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A STUDY ON

"GLOBALIZATION IN THE HOSPITALITY INDUSTRY: MARRIOTT'S AND STARWOOD MERGER"

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Abstract
India has witnessed an increase in the Revenue Per Available Room (RevPAR) in Q3, 2019, in nine out of the top 11 markets assessed by JLL. The race for attaining scale and distribution strength has led to hotel chains working on merger and acquisition (M&A) strategies to support this industry's growth Marriott International, Inc. and Starwood Hotels & Resorts Worldwide, Inc. merger created the largest hotel company in the world.

This study will evaluate strategies implemented by Marriott International at all levels and key stakeholders' roles in implementing these long-term strategic goals of the organization based on the new strategic positioning.

Introduction

Marriot International and Starwood Hotels Worldwide are both managers and franchisers of hotel brands internationally. The merger of Marriott International Inc. and Starwood Hotels worldwide in September 2016 has produced the world's largest hotel consisting of over 5,000 properties and 1.2 million rooms in over 100 countries (Ganeles,2018).

According to Whitmore (2018) "the merger is not simply a benefit for shareholders or a step closer to building the world's largest hotel empire. Additionally, the merger of the loyalty programs specific to Starwood and Marriott will secure the foundation for the largest loyalty program of its kind". The merger with Starwood was a strategic move by Marriott International Inc. to expand global impact in Africa, Asia and the Middle East. There are political, economic, social and technological influences that affect a company's strategic position thus PEST frame work will provide an analysis for Marriott International Inc merger with Starwood Hotels Worldwide.

Literature review

1. **Panel discussion on 'Rebranding: Time for change held on 23rd January 2020** by the front office specialization group of the final year BHMCT students. Mrs. Vrushali Kummar director of sales at Fairfield by Marriott, MS Guneet Virk front office manager at Ritz Carlton and Mr. Harish Kumar front office manager of westin pune where the three industry experts who attended this session to share their knowledge and experience. Rebranding a hotel is a lot like creating a new hotel by using the same staff and structure but with a new belief system. New rules, policies, marketing strategies, distribution and customer base are all essential elements in making a new brand a reality. In broader terms a rebrand means imposing an entire set of new standards and systems, but from a practical operations viewpoint, it's important to harness people power by deciding which departments need to be involved in the rebranding process and in what capacity

2. **Dogra, Tarik & Erdogan, Aysa & Kizildag, Murat.** (2018). Marriott Starwood merger: what did we learn from a financial standpoint? Journal of Hospitality and Tourism Insights. 10.1108/JHTI-10-2017-0009. The purpose of this paper is to measure and observe stock market and investor reactions benchmark adjusted cumulative abnormal returns (CARs)) to the announcement of Marriott's acquisition of Starwood and related merger and acquisition (M&A) news and related activities over a two-year period.

3. In his article, "**Analyzing the Marriott/SPG Integration: Success, Failure or Something In-Between**'', Nick Evan states that The Marriott/SPG integration was a massive undertaking that has been years in the making, and it was inevitable that issues would arise. From the viewpoint of many readers, Marriott's response to these problems has been underwhelming.

This article throws a light to the fact that the loyalty program wasn't the only aspect of the merger. The newly combined company also had to consider reservations, training (both for phone support and local staff at individual hotels), branding, legal concerns, accounting issues

Significance of Study

1. This study throws light on the various aspects of the Marriott Starwood merger its, financial aspects, brand architecture, merger and acquisition, brand management and integration of loyalty programs.

2. Canina (2010) argued that hotels have three ways to grow: increasing the sales or profits of the current facilities, expansion by new units or acquiring other hotels. Major premise of M&As is to increase firm value by reaching economies of scale (i.e. lower costs and higher sales volume), rising market power and enhanced competence to extract consumer surplus. If successfully executed, expanding through acquisitions can be considered to be the most cost-effective way of growth, perhaps more efficient than positive investment opportunities. This strategy, in turn, enhances critical valuation metrics of firms that adopt acquisitions such as price-earnings ratio.

Objectives of Study

1. To study brand portfolio strategy, designing and implementing brand architecture post-merger and factors influencing the merger of Marriotts and Starwood's.
2. To identify factors that affect the competitive advantage of Marriot as well as Marriott's competitive position among Industry competitors.

Limitations of Study

1. Secondary sources of data are usually of limited worth for research purpose because of the error incompleteness in basic data. The data which is shared by the researcher may or may not be reliable.
2. The study gives an overview about the subject, hence is not precise and detailed about an individual property.

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Research Methodology

Sources of data

Primary data Panel discussion on "Rebranding A Time to Change" where industry experts Mr. Harish Kumar, FOM Of Westin Pune, MS Guneet Virk FOM at Ritz Carlton Pune And Mrs. Vrushali Kummar Director of Sales at Fairfield By Marriott Shared Their Knowledge and Experience During Marriott's-Starwood Merger and Rebranding

Secondary Data

Secondary data has been collected from research papers published online and web-sites. Various articles published in online magazines are also reviewed.

Methods of data Analysis

Collected data is classified, tabulated and arranged in order of objectives. Simple statistical techniques such as ratios and percentages are been used to analyze the data and arrive at inferences.

Data Analysis

- Some reasons for merger
  1. **The Starwood Opportunity**: In the spring of 2015, Starwood Hotels & Resorts, a major hotel operator and a direct competitor that was less than half the size of Marriott, came up for sale. Starwood had a strong focus on the upper-upscale price tier (72% of its rooms) and a strong international presence with 51% of rooms located outside the U.S., generating ~50% of its revenues and 44% of its profits.10 Starwood was known as a dynamic lifestyle hotel brand builder for its ability to create distinct brands with unique voices, characteristics, architecture and design, and guest experiences. The company was a front runner in leveraging technology to achieve a personalized guest experience. Sorenson (CEO Marriotts International) quickly recognized the benefits of scale that would accrue to Marriott with a Starwood acquisition that would boost its room count so significantly that the company would control one out of every 15 hotel rooms worldwide. In addition to the scale economies and cost savings that could be achieved by merging management and operating systems, Sorenson also saw the potential for greater negotiating leverage against the increasingly powerful online travel agents (OTAs), such as Expedia and Priceline.

  2. **The Competitive Landscape**: The global hotel industry offered consumers 16 million rooms in 2015 and branded hotels accounted for 53% of the supply. Consumers could choose from among 1,000+ brands and the industry were highly fragmented. The share of branded versus nonbranded hotels varied quite substantially across regions: 67% were branded in North America, 54% in Africa, 52% in Asia, and 40% in Europe, the Middle-East and Latin America respectively. In 2016, the top four operators managed or franchised only 23% of global rooms, with wide geographical disparities in level of concentration. Following the merger, Marriott would control a dominant market share globally, with 8.3% of rooms.

- **Understanding brand architecture**
  1. **Making Sense of 30 Brands Post-merger**, Sorenson (He is the President and Chief Executive Officer of Marriott International) was singing the praises of a large, diverse portfolio: "The marriage of these two leading hotel companies means Marriott will deliver an unparalleled guest experience with more hotels in more global destinations, an unrivaled range of comprehensive accommodations to suit every traveler, and the industry's best loyalty programs. Sorenson

worked to reassure owners that "we will continue to work with our brand teams that include great leaders from Marriott and Starwood to drive distinctions between those brands and make sure that we can rationalize them with product and service features that customers over time will understand." Consumers were increasingly confused by the proliferation of choices facing them and often could not distinguish between the offerings of one brand versus another. Proclaimed Ricco de Bank, owner of two Ritz-Carltons, a St. Regis, and a W Hotel, "Eighty percent of CEOs believe their brand differs from the competition, but only 20 percent of customers agree with that.

2. **Differentiating Seven Different Luxury Brands** Sorting out the luxury portfolio was particularly important given the revenue importance of these brands to Marriott and the intense loyalty for these brands among consumers. Explained Sorenson, "The economics of each luxury hotel are significantly more important to us than the economics of an average hotel for obvious reasons—there's that much revenue running through these hotels luxury brands all cater to this idea in very different ways." Critics saw significant overlap between Ritz-Carlton and St. Regis and between EDITION and W. Illuminating the challenge facing Edmundson, one proclaimed, "Ritz-Carlton and St. Regis once occupied opposite corners of the same boxing ring. Now they're strange bedfellows. So how do two brands, very similar in style and taste, stop competing for the same customers and start to share?" However, Edmundson advocated that the seven luxury brands were already offering very different experiences. She explained,

- "**The Ritz-Carlton** is the legendary brand that we can accept as the standard for luxury in the industry. For this brand, it's all about our ladies and gentlemen creating these indelible moments for our guests and that's really at the heart of what the brand promises."

- "**St. Regis** is a global destination where every detail, every interaction, and the environment that it lives in is precisely designed

- "**EDITION** is a very sophisticated experience combined with a contemporary lifestyle. This is the brand we've done in partnership with Ian Schrager. This is the brand that offers the best in food and beverage, and entertainment, and this is a brand that wants to be the social center of the locale that it's in."

- "**W Hotels**, from a personality perspective is bold, playful, and extravagant. This is the lifestyle that was really born in New York City With W, what we're trying to do is really push the boundaries of what traditionally people think about hospitality."

- "We talk about **JW Marriott** as being the lens of approachable modern luxury, inspired by our legendary namesake. This brand is built around people who are really passionate about design and anticipatory enrichment, ensuring that guests leave more fulfilled than when they arrived."

- "**Bvlgari** are exquisitely styled, very contemporary hotels and resorts. The brand is founded on the principles of the renowned jeweler."

- "**The Luxury Collection** is a glittering ensemble of locally authentic hotels. We talk about this brand's hotels as defining the destination. It has palaces in Vienna and Venice and haciendas in the Yucatan Peninsula. These hotels are really connected to the locale."

Explained Sorenson, “We have talked internally about ‘brand riddles,’ and those are: how do we draw distinctions between these brands and how do we position these brands, relative to one another

3. **Sorting Out the Premium Segment** The premium segment included some of the largest and oldest brands in the portfolio. Significant brand overlap existed, particularly between Marriott, Westin, and Sheraton, which had spent many decades in head-to-head competition targeting the same upscale business and leisure travelers. Sheraton’s average RevPAR index was 12 points behind Marriott’s. In the U.S., Sheraton was considered upper upscale but was performing poorly in terms of customer satisfaction and RevPAR. However, the brand had a positive brand awareness and reputation outside the U.S., particularly in Asia, where it had more luxurious hotels and a larger footprint than Marriott. According to Sorenson, Marriott began visiting and speaking with owners of U.S. Sheraton properties to better define brand standards and communicate how they could best be met. The company signaled that it might reduce the presence of the Sheraton brand by de-flagging (as brand changes were referred to in the industry) several of its underperforming properties.

4. **Balancing Four Soft Brands** Following the merger, Marriott owned four soft brands: three upper-upscale brands (The Autograph Collection (93 properties), the Tribute Portfolio (2 properties), and Design Hotels (5 properties)) and one luxury brand (The Luxury Collection (100 properties)), all of which offered consumers their choice of one-off, unique hotel experiences. Marriott believed that having four soft brand collections in the portfolio offered the company the ability to differentially curate a hotel property into a collection that reflected its appropriate market position, something that was more difficult when the company only had one soft brand, “Sometimes absolutely amazing assets would want to join Autograph, but they just didn’t fit into that brand’s upper-upscale market segment. Now, with the Luxury Collection and Tribute, we have the opportunity to bring those properties into the fold. When it was just Autograph, there was pressure to push the boundaries up or down. Now we have a much more organic home for most opportunities that we’re looking to bring into the broader portfolio,” declared Julius Robinson, vice president of the Autograph Collection and the Tribute Portfolio. However, distinguishing The Autograph Collection from the Tribute Portfolio would be challenging, as the two soft brands were positioned within the same price tier and their properties promised consumers very similar experiences and designs.

5. **Navigating the Select-Service and Extended Stay Brands Post-Merger** In the select-service segment, Marriott’s brands were more dominant than Starwood’s in scale, performance, and customer satisfaction. Courtyard by Marriott and Four Points by Sheraton both targeted business travelers in the upscale price tier, but Four Points’ global average RevPAR index was 9 points behind Courtyard’s and the brand lagged in customer satisfaction in the U.S. Likewise, in the extended-stay segment, Starwood’s Element’s global average RevPAR was 19 points behind Marriott’s Residence Inn, the segment leader. Because self-select and extended stay hotels tended to have lower room rates, it was more difficult to obtain a return on invested capital for their construction. In response to this challenge, Marriott had been experimenting with dual-branding properties, doubling up the branded offering within one building.

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For example, the following properties were currently operating in the market:

- In Denver, a joint 495-room AC Hotel by Marriott and Méridien
- In Austin, a joint 422-room Aloft and Eleme

Dual branding allowed property developers to simultaneously pursue two different consumer segments (i.e., an extended stay customer and a select-service customer) within the same property, yielding operational cost savings by combining staff, amenities, and back of the house activities.

Findings

- **Evaluation of stakeholder in Marriotts/ Starwood**

Stakeholders can be defined as "any group or individuals who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984) Stakeholder Mapping analysis will be used to properly analysis the key stakeholders and how their interest and influence affect the overall merger and the long-term organizational goal of Marriott and Starwood. Marriott International Inc stakeholders can be classified into three classes;

- **Internal Stakeholder, Connected Stakeholder and External Stakeholder.**

Internal Stakeholder: These stakeholders are particularly interested in the growth of the environment. Most of which get their livelihood from the organization. These Stakeholders include employees and Management of Marriott International Inc.

Connected Stakeholders: These are stakeholders with contractual agreements with an organization for over a long or short period of time. Marriott has such stakeholders which include; Customers, Suppliers, Financial Institutions, Shareholders, Franchisers and Hotel owners.

External Stakeholders: These stakeholders are organizations or individuals that ensure the regulations governing the industries are adhere to. These organizations and individuals also ensure the organization meet their social responsibilities to the communities where they operate. Such organizations include Communities, Government Agencies, Non-Governmental Organizations, Pressure group, Sustainability Experts among other.

List of stakeholders influencing the Merge process:
Owners:
As known Marriott's hotels run by self-governing owners due to franchising strategy of expansion adopted, so the merge process will let them highly interested in any change providing improvement and growth of the company.

Employees / Unions:
They may be currently employees or retirees, change in company structure may affect all employees. They have high power and interest as the hospitality industry is known on the human interactions and this helps to keep repeat customers.

Banks / Finance Houses:
They have a high power and low interest in the merger. Approving the funding and loan directly influences the outcome of the merger, though finance institutes have low interest provided payments are made timeously.

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Government:
Governments are of a high power and low interest in such a merger through various policies formation. It is interesting how the differences in policies between the Chinese government and the US government tilted the success of the merger/acquisition in the favor of Marriot over the equally strongly competing Anbang Insurance Group.

Travelling Agent:
They may they have high interest in the company, to keep their relationships with the merged company to facilitate their work. But they are of low power due to pricing, but a high level of interest for meeting client's budget and interests.

Competitors
They are valuable stakeholder and it includes all other hotel and hotel groups. Competitors are in high power which influence the merger by direct or indirect ways but low interest as they are not directly or indirectly beneficiary of the merger process.

Hilton and Intercontinental hotels were preferring Anbang Insurance Group to gain Starwood rather than Marriot. This may be declared if we consider the difference in size, capacity and revenues between both of them and Marriot which is greater than between them and Anbang.

Customers
They are hotel client. But as known, Marriot and Starwood often use third party to operate; their restaurant, laundry, security services, house cleaning etc. and other supportive services.

Communities/Environment:
These groups have little interest and little power over the activities of the hotel.

NGOs (Non- Governmental Organizations):
It may not be a key direct influencer in the hotel industry but may encourage them for CSR, waste disposal in a sanitary way or issues like that. So, they have low interest in the hotel operations, also a limited power to influence it.

The media:
it's the way by which the merger process represented to the world until the final conclusion. It shouldn't be under or overestimated but must be kept award about the picture that needed to be seated to the community.

- **THE PEST ANALYSIS** gives an overview of the environmental factors that affect the competitive advantage of Marriot as well as Marriott's competitive position among Industry competitors.

The PEST framework analysis results clarified the challenges in the external environment of the company and how highly the company's responses to these challenges to sustain the perceived value to the customers

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Pest Analysis of Marriott International

Political Factors	Economic Factors
• Terrorism • Political climate • International relations • Employment laws and regulations • Guest safety and precautions • Anti-trust laws • Trade restrictions • Political stability	• Exchange rates • Inflation • Economic growth • Recession • Labor costs and shortages • Adaptation of asset costs • Interest Rates • Taxes
Sociocultural Factor	**Technological Factors**
• Consumer opinions. • Cultural changes • Changing life style • Demographics of travelers • Travelling habits • Immigration rates	• Online reservations • Easy booking ways • travelling bundles • Technological - booking gifts • Wide spread power of advertising

PEST (Political, Economic, Social and Technological) Analysis provides an understanding into market growth or decline as such, provides vital direction, potential and position for businesses (Gupta, 2013). It is a framework that analyses and categorizes external environmental factors as Political, Economic, Social and Technological forces (Thompson and Martin, 2006).

Suggestions

1) Recognize and adopt the mindset that any M&A effectively results in a new organization. Redevelop a start-up mindset and work ethic to ensure a complete and successful integration. Communicate to each group of stakeholders the reasons behind the M&A and the value and associated costs it will bring to each group. Getting buy-in from everyone impacted is an important step toward optimizing benefits and minimizing costs, and leads to a more integrated outcome. Integration ownership should be at the highest level. While it's smart to include all the key players, the president and/or CEO should drive the process and lead the group. An integration plan must contemplate and include all facets of the respective businesses, operations, organizations and cultures; and should be measurable in the following increments: 30/60/90/180 days

• **To analyze the effectiveness of merger I suggest to use the Bowman Strategic Clock** as it provides a strategic overview of an organizational product and service competitive position within a specific industry. Both Marriott and Starwood have various brands that provide different services to their wide range of customers. Using the Bowman Strategic clock, we will analyses where the present merged products and services of Marriott/Starwood are on the clock differential and how the strategic position gives the new company a competitive advantage among its competitors. Marriott and Starwood products and services fall in the category/position 3, 4 and 5 that represents Hybrid, Differential and Focused Differential respectively

• It is pertinent to design a posting schedule and follow it to keep up with the customers without overdoing it. Also developing a voice and tone guide would be helpful and should include details like brand persona, company catchphrases, personality traits and vocabulary. The smallest details, like whether to use the term "clients" or "customers" will help to keep writing consistent.

Conclusion

- The Marriott/ Starwood merger was a vital strategic decision that was followed by several strategic implantations on both corporate and business levels. These strategies were very successful in achieving the organization's strategic goal to be the first hotels company in the world. While it gave the organization the opportunity to expand in more than 100 countries and reaching 1.1 million rooms which rapidly tripled the company's share in the market.
- The PEST analysis forces give an overview of the environmental factors that affect the competitive advantage of Marriot as well as Marriott's competitive position among Industry competitors.
- The PEST framework analysis results clarified the challenges in the external environment of the company and how highly the company's responses to these challenges to sustain the perceived value to the customers.
- Bowman's strategic clock analyses identified what factors that shaped the company's strategy; also, the Bowman's clock identified the position of the services and the products provided by the company based on their prices and values which formed the big picture of the company and its competitive position among competitors.
- Mapping the stakeholders showed the level of their engagement in the management process and clarified their role in achieving services excellence.

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