	2.2 %
North American Limited-Service [4]	$ 99.29	0.9 %	74.3%	— % pts.	$ 133.61	1.0 %
North American - All [5]	$ 118.51	1.5 %	74.1%	(0.1)% pts.	$ 159.94	1.6 %
Greater China	$ 93.96	7.5 %	71.7%	2.7 % pts.	$ 131.07	3.5 %
Rest of Asia Pacific	$ 128.40	7.0 %	75.3%	1.6 % pts.	$ 170.43	4.7 %
Asia Pacific	$ 109.14	7.2 %	73.3%	2.2 % pts.	$ 148.90	4.0 %
Caribbean & Latin America	$ 104.77	7.4 %	63.2%	0.1 % pts.	$ 165.71	7.3 %
Europe	$ 134.10	5.8 %	73.0%	1.4 % pts.	$ 183.74	3.7 %
Middle East & Africa	$ 98.38	(1.6)%	66.1%	2.0 % pts.	$ 148.87	(4.6)%
International - All [6]	$ 114.56	5.5 %	70.9%	1.7 % pts.	$ 161.48	3.0 %
Worldwide [7]	$ 117.37	2.6 %	73.2%	0.4 % pts.	$ 160.37	2.0 %

Figure 3

Asia-Pacific

Across Asia-Pacific segment 82 properties were added and 11 were closed during 2018. Profits increased by $95 million dollars in the region in 2019. There are a couple of reasons for this increase including, $26 million dollar increase in base management and franchise fees, $22 million dollar increase in incentive management fees driven by net higher profits and a $57 million dollar gain on the sale of 2 properties (2018 Annual Report). As you can see in the graph refenced below (fig.4) you can see a sharp increase in revenue from 2016 to 2017 due to their aggressive expansion initiative in the region with revenue leveling out going into 2018. However, profits in the region increased in the region by 26% going into 2018 as the initial investment payed off and they were able to capture more of the revenue as profit.

Asia Pacific

($ in millions)	2018	2017	2016	Change 2018 vs. 2017		Change 2017 vs. 2016	
Segment revenues	$ 1,118	$ 1,054	$ 631	$ 64	6%	$ 423	67%
Segment profits	$ 456	$ 361	$ 160	$ 95	26%	$ 201	126%

Figure 4

Drawbacks

There are some drawbacks to the international scale of the company along with the risks of doing business internationally. Firstly, they are in a highly competitive industry and operate within markets that are crowded with competitors, this presents them with the challenge of competing with many independent companies in reginal markets. Economic downturns also have the potential to impact growth, weak economic conditions, changes in oil prices and currency values, and disruptions in economies generally and the travel industry from changing governmental policies have the potential to negatively impact the hotel industry.

Operations are also subject to global, national, and regional conditions such as weak economic conditions and the treat of terrorism. There are also risks involved in foreign operations such as compliance with complex ad changing laws, regulations and governmental policies. Along with compliance with U.S. foreign laws that affect companies abroad. There are also the difficulties of managing business in so many different countries. Being a franchisor Marriott is very reliant on contract and intellectual property rights which may differ under local laws. Lastly, they must deal with currency exchange fluctuations that may affect their cash flows and bottom line internationally.

Future Expansion

Cuba

Cuba presents Marriott a great opportunity for expansion, in 2016 the U.S. Department of the Treasury approved them to pursue business transactions in Cuba. This was following Barrack Obama's visit to the island, the first U.S. president to visit the since 1928. Marriott entering the Cuban hospitality industry could generate new economic opportunities for businesses in the country along with providing valuable training to nationals in the hospitality industry. It would not only benefit Marriott but also the community of Cuba. Aside from this Cuba has recently had a surge of tourism from the U.S. as the tourism ban was lifted in 2014 creating a higher demand for lodging within the country.

Brazil

With Brazil's current economic slowdown, it presents a prime opportunity for expansion in the region. This slowdown allows for the construction of new hotels at a reduced cost of labor and materials. This opportunity is one that must be viewed in a long-term prospective as profits will not come right away. Even amidst this slowdown Brazil’s remains one of the world’s top 8 largest economies. Catering to the demand that is ever growing in the country is sure to lead to profits down the road with demand for moderate -tier brands increasing the smart move would be to add brands that can cater to Brazilian travelers by providing them with both value and options.

India

Given India’s robust economy and rising middle class it presents Marriott with an exciting opportunity for growth within the region. There is growing interest in upscale and luxury brands and a market that is yet to be saturated. India is one of the company’s biggest growth drivers within the Asia-Pacific segment with over 50 properties. Marriott sees this opportunity and already plans to open 50 new hotels in India within the coming years. It has one of the largest populations in the world with a growing tourism and international business sector that is guaranteed to bring in new travelers.

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Appendix

Figure 1

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Figure 2

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Figure 3

M. (n.d.). Marriott International, Inc. 2018 Annual Report. Retrieved from https://marriott.gcs-web.com/static-files/8799734e-b9e0-4e53-b194-7bd24a381118

Figure 4

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