

Marriott International

Marriott's response to the COVID crisis as the travel and tourism industry struggles

MarketLine Case Study

Report Code: MLCS0001-047

Published: July 2020



1. Overview

1.1. Catalyst

In a recently published company statement, Arne M. Sorenson, president and chief executive of Marriott International, reported a solid start to 2020. With RevPAR growth of 3.2% in the first two months of the year (excluding Asia-Pacific) ^[1] along with an encouraging performance in 2019, Marriott had an optimistic view of the year ahead with multiple expansion projects completed in 2019 and planned for 2020. Marriott is the second largest market share holder of hotels worldwide, holding 9.68% of the market in 2018, according to GlobalData.

1.2. Summary

The Marriott had to react definitively once COVID started to hit the regions in which it operates. It has, along with many other companies, had to take drastic steps to reduce costs and close businesses temporarily. It is hoped these steps will be enough to see the chain through the initial wave of the outbreak.

The Marriott does have a number of useful strengths including excellent brand recognition and strong cash reserves to cope with crisis. However it does have weaknesses, including its reliance on North America and levels of debt on its balance sheet.

Marriott has been developing a number of new digital platforms and solutions before COVID hit. These have been geared towards targeting new customers better and improving the Marriott in hotel and room experience. These investments will help Marriott to adapt to post pandemic business conditions more easily.

As with all other hotel chains there remains a lot to be established about the business conditions going forward and not all of them are positive. If the travel industry goes through multiple lockdown situations with no government support it is hard to see all companies surviving. On the other hand the Marriott is fairly well placed to survive and opportunities might develop for it in future.

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2. Marriott's Response to COVID-19 a wide ranging mitigation plan

The Marriott had to react definitively once COVID started to hit the regions in which it operates. It has, along with many other companies, had to take drastic steps to reduce costs and close businesses temporarily. It is hoped these steps will be enough to see the chain through the initial wave of the outbreak.

2.1. Cut in Executive staff salaries and furloughing of staff

Sorenson announced a 50% cut in his executive team's salaries, and announced the furloughing of many of its staff, including from their HQ in Maryland, US. Two thirds of its headquartered staff have been asked to take unpaid leave, which will last for 90 days initially and will be reviewed in line with the pandemic. Cutting administrative costs, including staff costs, shortening work weeks, cancelling non-essential travel and spending, whilst occupancy is down is imperative for the longevity of its operations. These reduced costs will save Marriott \$140 million USD, which will be reinvested into the departments which have suffered the most during the COVID-19 outbreak.

Staff being furloughed in the United States and asked to take unpaid leave is challenging for both directors and the workforce. Compensation packages have been put into place, where furloughed corporate staff in the US will receive 20% of their salary which is intended to be used for healthcare and other basic needs, whilst those who return to work will be forced to take a 20% pay cut and have reduced work weeks.

For those that decide to leave Marriott completely, once business has returned to usual as many industry experts predict will happen within the next year, these jobs will have to be filled again, implicating recruitment costs for Marriott further down the line. Hilton has also furloughed 'tens of thousands' of workers, however it has partnered with companies such as Amazon, CVS, Walgreens and other companies which due to the coronavirus have experienced higher demand, to offer jobs to furloughed Hilton workers in the US [5]. Hyatt Hotels have also made similar staff cuts.

2.2. Closed food and beverage outlets to reduce the spread

Marriott made the decision to close food and beverage outlets, to minimize the risk of COVID-19 spreading and reducing human interaction, adhering with social distancing measures. Food and beverage outlets provide an attraction for Marriott hotels, where guests can expect a high quality of food across all of Marriott's brands. Along with minimizing contact with other people and slowing down the potential spread of the virus, food and beverage outlets in hotels are expensive to operate. With occupancy levels down, customer levels requiring food and beverage services within hotels will also be down, so the net income gained will be significantly lower and making a loss. Other Implications: Staff who work purely in the food and beverage section will be furloughed or made redundant. Whilst Hilton has not temporarily closed any establishments or food and beverage units in the US, it has increased the cleaning of public areas and deployed hand sanitizer throughout their properties.

2.3. Suspending brand standard audits and delaying renovations by one year

Marriott hotels and franchises have to keep to strict brand guidelines to carry the Marriott brand, which will be tested and checked on a regular basis. Marriott has allowed these brand standard checks, along with renovations such as furniture and fixtures and equipment funding to be postponed and delayed until at least 2021. The cancelling of brand standard checks and renovations that were due to take place this year relieves pressure from hotel management staff and allows resources to be allocated more appropriately with larger issues of hotel longevity at the forefront. As this is a goodwill gesture by Marriott, hotels should be careful to not let brand standards slip as these audits will return in 2021.

2.4. Reduce marketing and other investment liabilities

Marriott is reducing costs by cutting costs related to programs in which individual hotels reimburse it for, in line with system-wide revenue losses. Marriott also plans to eliminate or defer one third of its 2020 investment plan, which previously topped \$800 million. Reducing outgoings whilst income is declining helps Marriott to minimize losses. Reduced marketing could diminish awareness of Marriott establishments, however as this is a global crisis, other hotels will also be focusing their efforts and cash elsewhere, and with most frequent travellers postponing travel due to restrictions, and they will be unlikely to be receptive to marketing anyway. Marriott is one of the biggest hoteliers in the world, so brand visibility in the market is likely to remain strong whilst the world is on pause due to COVID-19.

2.5. Marriott is in the fortunate position of having large cash reserves Marriott will benefit from loyal customers

As Marriott holds a large share of the market, this will work in its favour. Previous marketing efforts will be effective for future stays, and Marriott will benefit from a loyal customer base. Previous efforts by Marriott to create this loyal customer base will be beneficial in the long run, when travelers are able to travel again. Their loyalty scheme, Marriott Bonvoy, is valid across all of Marriott's 30 brands and will play as an advantage for when customers are looking to return to booking holidays or trips. After the height of COVID-19 has passed, travel by the public may be uncertain for the initial period, and travelers are likely to stay in hotels which they know and are familiar with. Marriott can take advantage of this by targeting marketing to loyalty scheme customers.

2.6. Marriott CEO predicts the impact will be worse than 9/11 and the 2008 recession combined

There is no doubt that this will be a challenging time for Marriott and will take its time to recover. However, comparing to the after effects of 9/11 and the 2008 recession, the hotel industry has advanced significantly since that point. Hoteliers have a certain number of technologies and tools that are designed to adapt to external impacts, making them savvier than 12 or 19 years ago. Hotels are more prepared for impacts that affect operation beyond their control, and will implement these methods to mitigate the effect.

2.7. Morality of keeping people safe vs being a money making business

This argument will persist within every company's response to the coronavirus outbreak, with what should be the priority, looking after staff or preserving their cash balance. Poor treatment of staff by Marriott will lead to a poor public image, and may contribute to a damaged reputation of the brand, in the worst case scenario. However, preservation of cash is imperative to a hotel's operation as the hotel would not exist without it. As labor is a major cost for hoteliers, the obvious cuts amid the closure of hotels would be in the labor sector. Marriott employees in the US can be part of a labor union, Unite Here which has over 300,000 members in the United States and Canada. After troubles with pay in 2018, 7,700 Marriott employees went on strike in search of a raised hourly rate of pay, where the strike was the longest employment strike in US history [6]. Marriott should be cautious to keep the balance of a money motive and a moral motive, in order to continue operations and keep its staff happy for the prolonged period, so Marriott can have happy staff to run hotels when the worldwide pandemic has passed.

3. Current analysis of Marriott's business reveals some strengths and some weaknesses

The Marriott does have a number of useful strengths including excellent brand recognition and strong cash reserves to cope with crisis. However it does have weaknesses, including its reliance on North America and levels of debt on its balance sheet.

3.1. Marriott's strengths include very strong brand recognition

Brand and Market Recognition – Marriott has a multinational and diversified brand portfolio and market image across 30 brands in 130 countries. This brand image will remain a strength for Marriott post-COVID-19. Large Cash Reserves - Marriott has large cash reserves with multiple funding lines, to mitigate the impact of COVID-19. Strong Operational Network – Will allow the company to spread risk and minimize impact where possible.

Strong presence in North America – Home to Marriott International HQ near Washington D.C, a strong prominence in North America is usually a strength, due to the amount of visitors, conferences and economic wealth in the country. However, the US could be the new epicentre of the COVID-19 crisis, with the number of confirmed cases accelerating each day, the most affected state being New York. Marriott's concentration in North America is now a problem due to the extent to which the US is affected by COVID-19. However, its strong economy will have levers to recover from the COVID-19 better than less developed economies.

3.2. Weaknesses include a unionized staff and levels of debt

Marriott employees in the US are part of a union, Unite Here, which is popular in the labor sector. They have had recent successes in strikes in certain states, and due to this have expanded their portfolio to attract new members from Marriott. Unite Here won four elections at properties in Baltimore, San Francisco, San Diego and Irvine, California. These four wins added 1,000 more members to the union, which could pose a future threat for Marriott. Existing debt – Existing debt provides challenges for the recovery of hotels. Marriott is fortunate in that it has a large amount of cash reserves, so it can weather than impact better than smaller competitors.

3.3. Opportunities are available and good cash reserves level Marriott in a strong position

Extensive Development Pipeline – With significant cash reserves, Marriott has a large investment pipeline. Whilst it has been postponed by one year to 2021 due to COVID-19, it will act as a competitive advantage once the pandemic has passed.

Marriott has participated in joint ventures in the past, which have allowed innovative ideas to flourish, such as facial recognition check in at some hotels in China. As it has joined up with other companies before, it could again post COVID-19 to help mitigate the impacts of the virus by improving customer experience. All construction projects in the pipeline have been postponed until 2021. This has allowed some capital to become free during the pandemic, helping Marriott to save costs in the meantime.

Although COVID-19 provides uncertainty for the travel industry in the short-run, the trend of travelling in the present day has not and will not diminish. Once the height of the pandemic has passed, industry experts say that the travel industry will bounce back, frequent travelers will be travelling again and gradually, business will return to normal. Marriott should

endeavor to keep on top of this trend, and be ready across all locations for when COVID-19 has passed. A great example of this would be for China, where the height of the pandemic has now passed.

3.4. Threats include a hugely competitive industry and potential insolvency

The hotel and lodgings industry is a very competitive market, with Marriott being one of the leading players in the market. It is highly crowded with Marriott's main competitors being similarly large chains such as Accor, Hilton and Hyatt. Once the height of COVID-19 has passed and business is returning to normal, the highly competitive market may enter a price war which Marriott would have to respond to, keeping customers and profits in mind. Marriott however has an advantage as a large player in the market, and has the ability to enter price competition if necessary.

The furloughing of a large proportion of the workforce is the right corporate decision to make, however the backlash from the staff and from any unions that staff are a part of, is something that Marriott senior staff should be aware of, and take precautions to minimize this. If existing staff become too unhappy with their employer, they could leave and take knowledge to a competitor, leaving employment gaps in Marriott's workforce, increasing recruitment costs and leaving a smaller workforce in the interim.

The biggest issue for all hoteliers is the threat of insolvency, as COVID-19 is creating millions of dollars of losses every day. Marriott has taken the necessary steps in order to mitigate the impact of COVID-19, and avoid insolvency.

4. Marriott's Digital transformation strategy was well underway before COVID

Marriott has been developing a number of new digital platforms and solutions before COVID hit. These have been geared towards targeting new customers better and improving the Marriott in hotel and room experience. These investments will help Marriott to adapt to post pandemic business conditions more easily.

4.1. Personalized mobile experience offers new and more useful mobile platforms

Marriott International offers a range of services to its customers through its mobile app given the increasing use of platforms like smartphones, tablets, and laptops. Marriott has embraced design thinking to upgrade its mobile app with customized content and enabling it to deliver services tailored to the needs of the customers. For example, the app's home screen's content changes in line with the guest's journey like displaying if users have any reservations. It also provides customized content to Marriott Rewards members to personalize their services when they plan to travel, stay in the hotel, and travel after the stay. The mobile app's room ready alerts, mobile check-in and out features eliminate the need for customers to wait at counters. The app's Mobile Requests feature enables visitors to engage with the hotel's staff for special requests or select from a drop-down list of popular services. The app also allows guests to use their smartphones as room keys and access YouTube, Netflix, and Hulu accounts. Through these initiatives, the company aims to offer more convenience to customers using technology.

4.2. Social media approach for digital marketing is helping target new guests

Marriott has integrated social media approach into its omnichannel marketing strategy to enable a focused customer engagement via social media platforms. The company has launched a real-time marketing command center "M Live studios" across various locations to track the social media pulse of guests by following hashtags and geofence around hotel locations, which enable them to identify the brand presence, user trends, and feedback to promote and provide services in an enhanced way. The group also engages and interacts with travelers in a personalized way on social platforms to improve brand awareness and loyalty. Marriott encourages guests to use social media apps such as Facebook Messenger and WeChat to connect with hotel concierges in real time.

4.3. Using AI & Analytics to Enhance Service Quality

Marriott is using predictive analytics to identify and attract the most profitable customers and service areas. It helps the company analyze huge volumes of customer data like household profile, professional and salary data, spending patterns, travel type & frequency, traveling locations to understand customers better, and identify profitable customers, to whom they can provide customized suggestions and offers. Analyzing this data at a regional level helps it to understand unmet needs for additional hotels. It is also using AI-enabled chatbots at many of its hotels to enable guests to chat with hotel staff for reservations, checking account balances, and voucher redemptions.

4.4. Development of 'Smart Rooms' helping to improve the room experience

As a part of its connected strategy, Marriott has been developing a smart hotel room prototype equipped with connected solutions including mobile and voice optimized controls and personalized presets that can respond to customer preferences, thus bringing an integrated experience. The IoT guest room launched in partnership with Samsung and Legrand uses voice- and mobile-activated technology to provide guests a high level of control and personalized experience, using Samsung's end-to-end IoT service.

5. Potential future scenarios for Marriott are varied

As with all other hotel chains there remains a lot to be established about the business conditions going forward and not all of them are positive. If the travel industry goes through multiple lockdown situations with no government support it is hard to see all companies surviving. On the other hand the Marriott is fairly well placed to survive and opportunities might develop for it in future.

5.1. Positive Scenario One: The COVID-19 Outbreak and impacts last until after summer and smaller hotels don't survive, resulting in consolidation of the market

Travel restrictions could last until the summer period and beyond, which should be a busy time for hotels, especially those which are in seasonal locations. If travelers are not willing to travel, due to the restrictions and greater financial burden (due to personal circumstances following COVID-19), small to medium sized hotels may not be able to survive, and therefore would have to file for bankruptcy. Due to their large cash reserves, larger hotel chains would better weather this impact, and therefore survive COVID-19. This leaves opportunity for larger chains taking over the smaller hotels, causing consolidation in the market. This is positive for Marriott as it has large cash reserves available, which would enable it to expand its portfolio of brands and recover more quickly from the impacts of COVID-19.

5.2. Positive Scenario Two: The US Government will bail out the hotel industry

The President of the United States announced a \$2 trillion (USD) package to help the US post COVID-19. A large proportion of this was for the travel industry, including hotels. Small business loans which have been allocated for hotels are not available for large brands such as Marriott, however, if a small brand sits under the larger brand of Marriott, then they will be eligible for the loan [8]. The loans are designed to offer support whilst operations have had to be suspended in the interim period. However, this package offers short-term funding for a sector which requires long term stimulus. The recovery of COVID-19 will not be immediate, however continued support is required to ensure longevity of the sector, which bring in billions of dollars to many economies each year. Hotel experts have stated that this is enough for the short term, however more support will be needed in the long term.

5.3. Negative Scenario One: Major Players will have to shut down a large number of hotels, impacting tourism reliant economies.

Marriott's mitigation plans include temporarily closing hotels which may be due to government restriction or be due to their low occupancy rates, where closing the hotel makes the most financial sense. Marriott have also postponed all construction projects to 2021. These measures could be significantly damaging to tourism reliant economies, slowing the recovery after COVID-19.

5.4. Negative Scenario Two: The recovery of the hotel industry will take a number of years due to pricing power becoming non-existent

So far, Marriott has kept the rates of room nights stagnant as to before COVID-19. However, if other major players in the market such as Hilton and Hyatt start to reduce prices of rooms in the aftermath of the restrictions, Marriott and its brands would have to react to this, reducing pricing power. This would prolong the recovery of the industry, taking years to revert back to normal.

6. Appendix

6.1. Further reading

Global Hotels and Motels (2020) Marketline Industry Profile

Marriott International Company Profile

7. Ask the analyst

We hope that the data and analysis in this case study will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

8. About MarketLine

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