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Marriott International: A Managerial Strategic Audit

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A MANAGERIAL STRATEGIC AUDIT

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Abstract

A strategic management audit of the public firm, Marriott International, was conducted to identify various factors and managerial strategies that affect Marriott and the global hotels and tourism industry. At the industry level, we conducted a PESTEL and Five Forces analysis, researched the competitive landscape, and assessed the total value potential. We found that the industry experienced a major decline during the COVID-19 pandemic but saw recovery as international travel opened up again. On the company level, we conducted an internal analysis, identified Marriott's management structure, and identified the firm's structure and strategies through a SWOT analysis and other relevant research. We assessed the makeup leadership team and Board of Directors and how it has influenced the corporate governance, organizational structures, and controls of the firm. Finally, we analyzed firm structure by looking at Marriott's business-level, corporate-level, and merger and acquisition strategies.

Marriott's successful mergers and acquisitions have allowed it to grow to be the largest firm in the industry. By employing a broad differentiation strategy with its 30-brand portfolio, it has been able to occupy nearly every segment of the market and maintain its competitive position through its consistent customer service, brand recognition, and customer loyalty through its Marriott Bonvoy program. The Marriott family has maintained influence through their presence on the Board and Executive team, which can be seen through recent voting decisions and compensation.

Key Words: Marriott International, Global Hotels and Tourism Industry, Strategic Management, Strategic Audit, Case Study

MARRIOTT

STRATEGIC AUDIT

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Executive Summary

As the largest firm in the international hotels and resorts industry, Marriott has a sprawling portfolio of brands and activities to manage. Its business model relies mainly on franchising and licensing its properties, while maintaining its goal of providing high-quality travel experiences for consumers. In the past several years, this industry has been largely impacted by external events, such as the pandemic, global conflict, and recession. However, the profit potential is likely to increase in the next few years as travel starts up again. The main threats facing this potential are the availability of substitutes and the fierce competition, but there are opportunities for Marriott given that it already has a lot of power within the industry. Because of the variety of price points and lack of differentiation between competitors, customer loyalty is extremely important to gain competitive advantage in this industry. Marriott's focus on sustaining and improving its brand portfolio, along with its strong financials, show that the company has largely been successful in staying ahead of its opponents. The firm continues to implement strategies to expand and maintain its share of the market.

As a firm, Marriott pursues a broad differentiation business-level strategy. Marriott differentiates by using its loyalty program, Marriott Bonvoy, to add value to stays in all of the brands in its portfolio. Marriott's 30 brands capture almost every niche in the market, having some high-end luxury brands that differentiate by offering unique experiences, while others use a cost-leadership strategy. At the corporate level, Marriott focuses on the sales and marketing operations aspect of the value chain, creating value within the firm from its franchising model and rewards system. Marriott creates a global ecosystem by focusing on connecting its franchises and company-owned hotels using its rewards system, which is invaluable to both the hotel operators and Marriott customers. Additionally, Marriott pursues a dominant business corporate diversification strategy, with its primary revenue coming from its franchised properties, and its secondary revenue coming from the properties Marriott owns. This level of diversification allows Marriott to focus on expansion while still setting a high standard of quality for a Marriott stay. Marriott also uses mergers and acquisitions to grow its global footprint. A key moment in Marriott's history was the merger of Marriott and Starwood hotels in 2016, which gave Marriott an additional 10 brands, over 1,300 properties, and an even larger loyal consumer base.

Marriott has implemented a variety of organizational controls and has a strong level of oversight from the Board of Directors. The board is made up of independent and insider members, and all receive performance-based compensation to try and align shareholder interests while minimizing conflicts of interest as best as possible. The firm's recent strategic decision to develop new global headquarters in downtown Bethesda, Maryland further supports Marriott's vision for the future and facilitates innovation throughout the company.

Strategic Leadership

History

Marriott, a company known for its superior leisure experience and international presence, was not founded on the idea of being the world's favorite vacation company. The Marriott empire began with one of America's favorite refreshments: root beer. In 1927, newlyweds J. Willard and Alice S Marriott opened "Hot Shoppes" restaurants, serving hot food items and, most notably, A&W rootbeer. The restaurant chain grew and reached new markets, eventually going public in 1953. However, after management shifted to Marriott's son Bill in 1957, the company made the historic redirection into the hotel business by opening the first of Marriott's hotels, Key Bridge Marriott, in 1959. For the next 25 years, Bill led the organization into new ventures, like opening its first international hotel in 1969 and cruise in 1972 ("Our Story") In the late '80s, Marriott honed in on the model that is commonplace today of "one company, many brands." Over the last 40 years, Marriott has opened and acquired hotel brands with different strategic positionings, which has allowed it to grab a piece of the market in nearly every corner of the industry. Although its 30 brands may look different, Marriott's reputation of superior customer service gives customers the peace of mind that any chain associated with Marriott is a good choice, which has aided in Marriott's position as an industry driver for decades.

Business Model

Marriott has many properties under different brand names and different price points to serve numerous markets. The majority of properties are franchised or licensed, while Marriott takes management fees and a percentage of annual revenues. This is where a majority of the company's revenue stems from. Marriott splits its portfolio into two main categories — Classic and Distinctive Brands — with Classic being the larger, traditional hotel services. They also encourage business and repeat customers with its loyalty and credit card programs. Ultimately, the company has succeeded in providing positive travel experiences to customers, consistently bringing these consumers back.

Mission, Goals, and Strategic Leadership

Marriott's current mission is to "enhance the lives of its customers by creating and enabling unsurpassed vacation and leisure experiences". The vision to be the world's favorite travel company is supported further by Marriot's core values of putting people first, pursuing excellence, embracing change, acting with integrity, and serving the world. At this point in Marriott's trajectory, the firm is focusing on delivering consistency in its guest experiences while maintaining low operational costs, expanding globally, and continuing and developing positive relationships with the owners and franchisees of Marriott. One of the more targeted goals includes developing and strengthening its already established loyalty program in order to boost consumer loyalty further. Additionally, Marriott is emphasizing its core value of embracing change by vocalizing its initiative to increase representation at the VP level and above, intending to boost diversity by 25% before 2025.

Anthony Capuano | CEO

Before taking the position of CEO last year, Capuano was on the Market Planning and Feasibility Team, where he helped determine the economic viability of current and new hotels. His experience in service development on a global scale gives him the vision to push Marriott forward. He also sits on the board of directors for McDonald's corporation ("Anthony Capuano").

Stephanie Linnartz | President

Stephanie's primary role is to develop the company's global strategy, including brand, marketing, revenue management, and loyalty strategies. Linnartz has been a part of Marriott for 25 years, holding various roles in finance, marketing, brand management, distribution, and technology, before being appointed President in 2021. She was named in the top 30 Influential Women in Hospitality in 2017, and top 100 women in Brand Marketing in 2018. Stephanie is also committed to diversity and inclusion. She sits on the board of Marriott's Social Impact and Inclusion Committee and for nonprofits like Fair Chance and Teach the World Foundation ("Stephanie Linnartz"). Linnartz's experience across the company has helped her understand the threats and opportunities facing Marriott and the industry. She is able to use this knowledge to help Marriott continue to innovate and set new standards of hospitality.

Kathleen Oberg | CFO

Kathleen Oberg has served as Marriott's CFO since 2016, after holding the CFO position at Ritz-Carlton for three years, one of Marriott's top luxury hotel brands. She has held several roles in her 23 years at Marriott, specializing in long-term financial plans, annual budgets, and merger and acquisition opportunities ("Kathleen Oberg").

Ty Breland, Tricia Primrose, Rena Reiss | Executive VPs

Ty Breland oversees inclusive talent acquisition, learning development, competitive compensation, and HR operations for the 600,000 associates that Marriott employs worldwide. His ability to inspire leadership has come from holding several different HR leadership roles at Marriott, including being the primary business partner for acquisition integration and developing an Emerging Leadership Program. His vision of reshaping the front line has resulted in Marriott being recognized as a Fortune 100 Best Companies to Work for and being ranked #1 on DiversityInc's top 50 companies for diversity ("Ty Breland"). Tricia Primrose serves as Marriott's chief officer of corporate communication, government affairs, consumer/brand communication, and social impact. She is an expert in communication strategy, leading over $2.5 billion worth of mergers and acquisitions in her time at AOL, including leading AOL's communication strategy when it went public ("Tricia Primrose"). Primrose is the opportunity and inclusion advocate for company associates. Rena Reiss has over twenty years of legal experience in the hospitality industry. She was a part of Marriott's legal team for ten years before switching to Hyatt hotels to serve as its executive general counsel. She held this position for seven years before coming back to Marriott to take over as its executive general counsel. Being a Harvard Law graduate, she is a key player in Marriott's risk and global asset management ("Rena H. Reiss").

External Analysis

General Environment

The COVID-19 pandemic has transformed how people do business, connect, and view travel experiences. These effects, when accumulated, have sparked high levels of uncertainty in the hospitality industry. Understanding the trends in the general environment and how they can affect an industry is necessary for making strategic decisions that create a sustainable competitive advantage. Using a PESTEL analysis to evaluate the general environment segments brings to light opportunities and threats that the Global Hotels and Tourism industry can expect to see.

One of the most significant threats in the general environment comes from global and political segments. Since Russia invaded Ukraine, most firms have suspended operations in Russia and are losing business in Ukraine as citizens continue to flee the country. As global tensions continue to rise in other areas of the world, the industry could see more loss of property and business if threats continue to escalate. However, this conflict has also provided opportunities to increase brand awareness and social impact, such as providing lodging to refugees and donations towards humanitarian aid.

The looming recession and rise in inflation rates are major threats brought on by the economic segment of the general environment. Domestic demand for hotel accommodations is directly tied to disposable income. When people have to tighten spending, non-essentials like travel are often the first to go. In 2020, international travel dropped by over 70% due to COVID-19, causing industry revenues to drop by 39% (Le, Thi). While it is unlikely to see international and domestic travel decline as much as it did during the pandemic, firms are still in recovery and may be more susceptible to financial distress.

Since the pandemic, we have seen global supply chain constraints, which have impacted nearly every industry, hospitality being no different. Although hospitality is largely a service-focused industry, supply chain issues may hold up resources such as food and hotel toiletries, both important aspects of many hotel experiences. Relating to the global and ecological segments, drought frequencies and durations have been increasing for over two decades. Estimates show that over 2 billion people worldwide currently face water stress ("World 'at a crossroads' as droughts increase nearly a third in a generation."). If this problem continues to compound, hotels could find it much more difficult and expensive to supply water to buildings.

While there are many threats currently affecting the industry, there are also several possible opportunities. Looking at the sociocultural segment, consumers are beginning to favor experiences over products as a way to spend money, benefiting the travel and hospitality industries. As society continues to shift into a post-pandemic world after two years of primarily staying at home, people are more ready than ever to return to traveling. An increase in the number of people working at home or hybrid since the pandemic is a mixed opportunity and threat. On one hand, people have more freedom to work from where they want, meaning traveling and working from hotels is an option. On the other hand, there are fewer opportunities to travel for work, which removes a major source of income and leaves large spaces in these buildings empty.

The technology segment has also proven to be an opportunity to the industry by increasing competition and accountability through the use of online reviews and price matching. Consumers are now able to find all of the lodging options in an area, which challenges firms to hold themselves to a higher standard when it comes to offering a reasonable price and good service to win business.

Industry Value Potential

The total value potential of the global hotels and resorts industry in the next five years is $1.4 trillion, which will continue to grow following that estimation. Before COVID-19, the industry was experiencing healthy growth, with travelers becoming more comfortable with travel budgets. Coronavirus drastically halted growth and the industry saw a 22% decrease in revenue in 2021. With coronavirus clearing up and people unable to travel, the industry is expected to make substantial growth in revenue with new hotels and more travelers. The tourism industry is expected to grow 19.9% in 2022 alone for this reason (“Tourism in the US - Market Size 2005–2028”). This growth will remain unusually high for the next few years as the market returns to its pre-pandemic normals, then is expected to grow at a modest rate (“Tourism sector market size US 2021”).

Industry Environment

Porter’s Five Forces model analyzes the business environment within the global hotel and tourism industry. This model shows how Marriott and other competitors in the industry face certain forces such as the threat of new entrants, the threat of substitutes, the power of suppliers, the power of buyers, and finally, the rivalry amongst competitors.

The threat of new entrants in the global hotels and resorts industry is low. To open a competitive hotel, a new entrant must provide substantial upfront capital to cover construction and infrastructure. The nature of hotels and resorts requires a significant amount of time and resources to establish partnerships with food, toiletries, linens suppliers, and related services. Once a firm possesses the foundation of a successful hospitality establishment, the market still poses significant barriers to entry through the need to advertise to individuals who already possess brand loyalty. These barriers ultimately prohibit and discourage many interested firms from entering the industry.

The threat of substitutes is high within the industry. Substitutes to global hotels and resorts include but are not limited to motels, camping grounds, hostels, bed and breakfasts, and lodging through apps such as Airbnb and Vrbo. Other alternatives to hotels and resorts include seeking accommodations from friends and family or refraining from overnight travel. The switching costs between these substitutes are low and may be more economical than a hotel. Options such as Airbnb create not only variety in price range but also offer unique stays in unconventional locations such as treehouses, igloos, and other one-of-a-kind experiences. Despite the appeal of these substitutes, Marriott and other traditional hospitality brands hold high reputations that have created a loyal community of consumers who do not stray from their preferred hotel company.

The power of suppliers is low. Firms in the hotel industry look to suppliers to stock toiletries and food for guests. These supplies, while beneficial, are not central to the operation of a service-based industry. Many of these firms hold strong relationships with their suppliers, carrying the same brand across all hotel locations. However, the supplies are not substantially differentiated across suppliers. This leads to lower switching costs unless a hospitality firm has signed a partnership contract that commits them to specific brands. Because the suppliers' markets are very competitive, they typically have little bargaining power with hotels and resorts, as these firms could find another similar provider without much issue. Marriott represents a significant portion of business for some of its suppliers, which they cannot afford to lose. This leads to a more favorable negotiating environment for Marriott and its competitors.

The power of buyers is rated as low to moderate. Strong competition exists in the hotel and resort industry, with each firm’s brand reputation representing a dependable quality experience that sets them apart. Buyers face low switching costs between hotels, but the developed loyalty programs amongst each firm work to increase the intangible cost of switching. The industry is densely populated with buyers, giving them relatively low power over firms. However, websites like Trivago and Expedia aid in increasing this buyer power. Businesses can hold greater buying power when they continually choose the same line of hotels for employee travel accommodations. If companies were to shift away from using Marriott locations as a place to stay in favor of competitors or substitutes, it could have a meaningful impact on Marriott, as approximately 20% of its business comes from business travel.

Marriott remains the largest player in hotels and resorts, but it faces intense competition from its rivals. Other big names in the industry include but are not limited to Hilton Worldwide Holdings, InterContinental Hotels Group, and Wyndham Hotels and

Resorts. With so many firms of similar size, it is no surprise that these companies hold a strong sense of rivalry amongst each other. The high barriers to entry into the industry also require that firms be highly committed to its business. Considering most major firms provide accommodations at various price points, the only major differentiation between firms comes from branding and rewards programs, which allow them to obtain and maintain loyal customers.

Industry Analysis Limitations

While Porter's Five Forces offer a strong industry analysis, weaknesses are still present. To start, the model is a backward-looking snapshot. It is based on an industry analysis at a specific point in time, limiting its relevance to the short term. In the long term, disruptions not yet observable when using the model will happen. Forces such as globalization and rapid technological development add to this limitation as they can both suddenly and significantly impact the industry. Another limitation of the model is that it analyzes a single industry. Many businesses today operate in multiple industries and/or compete with firms outside of their particular industry. For example, a Five Forces Analysis for the streaming industry would compare Netflix to other streaming platforms. However, Netflix’s broad spectrum of competitors and substitutes can include any firm claiming consumer leisure time. Additionally, Porter's model may overlook competitors specialized in a single segment of a firm's business, for example, Nikon competing with Apple iPhone cameras. The analysis is beneficial, but the drawbacks mentioned cannot be ignored when developing a strategic plan, particularly in the hospitality industry.

Internal Analysis

Industry Perspective

The general environment for Marriott presents opportunities for recovery coming out of the pandemic. According to the 2021 annual report worldwide, RevPAR grew from down 59% in the first quarter of 2021 compared to 2019 to down only 19% in the fourth quarter (Marriott International 2021ar, pg ii). As vaccine rates increase, travel has seen a resurgence giving hope that the hotel and resort industry demand will pick back up to its pre-pandemic levels. The ADR (Average Daily Rate) was down only 11% for the year and just 2% in the fourth quarter, demonstrating siignificantly faster recovery than previous shocks to travel, such as the 2009 recession and 9/11 (Marriott International 2021ar, pg. ii). Marriott sees itself as "poised for growth" during this recovery period. It saw a significant addition of more than 86,000 rooms in 2021 and plans to continue that growth, specifically in its luxury lines which hold high-fee earnings (Marriott International 2021ar, pg. iii). Marriott also wants to develop Marriot Bonvoy to hold a more active role in its members' lives. To achieve this, Marriott is working in collaboration with Uber, facilitating the purchase of travel insurance, and expanding the website language capabilities.

Covid-19, however, still poses a significant risk to Marriott. Disturbances to the pandemic recovery could reduce revenues, impacting the value of its investments and properties. Other significant hazards in the industry include its highly competive nature, which makes it difficult to "compete successfully for guests" (Marriott International

2021ar, pg. 12), as well as potential future economic downturns or disruptions that could impact travel demand. Within its operations, Marriott has assessed several other critical risks. The increase in the use of third-party internet booking services could "adversely impact our business" (Marriott International 2021ar, pg. 13). The significance of international operations to the business also makes it susceptible to increased cost, disruption, and fluctuating exchange rates (Marriott International 2021ar, pg. 13). This also includes impacts on real-estate investments which makes up an important segment of Marriott's assets.

Customers

Marriott owns over 8,000 properties across 139 countries and territories, making them “the most powerful portfolio in the industry,” (“About Marriott International | Corporate Information”). Marriott’s positioning in the industry is due in part to the firm’s impressive ownership of 30 brands, which fall into categories of luxury, premium, select, longer stays, and collections. The diverse array of brands means that Marriott’s overall target market broadly targets individuals with a desire for travel, and funnels this large population into specific markets for each brand under the Marriott umbrella. The following table lists some of Marriott’s most prominent subsidiaries and the respective markets which they target.

Brand	Price Point	Locations	Demographics
The	$$$$$	30+ countries and	Business executives, upper

Ritz-Carlton[1]		territories, centrally located in major cities and luxury tourist destinations	and upper-middle class families, high-income middle-aged individuals
Sheraton[2]	$$$$	70+ countries and territories, centrally located in major cities and high-end resort destinations	Business executives, upper-middle-class couples and families, honeymooners
Courtyard[3]	$$$	60+ countries and territories, located in major cities, near airports, and resort properties	Middle-tier corporate employees, middle and upper-middle class families, middle-aged adults
ALoft Hotels[4]	$$$	25+ countries and territories, located in major urban areas	Digital-savvy generations, young singles and couples seeking social accommodations, middle and upper-middle class
Marriott Executive Luxury Apartments[5]	$$	15+ countries and territories, located in major cities near business hubs	Corporate expats, individuals and couples temporarily relocating to new regions, upper and upper-middle class
TownePlace	$$	United States and Canada,	Corporate employees,

Suites[6]		located near large cities, airports, and suburbs with business hubs	individuals and couples relocating temporarily, middle class

Luxury	Premium	Select	Longer Stays

Data from (*The Ritz-Carlton*)[1], (*Sheraton Hotels & Resorts*)[2], (*Courtyard by Marriott*)[3], (*Aloft Hotels*)[4], (*Marriot Executive Apartments.*)[5], (*Towneplace Suites*)[6]

Resource Analysis

At the end of 2021, Marriott reported 7,989 company-operated properties either owned or leased, adding up to approximately 1,479,179 rooms (1, page 25). Per the 2021 Balance Sheet, Marriott holds approximately $25.6 billion in assets, of which $1.5 billion are property and equipment. Marriott's intangible assets at the end of 2021, including brands, contract acquisitions, and goodwill, are estimated to be worth $18 billion ("2021 ANNUAL REPORT", 42). Marriott holds ownership of the brand names, trademarks, service marks, trade names, and logos for its 30 business lines. While the firm no longer holds the same level of capital as it did prior to its adoption of a franchise model, Marriott still holds substantial intangible assets in the form of its corporate partnerships, business ecosystem, and loyalty program. Marriott also holds multiple patents under Marriott International, Inc. in relation to the firm's systems, methods, and equipment for hotel multicast services, key printing, and measuring revenue performance for a lodging establishment ("Patents Assigned to Marriott International, Inc.").

	Managed		Franchised/Licensed		Owned/Leased		Residential		Total	
	Properties	Rooms	Properties	Rooms	Properties	Rooms	Properties	Rooms	Properties	Rooms
U.S. & Canada	638	218,798	4,983	713,781	26	6,483	65	6,925	5,712	945,987
International	1,305	334,374	805	163,955	38	9,209	37	2,953	2,185	510,491
Timeshare	—	—	92	22,701	—	—	—	—	92	22,701
Total	1,943	553,172	5,880	900,437	64	15,692	102	9,878	7,989	1,479,179

Marriott has positioned itself as an industry leader because of its ability to provide superior customer service, benefits, and amenities at different price points and types of stays. Its success can be seen in its capture of 1.9% of the market share, the largest by any one firm (Le, Thi). The variety of patented brand portfolios allows it to take on different cost leadership and differentiation positionings to meet consumer needs while maintaining a robust and universal reputation in the market. Marriott also has substantial capital resources, which allow it to continually shift its positioning to capitalize on hospitality trends, such as taking on strategic acquisitions to help it enter the growing leisure market of all-inclusive resorts and extended stay hotels. The Marriott Bonvoy program and its relationship with other firms have helped Marriot build an ecosystem of brand loyalty. Marriott's partnerships with companies like American Express, Chase, and Uber allow people to accumulate points for free hotel stays. These credit cards require multi-year contracts, which allows Marriott to retain customers due to the high switching costs and potential loss of accumulated points pending a broken contract. Because of its brand recognition, Marriott is able to maintain strong relationships with these companies and grow its business with new franchising agreements and acquisitions.

Core Competencies

Marriott, as an industry leader, has positioned itself for continual growth through the numerous brands under the Marriott umbrella. These thirty brands, all associated with Marriott, enable the firm to reach different consumer markets from low to high income both nationally and internationally. Consumers can select the type of stay they want to have, all with Marriott's guaranteed service. Marriott added 86,000 rooms in 2021, a company record for the market leader, with a larger focus on international markets as over half of the servicing is from outside of the United States.

One of the main points noted in the 2021 Letter to Shareholders was Marriott positioning itself for growth. Many impressive, record-setting numbers for the company, such as its room development, were given as evidence. The letter also mentioned targeting certain groups, including the international market and luxury hotels. These all demonstrate Marriott's competency of leveraging its large consumer base to grow and create additional value.

Value Chain Analysis

Primary Activities

First and foremost, Marriott must focus on providing service to its customers. Ensuring hotel and resort staff provide customers with an excellent experience is a core factor driving the firm's value. Technology falls under this primary activity as well, playing a major role in the enhancement of bookings and other customer service related functions.

Another key component of the guest experience is the products used during stays, including food, beverages, toiletries, and other items provided by the hotel. The procurement and delivery of these products requires a well-managed supply chain, making supply logistics another primary activity for delivering value.

Due to the number and variety of brands owned by Marriott, marketing is another primary factor in Marriott's value chain. Each brand must have its own distinct consumer appeal at different price points and within various target markets.

Finally, Marriott relies on the expansion of its operations to continue growing and creating value for consumers. Opening hotels in new geographical areas creates both a new consumer base and encourages travel for already loyal guests. By having locations in all corners of the globe, consumers can experience the Marriot brand from anywhere. Barriers to entry are very prevalent in this market, as the large players are impressively established. Marriott could arguably place a hotel anywhere, and immediately attract customers through the brand, furthering this need to grow geographically.

Support Activities

In response to the massive amount of customer data needed for reservations, loyalty programs, and other offerings such as credit cards, information systems are a highly important support activity for Marriott's value chain. Without these, Marriott would not be able to securely process the expansive amount of information necessary for its business. Within information systems, the organization can narrow the target market of each of its brands, furthering each line's success and lowering marketing costs.

Marriott's focus on superior service requires human resources as another supporting branch of the business. Hiring and retaining employees who want to improve the experience of guests provides the framework to develop connections with customers and secure their loyalty. HR also helps maintain the firm's infrastructure by making policies that keep employees responsible and engaged, characteristics critical to the industry.

Research and development help Marriott's business thrive by finding new ways to enhance the customer experience, focusing on improvements in areas such as construction, sustainability, building operations, and room design. Lastly, Marriott uses accounting and financial processes to regulate the company's assets, monitor the financial health of the firm, and support its growth.

SWOT Analysis

Strengths

Marriott's greatest strengths are its strong global presence, as well as its brand reputation and the trust it has developed with customers. Currently operating in 139 countries, Marriott serves as a reliable option for international travelers. Additionally, it has 30 different brands within the portfolio, which provides options for travelers of all budget levels. Spreading operations across regions also reduces risk by diversifying and avoiding being dependent on any one region. Marriott's scale allows it to keep costs lower on a per project basis, and have strong profitability metrics compared to the competition. Marriott also has one of the best developed rewards programs of any brand; the recently rebranded "Bonvoy" program has more than 110 million members.

Having this many customers in its ecosystem makes it much easier to connect with members and turn them into repeat customers (“Marriott International's Three Loyalty Programs Unify”). Marriott has leveraged Bonvoy’s success to form partnerships with Chase and American Express, which works to keep customers within its ecosystem, further building loyalty.

Weaknesses

While its scale is one of Marriott’s greatest advantages, being such a large organization can prevent it from being agile and adapting to the current market environment. For example, younger generations are embracing group travel, or travel with friends, which is spurring growth in the industry. However, Marriott’s locations are better designed for families and may struggle to accommodate these groups. Additionally, labor costs have been rising quickly, and after laying off a significant portion of its workforce in 2020, Marriott has struggled to fill many jobs across locations. This not only will drive up costs for the company, but will also impact the level of service which guests have come to expect.

Opportunities

Following a sharp decline in the tourism industry in recent years due to the COVID-19 pandemic, there is expected to be a significant bounce back in 2022. International travel by US residents is expected to be a significant driver of this growth, which plays into Marriott’s strengths, and presents an opportunity to gain greater market share (“Tourism in the US - Market Size 2005–2028”). Having one of the most widely used hotel rewards programs will help Marriott retain customers that it is able to attract.

Additionally, Marriott has begun offering short-term rentals, designed to compete with Airbnb and other substitutes whose business models have grown in popularity in recent years (Scholz). The trust that is associated with Marriott's brand along with the ability to be more transparent with pricing may give it an advantage in entering this space.

Threats

The hotel industry is competitive, and there are a number of strong competitors who have similar strengths as Marriott. Additionally, Airbnb has created a new category of vacation stays which has disrupted the leisure segment of its business over the past decade. In 2018, Airbnb style rentals captured 16% of the US lodging market. Just two years later, in 2020, that number jumped to 29% (Ajmera). Additionally, anything that may disrupt travel poses a significant threat to Marriott. The COVID-19 pandemic is one example of such an event; the company's revenues plummeted by 72% year-over-year in the 2nd quarter of 2020 (Lock). Sanctions placed on Russia for the war against Ukraine has also caused Marriott to cease all operations there, closing 22 locations ("Ukraine war: Marriott hotel chain to leave Russia after 25 years"). Future political events or natural disasters may cause significant disruptions to Marriott's business like these occurrences have.

Performance Analysis

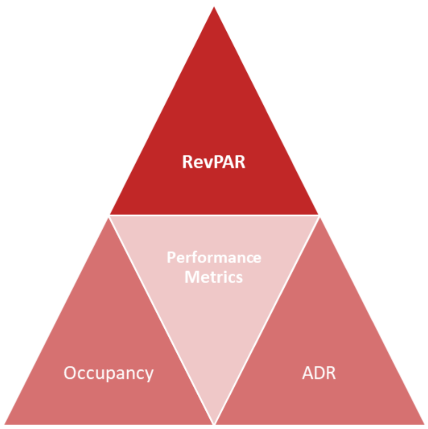
Performance Relative to Expectations

Marriott, along with the rest of the hospitality industry, struggled significantly during the COVID-19 pandemic, with quarterly revenues dropping 72% year-over-year in the second quarter of 2020 (Lock). While revenues have still not recovered entirely, they have risen dramatically, and the company expects fiscal year 2022 results to return within 3-6% of 2019's record levels ("2021 Annual Report"). The company has also signaled confidence in the strength of its business by reinstating its quarterly dividend in May, which it had suspended for the two years prior. It is also notable that recent earnings calls and press releases have been forward looking and focused on opportunities for growth and development that position Marriott well against competition. Much of the company's prior focus had been on explaining poor performance throughout the pandemic. This shift in attitude signals that conditions have improved, and that better performance can be expected to come. Strength in the rewards program and the ability to invest in modern stay concepts are some of the biggest reasons for Marriott's optimism.

Performance Metrics

Marriott looks at several metrics to determine its performance relating to its different stakeholders.

There has been more attentiveness to financial metrics as Marriott still feels the pandemic's impacts. An important financial metric Marriott uses to evaluate its performance is revenue per available room (RevPAR). RevPAR is calculated by dividing room sales for similar properties by room nights available in a particular period. According to Marriott's 2021 Annual Report, in the first quarter of 2021, RevPAR was down 59% compared to 2019 but saw improvements as the year went on, with only being down 19% by the end of the fourth quarter.



Occupancy and average daily rate (ADR) are two components of RevPAR that are useful indicators of customer satisfaction through usage data. ADR helps measure pricing levels by dividing room revenue by total rooms sold. Occupancy assesses the utilization of an individual property's available capacity by dividing occupied rooms over the total rooms available. ("2021 Annual Report"). The correlation of these three metrics can be seen by looking at the 2021 quarter four performance. Occupancy and ADR were down 11.9% and 2.3%, respectively, leading to the 19% down RevPAR.

Marriott did not explicitly state any customer satisfaction metrics in annual reports. A common external method of measuring consumer satisfaction is the American Customer Satisfaction Index. Marriott scored 78 out of 100 in 2021, higher than 2020 but lower than previous years. These trends are very similar to other competitors. Marriott has a wide array of consumers and target markets through many types of hotels, leaving a difficult measure to capture. The brand is also well-established as a household name, with most customers understanding the quality of stay they will receive when booking a room. These three factors lead to a higher focus on financial metrics rather than customer satisfaction measures.

Additionally, the hospitality industry demands great customer service to be successful. COVID-19 provided Marriott an opportunity to reassess employee satisfaction. In 2020, the company paid out RSUs that would not have been paid until 2021 to assist officers and employees with COVID-19 recovery. The Human Capital Management section of the 2021 10-K speaks to the emphasis on employee wellbeing, benefits, and career growth opportunities. Like customer satisfaction, no specific indices were mentioned to track this ideal. This all culminates in the confidence in Marriott's current driving metrics to be financially oriented.

Competitive Advantage

Because of the lack of differentiation between the large hotel & resort firms, any competitive advantage must come from customer loyalty, quality of booking and lodging experience, and additional offerings. As the largest company, Marriott's size holds an advantage, but this is not necessarily sustainable.

Using the financial performance metrics mentioned above (RevPAR, Occupancy, and ADR), we can compare Marriott's performance to industry averages and specific competitors to gauge whether or not it has competitive advantage. The table below shows how Marriott's system-wide metrics compare to industry averages within the U.S., and to Hilton, Marriott's largest competitor (global information was not available).

		Industry Average	Marriott		Hilton	
		2021	2021	vs. 2020	2021	vs. 2020
U.S.	RevPAR	$71.87	$81.55	67.7%	$80.88	64.5%
	Occupancy	57.6%	55.2%	18.4% pts	60.8%	18.8% pts
	ADR	$124.67	$147.84	11.7%	$132.94	13.8%
Global	RevPAR		$74.66	60.4%	$73.65	60.4%
	Occupancy		51.3%	16.1% pts	57.2%	16.9% pts
	ADR		$145.56	10.0%	$128.82	12.9%

System-Wide Performance Metrics (includes company operated and franchised properties); Data from: "2021 Annual Report," 26; "Hilton Worldwide," 53; "STR".

Marriott generally has higher RevPAR and ADR than its competitors, but lower occupancy. As stated in the annual report, a higher RevPAR indicates that "our hotel brands are attractive to hotel owners seeking a management company or franchise affiliation" ("2021 Annual Report," 14). RevPAR provides insight into Marriott's ability to expand and grow its business and attract new franchisees. ADR, on the other hand, helps analyze Marriott's pricing levels and whether or not they are competitive. Judging from the high revenue per room, Marriott is quite successful by this metric.

The only area of performance where Marriott lags is in occupancy, which gauges demand. Although only a few percentage points behind Hilton and the industry average, Marriott does seem to have lower demand, which could be a concern for future growth. However, given Marriott's profitability as indicated by other metrics, this does not seem to be a major issue.

One other performance indicator that may be a useful demonstration of Marriott's competitive advantage is the number of members in its rewards program, as this demonstrates customer loyalty. Marriott has approximately 160 million members in Marriott Bonvoy, compared to 128 million in Hilton's reward program, 100 million in IHG's, and 50 million in Choice Hotels' ("2021 Annual Report," iii; "Hilton Worldwide," 53; "IHG"; "Choice Privileges"). This shows that Marriott has been quite successful in attracting loyal customers who will help the firm sustain its advantage over time.

Executive Compensation System

Marriott's compensation incentives for its upper executive team follows the principles that company performance and pay should be strongly correlated, that compensation should contribute to long-term stockholder value, that payment should motivate associates to aid in reaching Marriott's short and long-term objectives, and finally that the compensation program should be competitive in order to attract and retain key talent. With these four principles as guidance, Marriott uses extensive market research, individual performance, and internal comparative salary considerations to determine executive salaries. Additionally, annual cash incentives are provided as a proportion of NEO's salaries upon reaching pre-established financial and business operations targets (*2022 Proxy Statement*, 48). The type of these targets also affects the size of the incentive, with financial targets carrying a weight of 60% and business components holding a 40% weight.

Name	Title	Salary	Target Award % of Salary
Anthony Capuano	CEO	$1,300,000	200%
Stephanie Linnartz	President	$1,000,000	100%
Kathleen Oberg	CFO, VP of Business Operations	$900,000	100%
William Brown	Group President, US and Canada	$750,000	75%
Craig Smith	Group President, International	$750,000	75%

Data from (*2022 Proxy Statement*, p.48-50)

Competitive Dynamics

Degree of Concentration

The Global Hotel and Resorts Industry has a low concentration. The four-firm concentration ratio is less than 5%. Diving into the four firms that make up this concentration ratio, Marriott is at the top of the leaderboard with respect to capturing market share with 1.9%, followed by Hilton Worldwide Holdings Inc. with 0.8%, Accor SA with 0.4%, and InterContinental Hotel Group (IHG) with 0.3% (Le, Thi). This is a very competitive market that is difficult to establish a significant global market share in. Although these major brands have a presence in major regions and countries worldwide, there are countless smaller, often family-run hotels. These smaller brands are often better able to hit a specific area's accommodation styles and standards, making them an attractive option. However, with the growing popularity of franchising, concentration is expected to continue to increase (Le, Thi).

Competition

Marriott International remains the largest player in the global hotel and resort game, but Hilton Worldwide poses the greatest risk to Marriott as a direct competitor. With headquarters in McLean, Virginia, Hilton was founded in 1919 by Conrad Hilton and currently employs over 360,000 associates ("Hilton – FAQs"). On the global scale, Marriott holds a 1.9% market share, and is considered the only major player. However, in the United States alone, Marriott holds a 0.3% share while Hilton serves 0.2% of the market (Ristoff 8).

Marriott operates across 139 countries and territories, with Hilton trailing closely behind in 122 countries. The scale of properties is also similar, with Marriott operating just under 8,000 properties and Hilton operating 7,000. While Marriott holds a broader market with its 30 brands, Hilton also diversifies its portfolio through its 18 hotel lines

("Hilton Brands | Global Hospitality Company"). Waldorf Astoria, DoubleTree, Embassy Suites, Hilton Garden Inn, Hampton Inn & Suites, and Home2 are just a handful of the many brands Hilton offers. The structure of Hilton and Marriott's subsidiaries is similar, with both firms operating across various demographics and price points. Each hotel brand under the Marriott umbrella has a comparable Hilton line regarding price point and target demographics. These hotels tend to cluster in the same geographic regions, often situated within blocks from one another.

Hilton's balance sheet proves to be less impressive than Marriott's. Compared to Marriott's $25.6 billion in assets, Hilton's 2021 balance sheet reported $15.4 billion. Hilton's current assets made up $2.87 billion, while intangible and other assets were estimated to be worth $12.57 billion. While Marriott holds $1.5 billion in property and equipment, Hilton holds only $305 million in such assets ("2021 Annual Report"). At close on September 30th, 2022, Hilton's stock (NYSE:HLT) was selling for $120.62, with Marriott's stock (NYSE:MAR) valued slightly higher at $140.14.

Strategic Actions

There are two recent strategic actions taken by Marriott covered here: business in the Middle East and the expansion of its co-branded credit cards.

Marriott's planned expansion into the Middle East will add over twenty properties and 5,000 rooms by the end of 2023. It will focus mainly on the luxury and select segments, some of Marriott's most recent successful markets, including the debut of several new brands. These openings will leverage the growing tourism industry in the Middle East, helping Marriott to continue its rapid expansion in the international markets. In particular, Marriott plans on opening six new hotels in Qatar before this year's FIFA World Cup, which will bring in more tourism ("Marriott International Set to Expand"). Likewise, Hilton plans on increasing its business in this area, with a planned 24,000 new rooms over the next 5 years across the Middle East, Africa, and Turkey ("Hilton Middle East").

Marriott is also broadening the number of options available for its co-brand credit cards, introducing the Marriott Bonvoy Bevy™ American Express® Card and the Marriott Bonvoy Bountiful™ Card from Chase. Both of these cards are designed for travelers who want to quickly earn points towards free stays at Marriott hotels ("Marriott Bonvoy"). These will encourage more customer loyalty among Marriott customers and take advantage of the growing demand for travel after the pandemic. Other competitors in the industry have also updated their own credit card and loyalty programs to meet increasing demand, such as IHG's large changes to its portfolio in March of this year (Frankel).

The similarity of these actions across multiple companies in the industry emphasizes the competitiveness of the market and the struggle to take unique actions that differentiate individual firms. In this industry, market share is difficult to capture quickly and relies more on long-term, sustained growth than single actions taken by individual firms. With the main players being well-established, the players fight for portions in new markets and grab new loyal customers, leaving these actions to show little overall change in the competitors' success.

Business-Level Strategy

Differentiation

The industry leaders all offer products in nearly every segment of the market, but Marriott differentiates itself by how it integrates its rewards system with its wide range of product offerings. In February 2019, Marriott unified the rewards systems for some of its distinct brands into one system, allowing members to redeem points at over 7,000 properties worldwide, more than any of its competitors. The points needed for a given stay are grouped by the category of hotel and the whether the hotel is in a peak pricing season, which has more standardized pricing than dynamic pricing models that companies like Hilton use. This adds value to the customer because consumers can better predict the points they need and save money when traveling to a popular destination and a busy time.

Additionally, Marriott focuses its best reward offerings on elite-status members and business travel. Elite status is very generous with its perks, such as room upgrades, club lounge access, and superior dining, because it requires a high level of brand loyalty, but continues to provide value to consumers as it has the largest number of hotel offerings, which makes it easier to earn and benefit from its program. Marriott's business travel rewards are superior for similar reasons. With its diverse portfolio, Marriott can cater to all scales and budgets of business travel, from large-scale conferences to single business travel across the world. The program was valued more per point than its competitors, worth 0.7 cents per point, compared to Hilton Honors points at 0.6 per point. These small yet valuable differences have helped Marriott maintain their industry-leading loyalty platform, with over 160 million members at the end of 2021 (“Marriott International Provides an Update on Development Progress in 2021”).

Cost Leadership

Marriott has 30 distinct brands, each of which serves a specific purpose in Marriott’s portfolio and targets a particular consumer market. A majority of these brands cater to higher-end markets and do not pursue a cost leadership strategy. However, there are a few brands, such as SpringHill Suites and Fairfield Inn and Suites, which differentiate themselves by providing a strong value at a low price. By providing a full range of options, Marriott ensures that it can cater to every customer and engage them in its ecosystem. Their strong rewards program then incentivizes these guests to stay with a Marriott brand in future stays, including in one of its higher-end hotel lines. Marriott’s scale allows it to spend less on administrative costs than other value-oriented competitors would, which further facilitates the lower price points of these Marriott hotels. Additionally, these cost-leading brands do not typically have the same level of amenities that many Marriott brands do, which grants Marriott the ability to still differentiate itself in the low-budget market without facing significant costs. Ultimately, operating brands that are cost leaders is just one component of Marriott’s larger business strategy, which is to provide a wide range of differentiated options for customers.

Market Approach

Marriott's business approach aims to satisfy the largest proportion of customers possible through its multiple hotel lines. This method demonstrates an overall broad approach to the market, but as you dive further into each hotel line, you can see Marriott's market segmentation and specific targeting towards demographics. At its core, Marriott appeals to travelers, and its various lines attract a wide range of ages and lifestyles. Further, the global footprint of Marriott brings in customers from every country, making no specific international group a target. Any guest is welcome to find accommodations at Marriott, but its American roots make international Marriott hotels a safe haven for many American travelers abroad.

Marriott owns and operates two hotel lines on completely different ends of the spectrum for business strategy: The Ritz-Carlton Hotel and TownePlace Suites both fall under the Marriott umbrella but utilize contrasting business strategies. The Ritz-Carlton is highly differentiated and targets the affluent, high-income market segment who seeks an individualized, one-of-a-kind experience. On the other end, TownePlace hotels follow a cost-leadership strategy and accommodate middle-income travelers and families looking for a clean, safe stay at a price that doesn't break the bank. Both of these hotel lines are extremely successful at gaining loyal customers, and comprehensively, these lines and the many others owned by Marriott generate a broad customer base for the firm.

Employed Business Strategies

Marriott mainly employs broad differentiation as its strategy. Its main value driver is the rewards program, which encourages a loyal customer base. Even as consumer preferences change, they can take advantage of the mix of offerings at different price points using the same rewards program. In addition, some of these brand offerings are highly differentiated. In Marriott's brand portfolio, Distinctive brands are designed to offer unique stays. Memorable stays add value to a consumer's experience and are difficult for other firms to replicate. All these factors contribute to Marriott's value, meaning they effectively support Marriott's overall strategy.

Although Marriott generally uses differentiation, it employs cost leadership with a few specific brands in its portfolio. In distinguishing between its Classic and Distinctive brands, Marriott demonstrates how some customers may prefer non-differentiated brands at a lower cost. While the Classic brands are still part of Marriott's reward program, they offer traditional hospitality and are not particularly unique from competing firms. Because of this, lowering costs is much more important for these brands. Cost drivers are likely to be managed at the level of individual properties, such as labor costs and amenities. However, the company can reduce distribution costs by increasing centralization and standardizing distribution channels, such as generating online bookings (Fox, 2019). Because of Marriott's size and structure, it can effectively leverage this as a cost driver. While this sacrifices some level of differentiation, it does not harm Marriott's business strategy because they are pursuing a broad strategy designed to appeal to many different consumer segments.

Analysis of Business Strategies

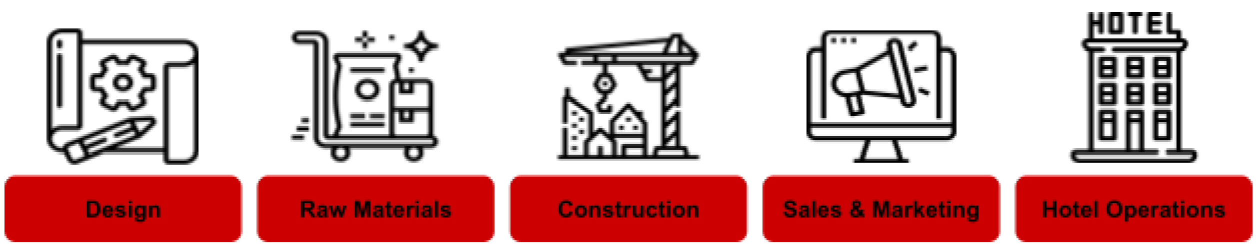
Marriott's broad differentiation strategy holds several vital strengths given the global competitive environment. With 665 location points in 131 countries, the global reach of Marriott's operations provides an advantage as customers look for a trusted brand, especially as traveling abroad has picked up with the end of the pandemic. Marriott's customer satisfaction and loyalty maximize the effect of this reach. At the business level, a best cost and differentiation focus assures that Marriott will provide the best experience, adapted to what the customer is seeking. The strict 'Marriott Way' code of conduct utilized by management implements this strategy at an operational level. Marriott's Bonvoy program also generates loyalty by offering exclusive rewards for loyalty and maximizing Marriott's integration into the travel experience. Their competency in innovation benefits Marriott's differentiation strategy. As the travel market reopens, the target market's demands have changed, leading customers to look for new services. Marriott is well positioned to meet these demands through its innovation competency, as seen through its use of user-generated content in marketing to millennials and services such as Augmented and Virtual Reality experiences and pet-centered home and villa stays partnered with Petco.

On the other hand, weaknesses of the strategy include stiff organizational structure, high costs, and the risk of overreach. As the hotel industry is adapting to the changing demands of consumers, firms are reorganizing to meet those needs. While Marriott is apt to innovate new products, its stiff structure could make it challenging to reorient existing operations. Moreover, as it pursues a broad differentiation strategy, high costs of R&D and construction make maintaining consistent growth difficult. As competitors specialize, Marriott will compete on multiple fronts, leading to decreased efficiency and the risk of being spread too thin. Competing firms could target this weakness by coordinating their movement into critical sectors, claiming back market share from Marriott.

Corporate-Level Strategy

Value Chain

Marriott's value chain, similarly to other firms in the hotel industry, can be broken down into five primary activities:



The design stage is the first stage and includes all the research and planning required to introduce a new physical hotel. Substantial research on the region's environmental, political, and social factors impacting the area is necessary. After this research is conducted, preparation to build such accommodations is necessary, which includes collaboration with architectural and engineering firms. Depending on the hotel model (franchised or managed), Marriott will design the establishment in-house or outsource such logistics. The raw materials stage includes acquiring any materials needed for the build, such as lumber, metal, and other raw materials for the physical build, as well as furniture, linens, food and drink, and other materials, used to aid operations. Marriott utilizes vendors for these materials and has partnerships with various companies, such as their toiletry partnerships with Aromatherapy Associates, TeaTree, and Relâche Spa (Marriott, 2019). The construction stage occurs once the designs and materials have abstained, and the physical build can begin. During the construction phase, this labor is contracted out with regional contractors. There is an overlap in the construction and sales/marketing stages, as promotion of the hotel occurs while the building is still under construction. Marriott's marketing is in-house, and this is the first stage where Marriott is fully independently involved in the process. Finally, Marriott maintains the success of its hotels and resorts under the operations stage, which is conducted completely within the company, similarly to the sales and marketing stage.

Vertical Integration

At this point, Marriott International is not a vertically integrated company. The analysis of the vertical value chain demonstrates that Marriott is not involved in much of the work required for the early stages of development. Marriott instead outsources much of the architectural and engineering design, food and drink ingredients, furniture, hotel toiletries and linens, and other products associated with the Marriott hotel experience. The stages in which Marriott is most active are the sales and marketing operations, and the degree of operations involvement depends on whether the given hotel is franchised or owned and operated by Marriott.

Marriott ultimately creates value within the firm from its franchising model, rewards system, and its highly regarded brand recognition and marketing. These competencies allow Marriott to create a memorable experience connected across all of its hotel brands. It is advantageous for Marriott to keep these operations in-house, and outsourcing the processes would be detrimental to Marriott. Further, given the scope of the firm and the numerous hotel brands under the Marriott umbrella, it would be complex and expensive for Marriott to vertically integrate to increase their involvement in the construction process. Marriott has built strategic relationships with many of these engineering and architectural firms that are not worth changing. Marriott would also be able to integrate the production of its products, such as linens and toiletries, but this would require substantial investment in manufacturing facilities. Instead, Marriott can take advantage of its large size and form strategic partnerships with other companies to obtain these items at a substantial discount.

Corporate Diversification

Marriott employs a dominant business strategy by participating in two primary business activities. Marriott's largest area of business comes from its licensing and franchising fees, which made up a little over 75% of its revenues in 2021. Its secondary line of business is the hotels that it owns and operates. Licensing allows hotel operators to use Marriott's brand and systems while still maintaining control of daily operations like purchasing, maintenance, and hiring employees. In Marriott's company-operated hotels, it is responsible for developing and maintaining a competent workforce, purchasing the supplies needed, and providing administrative services like marketing and accounting for the facility.

The critical link between these two business units is the centralized loyalty program and the brand recognition each property can take advantage of. Having these distinct levels of ownership and involvement in daily operations allows Marriott to conduct business on a global scale. If Marriott was heavily involved in the operations of the nearly 8,000 properties that it owns, it could lose sight of its overall goal of international expansion, have extremely standardized locations, and see a decrease in quality. Furthermore, allowing locals to have more control of their locations enables Marriott to diversify its properties to adjust to the cultures and practices of a particular area, which increases customer and employee satisfaction. Still maintaining its company-owned properties is critical, however, to set the standard of quality in its high-end portfolio and maximize profits in high-traffic areas.

Merger and Acquisition Strategies

Merger and Acquisition History

In September 2016, Marriott finalized the Starwood Hotels and Resorts merger, creating the largest hotel company to date. This merger was a huge opportunity for Marriott and brought many benefits to both companies and their stakeholders. Starwood put itself on sale in April 2015 because it struggled to grow as fast as its competitors, such as Marriott and Hilton (Stocki, 2017). Marriott's merger not only allowed the firm to absorb its competitors, but it also supported the strategy of diversifying its portfolio, specifically in its middle and higher-end markets. Before the merger, Starwood was one of the leading hotel and leisure companies with nearly 1,300 properties under 10 brands worldwide (Marriott and Starwood Stockholders Vote to Approve merger, 2016). Three of these brands were added to Marriott's luxury portfolio, five to its premium portfolio, and two to its select portfolio.

Marriott's most recent acquisition occurred earlier this year when it announced on Oct 19th that it reached an agreement with Hoteles City Express to acquire its portfolio. This marks Marriott's 31st brand and entry into the affordable midscale segment. The City Express portfolio currently includes 152 hotels, 17,356 rooms across 75 cities in Mexico and three additional countries in Latin America, and franchise rights to five under-construction projects in the pipeline, representing an additional 676 rooms ("Marriott International to acquire City Express brand to fuel growth in the affordable midscale segment.", Marriott International Newscenter (US)). This significant expansion makes Marriott the largest hotel company in the Caribbean and Latin America. This acquisition is in line with Marriott's broad differentiation strategy by expanding into a market they were underrepresented in. Moreover, this is a shift from their primary focus on luxury resorts to more consumer cost-effective segments.

Acquisition Financials

On November 16, 2015, Marriott publicly announced its intentions to acquire Starwood Hotels and Resorts. After this announcement, a vote occurred amongst the stockholders of both companies regarding the approval of this merger on April 8, 2016. Finally, on September 23rd, 2016, the merger transaction closed between Marriott

International and Starwood Hotels and Resorts. Figure 8.1 below highlights the stock prices of both companies on these notable dates. The stock price of Starwood decreased upon public knowledge of the merger, and the price eventually rose again before the transaction was finalized. Marriott International's stock price also decreased following the acquisition announcement, but figure 8.2 captures the overall rise in Marriott's stock price following the acquisition from the date of the transaction to mid-2019, respectively.

Figure 8.1 | Stock Prices of Marriott International and Starwood Hotels and Resorts throughout Acquisition

Hotel	11/13/2015	11/16/2015	04/08/2016	09/23/2016
Starwood Hotels and Resorts	$74.99	$72.27	$78.97	$77.05
Marriott International	$74.13	$73.72	$66.57	$68.44

Data from Yahoo Finance and Investing.com

Figure 8.2 | Marriott International Stock Following Acquisition of Starwood Hotels and Resorts

Data from Yahoo Finance

The terms of this deal gave Starwood shareholders 0.80 shares of Marriott common stock and a $21.00 cash payment for each share, for a total of $13.6 Billion. On April 8, 2016, the date the deal was approved, Starwood's share value was $78.79. Marriott's acquisition offer was worth 80% of their share price of $66.57 plus $21.00, which totals $74.26, representing a 5.75% discount for Marriott. When the transaction was finalized, Starwood traded for $77.05, compared to a total value of $75.75 of Marriott's offer, which is a discount of 1.69%. Marriott initially estimated that Starwood shareholders would own about 37% of the combined company following this merger, while Marriott shareholders would own 63%.

Acquisition Success

As demonstrated above, the merger between Marriott and Starwood was quite successful. The merger increased Marriott's market share, reduced competition, and benefited stockholders and consumers enrolled in loyalty programs. The success of Marriott's acquisition strategy is largely due to the flexibility required by the industry. The hospitality industry generally focuses on maintaining a wide variety of brands with unique features appealing to different customers. Because of this, Marriott was able to maintain customers loyal to Starwood by not interfering with its branding. Its previous acquisitions and brand portfolio meant that it already had experience handling a new line of hotels. In addition, Marriott's mission of developing new brands helps it avoid cultural conflicts during mergers because embracing change is one of the company's core values (Core Values and Heritage). The two organizations both had loyalty programs at the core of their competitive advantages. Upon merging, the two were able to maintain this competency through transferable points and loyalty statuses from Starwood to Marriott. Success from the Starwood merger is still apparent today through the loyalty programs and brands under the Marriott name.

Corporate Governance

Board Member Compensation

Marriott's compensation system for board members is reviewed annually and is determined based on an in-depth analysis of external data of other similarly sized firms across multiple industries. To further facilitate equity within Marriott, the committee which determines board compensation is the same committee that decides executive compensation.

The compensation program for Marriott's directors was last adjusted in May of 2021, which increased the annual retainer fee, annual deferred share award volume, and lead independent director fee. These changes can be seen in Figure 9.1. Marriott compensates its Board of Directors through a retainer, chair, and lead independent director cash fee, which is dispersed quarterly. A director can defer this payment pursuant to the Stock Plan, which will then be credited as stock units to that director's stock unit account. Further, each non-employee director must own company or vested stock at three times the director's combined annual cash and stock retainers value. This requirement supports the belief that stock ownership by non-employee directors is necessary to align the interests of non-employee and Marriott stockholders.

Figure 9.1 | Director Compensation Plan Adjustments

Type of Fee (all fees below are annual)	Amount of Fee through April 30th ($)	Amount of Fee beginning May 1st ($)
Board Retainer Fee	85,000	95,000
Share Award	165,000	175,000
Lead Independent Director Fee	40,000	50,000
Audit Committee Chair Fee	30,000	30,000
Other (Non-Audit) Committee Chair Fee	20,000	20,000
Audit Committee Member Retainer Fee	15,000	15,000

Data from Marriott 2022 Proxy Statement

Share awards are dispersed to the Board of Directors following the annual meeting of stockholders. Marriott also reimburses their directors for the travel expenses and other costs associated with attending meetings in person. When directors choose to travel and evaluate Marriott properties personally, they receive complimentary rooms, food and beverages, and other hotel-related services at all Marriott hotel, golf, and spa facilities.

Board Of Directors Composition

Marriott's board of directors consists of 12 members, 9 of whom are independent and do not have another role within the company. The three insider members are David S. Marriott, Deborah Marriott Harrison, and CEO Anthony Capuano. While Capuano, the Chief Executive of Marriott International, does serve as a member of the board, he is not the chairman. David S. Marriott, the grandson of Marriott founder J.W. Marriott, currently serves as Chairman of the Board. Frederick A. Henderson, an independent director who is the former CEO of SunCoke Energy, was recently appointed by an independent directors' decision to be the Lead Director of the board. The Board is relatively diverse as a group, consisting of 7 men and 5 women, and having several diverse backgrounds represented. Board members have experience leading many different industries, including hospitality, energy, entertainment, restaurants, airlines, finance, and healthcare.

Committee Structure

Marriott's board of directors has six committees, each with three to five members. The table below shows each committee, along with its members and chairperson (Committee Membership).

Figure 9.2 | Board of Director Committee Compositions

	Audit Committee	Executive Committee	Human Resources and Compensation Committee	Inclusion and Social Impact Committee	Nominating and Corporate Governance Committee	Technology and Information Security Oversight Committee
David S. Marriott		Chairperson		Member		
Anthony Capuano		Member		Member		
Isabella D. (Bella) Goren	Chairperson					
Frederick A. "Fritz" Henderson	Member	Member			Chairperson	
Eric Hippeau			Member			Member
Debra L. Lee		Member		Chairperson	Member	
Aylwin B. Lewis	Member		Chairperson		Member	
Deborah Marriott Harrison				Member		
Margaret M. McCarthy	Member					Chairperson
George Muñoz				Member		
Horacio D. Rozanski			Member			Member
Susan C. Schwab			Member			Member

= Chairperson = Member

The relevant experience each chairperson has to be included in their committees is listed below:

David Marriott's past experience includes being president of U.S. Full Service Managed by Marriott, COO of Marriott's Americas, Eastern region, and other roles in Marriott's sales and operations. These positions, along with his familial connection to the company, give him an extensive understanding of the firm and its mission (David S. Marriott).

Anthony Capuano was appointed CEO of Marriott in February 2021, after a long career at Marriott, mainly in global development. He is also a member of The Cornell School of Hotel Administration Dean's Advisory Board and the American Hotel and Lodging Association's Industry Real Estate Financial Advisory Council. These positions demonstrate Capuano's management experience within Marriott and deep industry knowledge (Anthony Capuano).

Isabella Goren is the former CFO of American Airlines, Inc. and AMR Corporation and held a variety of roles throughout her 27-year career in the travel industry. Her financial expertise and industry knowledge give her the skills necessary to manage this position (Isabella D. (Bella) Goren).

Frederick Henderson has relevant past experiences, including serving as chairman and CEO of SunCoke Energy, Inc and holding numerous senior management positions at GM. He brings to the board experience in leadership and global management, as well as financial expertise from his background as a CFO (Frederick A. 'Fritz' Henderson).

Eric Hippeau is currently a managing partner with Lerer Hippeau and the CEO of Lerer Hippeau Acquisition. He has previously been CEO of multiple companies, such as The Huffington Post, and has served on several boards of directors. These roles have given him expertise in venture capital and investments, as well as knowledge of technology and media (Eric Hippeau).

Debra Lee is the former chairman and CEO of BET Networks and was previously an attorney with the firm Steptoe & Johnson after earning her JD. In addition, she co-founded The Monarch's Collective, whose mission is to diversify corporate leadership. Her management experience, legal qualifications, and commitment to civic and community activities give her the skills for this role (Debra L. Lee).

Aylwin Lewis most recently served as chairman, CEO, and president for Potbelly Corporation and has held executive positions for Sears Holding Corporation, KMart, and YUM! Brands, Inc. He brings to the board management and marketing experience from a variety of complex global businesses (Aylwin B. Lewis).

Deborah Marriott Harrison is currently Marriott's Global Cultural Ambassador Emeritus and has worked at the company since 1975. She is also actively involved in and has served on the board of several mental health organizations. Her experience and knowledge of the company's culture and history provides the board with a valuable set of skills (Deborah Marriott Harrison).

Margaret McCarthy is the former executive vice president of CVS Health Corporation and also served as the CIO and Vice President of Aetna, Inc. She contributes her skills in managing technology and complex processes to the board (Margaret M. McCarthy).

George Muñoz is the principal of Muñoz Investment Banking Group, LLC, has served on several boards of directors, and is a CPA and JD. He serves the board through knowledge of finance and accounting, legal expertise, and corporate governance experience (George Muñoz).

Horacio Rozanski is the director, president, and CEO of Booz Allen Hamilton and previously served in other executive roles at the company. He also serves on the boards of several other organizations, such as the Children's National Medical Center. His background in personnel management and business strategy gives him the skills necessary for the committees he serves (Horacio D. Rozanski).

Susan Schwab is a professor emeritum at the University of Maryland School of Public Policy and has served as the U.S. Trade Representative and Deputy U.S. Trade Representative, as well as the dean of the University of Maryland School of Public Policy. She contributes her knowledge of international trade and negotiation and knowledge of government relations to the board (Susan C. Schwab).

Code of Ethical Conduct

Marriott does have a code of conduct regarding expectations for employees, from staff to Board members. The statement has notes regarding the treatment of all customers and assets. The code of conduct contains how humans should expect and want to be treated. With a business so reliant on loyalty and customer satisfaction, the code emphasizes fairness in all customers' treatment. Employees must also use confidentiality, health and safety, and strong complaint handling. Lastly, the code of conduct contains a segment regarding the treatment of individuals with disabilities, aligning with the Disability Service Safeguards Code of Conduct rules (Business Conduct Guide).

Stockholders

There is not a high degree of employee ownership of Marriott International stock, with shares dominantly held by insiders and institutions. Over half (67.75%) of Marriott is owned by Marriott insiders, while institutional investors hold the other 32.25%, and 0.0% is held by retail or employee investors. The single largest shareholder is J.W Marriott Jr., with 11.11% of the share class. Among the ten most prominent owners of

Marriott International, nine are members of the Marriott family, and Vanguard Group Inc. is the only institutional owner. Figure 9.3 shows the top ten owners' shares percentage of class (2022 Proxy Statement, 2022).

Figure 9.3 | Stockholder Shares and Percent of Class

Name	Shares	Percent of Class
J.W. Marriott, Jr	36,360,660	11.11%
David S. Marriott	27,793,539	8.49%
Deborah M. Harrison	26,886,430	8.21%
John W. Marriott III	23,240,093	7.10%
Juliana B. Marriott	22,482,046	6.87%
Juliana B. Marriott Marital Trust	22,464,046	6.86%
Jennifer R. Jackson	22,036,784	6.73%
Michelle E. Marriott	22,047,929	6.73%
JWM Family Enterprises, Inc.	22,027,118	6.73%
JWM Family Enterprises, L.P.	22,027,118	6.73%

Table Source: (2022 Proxy Statement, 2022)

Recent Voting Issues

Several proposals were brought to the 2022 annual meeting of stockholders. Every year, stockholders vote on the appointment of an accounting firm to serve as the external auditor, the election of the Board of Directors, and the setting of executive compensation. It is important to note that effective immediately following the Annual Stockholders Meeting, the structure of the Board of Directors was slightly changed. With the departure of long-time Executive Chairman J.W. Marriott and Independent Lead Director Lawrence Kellner, the board was reduced in size from fourteen to twelve (2022 Proxy Statement, 2022).

Three additional items were brought to be voted upon by stockholders. The adoption of an Employee Stock Purchase Plan (ESPP) that was unanimously passed by the Board was brought to stockholders and, upon approval, would allow eligible employees to acquire Class A common stock at a discounted price. The goal of this initiative was to better align stockholder and employee interests by encouraging stock ownership by employees (2022 Proxy Statement, 2022).

A proposal was brought by a proponent that had requested the Board to prepare a report on the economic and social risks created by the company's compensation and workforce practices, specifically whether the company prioritizes financial performance in a way that perpetuates inequality and gender and racial disparities. The proposal stated that worker pay is inadequate, unequal, and racially disparate, creating a significant economic threat to Marriott's diversified shareholders and the economy as a whole. The Board encouraged stockholders to vote against the creation of the report as they believed it was unnecessary and not in the best interest of the shareholders. The

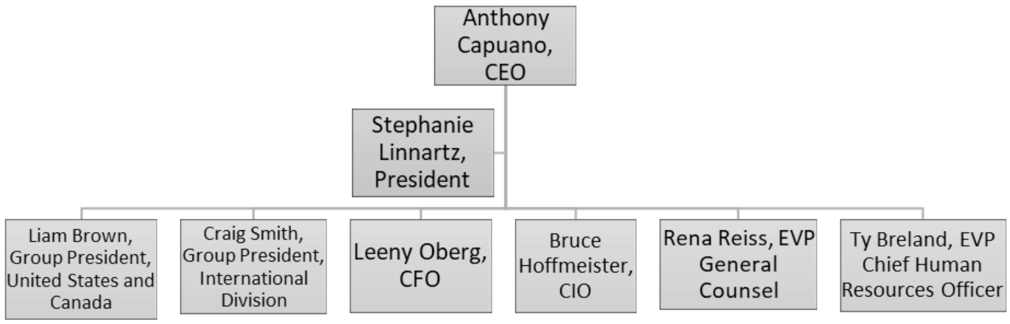
Board believes that Inclusion and Social Impact Committee of the board and recent efforts to increase diversity in key decision-making positions of the company show Marriott's commitment to Diversity, Equity, and Inclusion and that accountability measures are already in place to ensure its efforts are executed and maintained. Additionally, the Board believes its pay structure is equitable as the recruitment process uses a local competitive market wage scale, and pay increases are fixed based on tenure (2022 Proxy Statement, 2022). Stockholders did not approve the resolution.

The final proposal to be voted on was also brought by a proponent and sought to require the Board Chair to be an independent director. The proposal stated that the current structure weakens corporate governance and allows senior management views to dominate. The Board encouraged stockholders to vote against the proposal because its current structure is a key part of Marriott's succession planning. They promote effective corporate governance and independent oversight by maintaining Chairman and CEO as separate roles and having an independent lead director (2022 Proxy Statement, 2022). This proposal was later withdrawn, and no vote was cast.

Organizational Structure and Controls

Organizational Structure

Figure 10.1 | Marriott Organization Chart



Marriott, with a large variety of brands and global presence, requires both a mechanistic and organic organizational structure with many different layers. To maintain uniformity and a high level of satisfaction amongst both Marriott and individual brands, centralized decisions must be made from an international level to a geographical location to individual brands to individual hotels. Within individual hotels, middle managers and employees are much more fluid with decision-making, creating a decentralized organic structure. As evidenced in Figure 10.0 and the combination of mechanistic and organic structures, Marriott is a multidivisional structure with many strategic business units uniting to form Marriott (Marriott International Org Chart).

Structural Fit

Given Marriott's strategies, the organizational structure reasonably fits its goals. Marriott International is a large company characterized by a matrix structure with a high degree of vertical and horizontal differentiation. Within its corporate strategy, Marriott has a large amount of central control over the divisional activities of its value chain. In the context of a complex company, this vertical hierarchical structure is necessary to ensure the efficiency of decision-making and strategic direction. However, in its business-level strategy, Marriott serves a wide range of customers based on services and region. In this area, its horizontal differentiation is vital to giving its brands and regions the ability to adapt to the needs of its target market. The resulting matrix structure creates both global uniformity and local diversification and responsiveness.

Board of Directors Structure

Marriott's Board of Directors has 12 members, with David S. Marriott serving as the Chairman of the Board. The Board has 6 committees, each of which serves a unique purpose in making decisions and providing direction for the company. Every director is a member of at least one committee, and no director chairs more than one committee. Figure 9.2 shows which members make up and chair each committee.

Figure 10.2 | Committee Responsibilities

Audit Committee	Oversees the accounting and financial reporting process of the company, the internal control environment, and the quality of the independent audit of the firm
Executive Committee	Manages the affairs of the Board of Directors and is responsible for scheduling meetings when necessary

Human Resources and Compensation Committee	Carries out matters related to Executive succession and development, Executive compensation, and organizational effectiveness
Inclusion and Social Impact Committee	Oversees the company's people-first culture, incorporates well-being into the culture, and handles ESG related matters
Nominating and Corporate Governance Committee	Identifies and recommends qualified potential future board members, and measures the effectiveness of current members
Technology and Information Security Oversight Committee	Reviews major technology projects, assesses the effectiveness of current programs, and manages technology and privacy related risks

Table Source: ("Documents and Charters | Marriott International")

Each committee plays a role in overseeing different departments of the company. In an organization the size of Marriott, having the Board of Directors oversee these six key areas ensures consistency throughout the company. While Marriott's properties run largely independently of one another, these committees ensure that key organizational decisions and policies are passed throughout the entire company. This keeps the organization working toward the same goals and allows for its broad organizational structure to be effective.

Control Systems

Marriott's annual report has many examples of control systems for firm performance, as it shows information such as lodging statistics, revenues, and expenses. In addition, it compares these numbers to previous years and divides them by business segment (2021 ANNUAL REPORT, 2021). Tracking this information allows the company to understand year-over-year changes and which business choices have had a positive impact on growth and performance. These metrics also help the firm discern which segments of the firm may be experiencing issues and correct them accordingly.

Beyond internal controls, Marriott uses an independent audit report to determine if the company has effective financial controls. This is especially important for portions of the business with complex accounting, such as the loyalty program, which has large volumes of data and difficulty estimating the price of loyalty points (2021 ANNUAL Report, 2021).

Finally, Marriott demonstrates control through the information it presents to stockholders in the proxy statement. For instance, it explains the company's governance proposals for its board of directors. These principles establish requirements that ensure consistency and honesty from the board to stockholders about company performance. For instance, at least two-thirds of the directors must be independent of the company. Another piece of information provided to stockholders is a comparison of performance to other companies, both within and outside of the hospitality industry (2022 Proxy Statement, 2022). This can help stockholders understand the company's position and what choices might benefit its performance in the future as an additional control.

Recent Strategic Decision

After a ribbon-cutting ceremony on September 19th, 2022, Marriott International officially opened its new international headquarters in Bethesda, Maryland. This exciting opening of the 21-story building came just in time to celebrate Marriott's 95 years in business, one of the longest histories in the industry. Today, over 8,100 hotels operate under the Marriott International brand, with accommodations in 139 countries and territories.

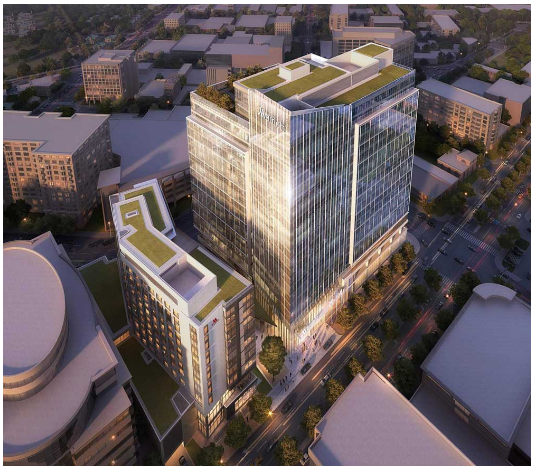


Image from https://www.thebernsteincompanies.com/expertise/development/marriott-international-headquarters

Image from https://news.marriott.com/news/2022/09/19/marriott-international-debuts-its-new-global-headquarters-unveiling-technology-and-design

Prior to the development of its new headquarters, Marriott operated business from their HQ building in North Bethesda, specifically Rock Spring. After witnessing increasing office vacancies and acknowledging the lack of metro access and urban amenities that were in demand by employees and visitors, the firm decided to purchase the $146 million, 33.7-acre plot of land in downtown Bethesda (Neibauer, 2019). After six years of design and construction, the firm opened up the doors to its new headquarters and adjoined Marriott hotel. This campus, designed to “enable creativity, collaboration, growth, ideation, and well-being through diverse and dynamic spaces and state-of-the-art technology,” hosts a variety of innovative facilities (*Marriott International Debuts its New Global Headquarters,* 2022).

Marriott has adopted a hybrid model for its employees after witnessing the improved morale from a flexible work model during the Covid-19 pandemic. For associates who choose to conduct business in-office, Marriott has worked to create a dynamic, flexible environment that is adjustable to associate needs. The building holds 2,842 workspaces, 18 conference rooms, and 20,000 square feet of modular and collaborative workspaces. These workstations host natural light and ergonomic design to further facilitate Marriott’s commitment to putting people first. This dedication to associate well-being is also evident in the campus’s inclusion of a 7,500-square-foot health and wellness center, a wellness suite equipped with spa services and health advisors, and an 11,000-square-foot childcare center which includes a substantial outdoor play space. These conscious decisions by Marriott have paid off, as the firm received the highest rating possible from Fitwel, a global health certification system (*Marriott International Debuts its New Global Headquarters,* 2022).

Marriott’s new Design Lab is a testament to the firm’s continual value towards innovation. This lab explores Marriott’s partnerships and collaborations with companies in every corner of their business operations, whether that is technology, service, or product offerings. This space also holds the test kitchen and bar, which will be utilized for education instruction, food demonstrations, and culinary and beverage testing for implementation in its hotels around the world. The Marriott Bethesda Downtown hotel next door will be an extension of this innovative focus and will hold multiple testing rooms for Marriott's various hotel brands. These rooms will be positioned to test new offerings in development by the Marriott International team.

According to Marriott's Chief Executive Officer, Anthony Capuano, "the campus has been designed to better connect our global workforce in support of our hotels and teams around the world. Empowering associates and accelerating innovation were our key priorities and central in every decision we made to deliver a compelling environment for associates to work, learn, and thrive" (*Marriott International Debuts its New Global Headquarters,* 2022). It is evident that the executive team and board members put significant thought into the decision to develop new headquarters, and the result of the team's hard work is a campus that is the embodiment of what Marriott was, is, and hopes to be. This campus makes employee wellness and company innovation top priorities, which will continue to create immense value for the firm as the building is utilized in years to come. This strategic decision has been one of Marriott's largest undertakings, especially in the face of building development during the Covid-19 pandemic, but it is one of the smartest decisions the firm has made to date.

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