A Critical Analsyis of Marriott's Asset-Light Model and Its Strategic Implications in India

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Abstract:

The asset light approach is a new way of investing and producing money in the hotel industry. Hotels using an asset-light approach invest in both physical and intangible assets to generate income. The Mariott Hotel successfully followed this technique to penetrate the Indian market. In their reports, Mariott Hotel specifically stated that they use an asset-light approach. This method may help firms gain market share with little financial expenditure. Benefits include reduced risk and increased profitability. This case study evaluates Marriott International's asset lighting strategy and performance in the Indian hotel business. It enhances the firm's worth by boosting earnings and reducing risks. This article introduces the asset light approach and discusses its benefits and drawbacks. The article provides an outline of Mariott Corporation's plan for dominating the Indian hospitality market. The study finishes with a discussion on implementing the asset-light approach.

Keywords: Capital Structure, Franchising, Mariott Hotel and Resorts, Asset Light Strategy, and Hospitality

I. INTRODUCTION

McKinsey & Company introduced the Asset Light Strategy, a novel approach to capital investment, in the early 2000s. When resources are few, this tactic entails making the most of an organization's light asset resources while reducing investment in heavy assets like fixed assets. This approach has gained popularity and is being used by many hospitality companies; the Mariott Hotel is one of the most notable instances, having used it to launch its operations in India (Marriott International Inc., 2018). By using an asset-light approach, which involves owning fewer or no hotels or restaurant facilities, hospitality organizations invest more in technology-driven and loyalty-based assets via the notion of franchising (Li, & Singal, 2019). Businesses may use this tactic to grow their market share while spending less money. In terms of risk and profitability, it is advantageous. Because property owners compensate hotel operators for operating costs, this approach turns out to be more lucrative than self-owned hotels (Roh, 2022).

The substantial amount of fixed assets and the industry's dependence on customers' discretionary spending make the hotel and restaurant sectors notable (Kumcu & Kaufman, 2011). By implementing a fee-oriented asset-light (AL) strategy, businesses can reduce this risk (Choi et al., 2018), stabilize cash flows (Andrew, Damitio, & Schmidgall, 2007), increase flexibility (Gim & Jang, 2019), and accelerate growth without making significant investments (Sohn et al., 2013). The implementation of an asset-light (AL) approach by businesses has had a significant impact on their cost structure, which is why many hotel and restaurant corporations worldwide have gone into expanding their managed and franchise operations in recent decades. Businesses may benefit from franchise and management fees by using this tactic without having to pay the hefty fixed expenses of running a company (Graham & Harris, 1999). This enables them to avoid the difficulties of managing varying earnings when demand is unpredictable.

Local brands like Taj Hotels, Oberoi, and Maurya's completely controlled the Indian hotel market in the 1990s. In India, these hotels are synonymous with luxury, and it is very difficult for any hotel to break such a strong brand, particularly if it comes from an international company without a property established in India. However, times have changed, and when discussing any luxury hotel, the first name that springs to mind is Mariott Hotel, a U.S.-based hotel chain that first opened in India in 1999 with a single hotel in Goa. Today, it ranks second in terms of hotel chains in India, trailing only Taj Hotels and other well-known brands in the Indian hotel sector (Das & Datta, 2018). Given that Mariott International's acquisition of its competitor Starwood hotel and resorts cost an astounding $13.6 million, this is seen as an overnight change. By acquiring Mariott, Starwood Hotels, which already owns a sizable number of hotels in India, almost doubled its size and surpassed Tata's Taj hotels. After giving it some thought, it was discovered that Mariott International did not own any hotels in India; instead, they used the asset light model, which involves franchising real estate and giving them access to their services and brand name.

II. Asset-light and firm value:

Businesses must pay high fixed costs for capital investments in buildings, land, and fixed assets in order to cover depreciation and other maintenance expenses. Businesses that choose an asset-light approach run a greater risk since they are more vulnerable to troubled circumstances because they possess fewer fixed assets. However, because a large portion of a company's capital is already invested in illiquid assets, increasing fixed asset investment results in less flexibility for the business. As a result, companies with a greater fixed asset ratio find it more challenging to manage risk than those with a lower ratio. Investors want more profits in order to accept greater risk, which eventually raises the cost of capital (Brealey and Myers, 2002). Businesses may thus choose the franchising option to lower their cost of capital and boost flexibility.

The initial fee, which is paid at the beginning of the contract and has a set value, and the ongoing charge, which is often based on a percentage of sales income, are the two parts of a franchise business option.

Although franchising does not eliminate risk, it reduces it during times of economic hardship and offers a correspondingly larger revenue during periods of economic prosperity (Sohn et al., 2014). In addition to shielding businesses against abrupt collapse in times of economic hardship, an asset-light approach improves a company's prospects of success in times of economic prosperity. By raising earnings and reducing risks, it contributes to the enhancement of the firm's value (Sohn et al., 2013).

The primary drawback of this strategy is that it makes the franchisor more reliant on the franchisee, making it very difficult for them to preserve their most valuable asset—their brand (Combs, Ketchen, Shook, & Short, 2011a).

The hotel business is further advanced in the product life cycle stage due to the highly established franchising form of operation. Additionally, the hotel business suffers both local and international rivalry, which steadily reduces its profit. All of these elements work together to increase awareness of the need to see the world from a global perspective (Huszagh, Huszagh, & McIntyre, 1992). Large hotel chains like Hilton, Sheraton, Holiday Inn, Marriott, and Ramada Inn were primarily responsible for the hotel industry's globalization, which began in the middle of the 1950s and lasted until 1960. It is commonly acknowledged that Holiday Inn was the first hotel company to use the franchising concept in the 1950s (Shook & Shook, 1993). Since this approach reduces the financial risk of investing in fixed assets, which necessitates a large capital expenditure when operating worldwide, other hotel chains also began to embrace this strategy. Furthermore, this paradigm makes it easier for authority to be concentrated in regions with a lack of competent workers (Cho, 2004).

III. The Indian Hotel Industry's History:

India is a culturally rich nation with a long history of monarchs and their belief in "Atithi devo bhava," or "guests are like God." The aforementioned idea forms the foundation of the Indian hospitality sector (Sanskriti, 2014). The establishment of hotels on hill stations by British colonists seeking cooler summer locations marked the beginning of India's professional hotel business. Two hotels that were founded in the 18th century include Hotel Charles Ville, which was built in 1861, and Savoy, which was built in 1895. In 1898, the Hotel Shimla Clarkes opened (Bond, 2003). Jamshedji Tata established the Taj Hotel in 1903, making it the first hotel founded by an Indian (Allen, 2008). Other hotels, such as the Oberois and Grand Calcutta, were subsequently established throughout India. The Indian Tourism Development Corporation (ITDC) was established in 1966 as the government recognized the value of hotels for hosting major events and the stay of foreign dignitaries after the end of the British rule (Davendra 2011). In India, ITDC is in charge of running and overseeing hotels. When India hosted the Asian Games in 1982, it built a number of hotels to provide opulent accommodations and pleasant stays for the visitors. Kanishka, Ashok Yatri Niwas, Akbar Hotel, Lodhi Hotel, Ranjit Hotel, and Qutab Hotel were among the seven properties that ITDC exclusively developed at that time (Devendra, 2001).

When the government of India opened its doors to international investment and economic reforms occurred in 1991, the hotel business saw a significant transformation. Following then, a large number of international hotel brands opened hotels in India. In order to draw in more and more investment, the government also offers the hotel sector a number of incentives, such as tax shields, income tax refunds, single window clearance, and 100% foreign direct investment. Marriott, Hyatt Hotels Corp., InterContinental Hotels Group (IHG), Hilton Worldwide, Accor SA, and Starwood Hotels and Resorts Worldwide are just a few of the international hotel brands that have made their way into India (Sufi, 2015). Nonetheless, throughout the COVID era, the hotel sector was most affected. The industry suffered an instant setback, and this condition lasted for a considerable amount of time. According to the statistical data, the revenue growth rate decreased between 2019 and 2021. Performance indicators exceeded pre-pandemic levels when the recovery got underway in 2022. Performance indicators in the hotel sector will continue to rise in 2023, pointing to a robust rebound and industry resilience.

IV. About Mariott:

Marriott International Inc. is the parent company of Marriott Hotel Whitefield, the biggest and fastest-growing hotel chain in the world. Marriott hotel brands provide its patrons five-star luxury in strategic places.

In 1927, J. Williard Marriott and his wife, Alice Sheets Marriott, established Marriott International Inc.

Beginning as a Nine Stool beer tavern, the firm grew to include cafeteria-style eateries in Washington, D.C., between 1930 and 1940. Hot Shoppes was the name of their restaurant franchise. The management continues to grow its franchises of restaurants. The son of Williard took over the administration in 1950, and the business began operating in the hotel sector. The business was split up into three sections during his time there: hotels, airline catering, and food operations. Because there was such a high need for reasonably priced accommodation during World War II, Marriott's hotel business expanded rapidly. Their restaurant network was in charge of providing culinary services to a number of government institutions at the time, including government housing centers and defense factories. However, Marriott suffered during the crisis as the US market for companies with contentious practices and illiquid assets declined (Amihud, Mendelson, & Wood, 1990). Marriott used a number of restructuring techniques in order to reorganize the business and escape the debt trap. One tactic from these reorganizations is for Marriott to build hotels using investor capital, transfer ownership, and keep management authority. This approach uses less cash, yet it increases returns on investment regardless of the amount invested.

At the time, it was the most creative move made by a hotel chain, and it was special for everyone.

Following a decision by Marriott Corporation's management to divide ownership in 1993, Host Marriott Corporation and Marriott International Inc. were established as two separate companies. In 1995, Mariott purchased the Ritz Carlton Hotel Company in order to grow the company and make its name known in the exclusive luxury brand hotel list. Mariott went on to build a number of upscale hotels catering to a variety of clientele.

This includes the 2006 launch of the Autograph line, which catered to affluent and high-end customers. Together with Ian Schrager, Mariott launched the Edition hotel in 2007 and the Moxy hotels, which were tailored for younger tourists, in 2013. When Marriott purchased Starwood Hotels & Resorts Worldwide in 2016, it made its most significant strategic move and became the largest hotel business in the world. Starwood Hotels & Resorts operates, franchises, or manages 1,297 hotels throughout 100 countries under 11 brands (Wilson, 2017).

V. Marriott's and Asset Light's Indian strategy:

The Marriott success story in India began as an overnight fantasy. It began in 2016 when Starwood Hotels and Resorts, which already had a sizable stake in India, was acquired by Marriott International for $13.6 billion. Marriott International's profitability numbers clearly show the effects of the purchase, as their sales revenue rose 34% between 2016 and 2017. Additionally, between 2016 and 2017, revenue per available room (RevPAR) rose from $128.7 to $131.14. The cash flow from operations comes to $2,436 million. The hotel industry will undergo a radical transformation as a result of this acquisition, making Marriott the largest hotel chain in the world with a diverse portfolio of brands to meet the needs of its clientele, from high-end luxury options like Ritz-Carlton and St. Regis to more reasonably priced options like Courtyard and Four Points. Marriott has broadened its market offers to include hipster alternatives for the elder age and cookie cutters for the younger group. For Taj Hotels, another well-known hotel company in India, this sets off a domino effect. The purchase of Starwood's is being closely examined since it would double Marriott's stake, dislodging Taj hotels from their leading position. Nevertheless, Marriott International only has a small number of hotels in India at the moment, even if it has achieved the highest ranking. As of 2023, the Mariott Group operated 150 hotels in India, citing ScrpeHero's location intelligence assessments. With 27 properties, Maharashtra has the most hotels of any state in India, making up almost 18% of all Marriott hotels (ScrapHero, 2023). An asset-light approach is being used to carry out the activities. It uses franchisee models and management contracts to operate.

The hotel sector has extensive experience with both franchise agreements and management contracts. Hotel chains and real estate developers enter into management arrangements that resemble a partnership agreement (Das & Datta, 2018). For a certain fee, the hotel chain takes on the duties of branding, maintaining the standard of the interiors, educating the staff, and managing day-to-day operations. The agreement with real estate developers also covers human resources, such as employees, in addition to financial resources. This expense might be a set, stand-alone sum, a percentage of revenues, or a proportion of profits. In the hotel sector, franchise agreements are seen to be simpler to run and more lucrative than management contracts. In franchise agreements, the brand merely guarantees quality standards and brand-specific criteria; all ongoing and daily operations are the responsibility of a third party. This approach is proven to be successful for Marriott both internationally and in India. In India, Mariott's operational style is synonymous with efficiency and well-organized organization. Following a thorough analysis of Indian workplace culture, Marriott only hired 75 employees who worked remotely from their local offices. For the remaining human resources operations, they partnered with real estate developers like SAMHI, Panchshil Realty, the Salgaocar family in Goa, and K. Raheja Corp.'s Chalet Hotels (Das & Datta, 2018).

Marriott primarily uses two approaches to create hotels in India: either it enters into agreements with real estate developers early on to build resorts in accordance with their standards and designs, or it collaborates with them while they are in the middle of construction to incorporate some of their standard format designs into the hotels while letting them use their designs for the property as well.

Although management contracts are Marriott's main method of operation, the company also has several franchisee partners in India. ITC Hotels is their largest franchisee partner. Due to this deal, Mariott International currently owns the bulk of ITC's premium and luxury hotel properties. Since Starwood, which Mariott acquired, has a well-known brand, Sheraton, which plans to work with ITC for their key sites for growth, a partnership with ITC is also seen as essential for Marriott International. In India, Marriott offers a large range of brands to meet the demands of various social groups. It encompasses every category, ranging from the luxury class to the midrange category. In general, there are 15 brands that fall into three major categories: Courtyard, Fairfield, Aloft, and Four Points are in the moderate category; The Westin and Le Meridien are in the premium category; and St. Regis, Ritz-Carton, JW Marriott, and the W are in the luxury category. Marriott is focusing its efforts on moving hotels to smaller towns and cities, even though the company still makes the most money in major metropolitan regions.

VI. Conclusion:

In summary, since there is no ownership of the company's assets, the asset light approach may be riskier in any difficult circumstance. However, if used carefully and with a methodical examination of the external environment, it may show to be an effective tool. By using this tactic, Mariott International not only broke into the Indian market but also established its supremacy in the Indian hotel sector, outperforming even the venerable Taj Hotels. The franchisee model and management contracts serve as the foundation for the asset light approach. Franchisee models and management contracts are popular strategic operating approaches in the hotel sector.

Hotel chains get into agreements with real estate developers under management contracts, either at the outset of the project or throughout development. Hotel chains oversee their daily operations, give them their brand identity, educate their employees in accordance with their brand standards, and design their interiors. This is carried out in exchange for fixed fees, the profit or revenue sharing, or a mix of the two.

In contrast, this collaboration becomes more comprehensive under the franchisee model, when a third party even handles day-to-day operations. All that the hotel chains need to do is reveal their brand names and make sure that their own branding specifications are met.

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