



A Strategic Analysis Of The Asset Light Model – Case Study On Marriott Hotel In India

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Abstract: Asset light strategy is a new trend of investing and earning revenue in the hospitality sector. In an asset-light strategy, hotels invest in intangible assets, despite tangible ones, to earn revenue. One notable example is the Marriott Hotel, which successfully implemented this strategy while entering the Indian market. In their reports, Marriott Hotel explicitly stated that they are employing an asset-light strategy. This strategy can help businesses increase their market share with less capital investment. It is beneficial both in terms of risk and profitability. This case study paper examines Marriott International's strategy of asset lighting and its success story in capturing the Indian hospitality industry. It helps improve the firm's value by increasing profits and lowering risks. This paper initially explains the asset light strategy and the various pros and cons of implementing it. Then it gives an overview of Marriott Corporation and how they used this strategy to capture and dominate the Indian hospitality industry. The paper concludes with a discussion on the implementation of the asset light strategy.

Index Terms – Marriott Hotel and Resorts, Asset Light Strategy, Capital Structure, Franchising, Hospitality

I. INTRODUCTION

Asset Light Strategy is a new trend in capital investment that was proposed by McKinsey & Company in the early 2000s. This strategy involves leveraging an enterprise's light asset resources and minimizing investment in heavy assets, such as fixed assets, when resources are limited. This method has become quite popular and is adopted by various hospitality firms; one of its biggest examples is the Marriott Hotel, which established its business in India using this strategy (Marriott International Inc., 2018). By using an asset-light strategy, hospitality companies invest more in technology-driven assets and loyalty-based assets by using the concept of franchising, in which they own fewer or even no hotels or restaurant properties (Li, & Singal, 2019). This strategy can help businesses increase their market share with less capital investment. It is beneficial both in

terms of risk and profitability. This model is coming out as more profitable than self-owned hotels since hotel operators receive reimbursements from property owners for the expenses of running a business (Roh, 2022).

The hotel and restaurant industry are noteworthy due to the significant presence of fixed assets and its reliance on consumers' discretionary expenditures (Kumcu & Kaufman, 2011). The implementation of a fee-oriented asset-light (AL) strategy mitigates this risk (Choi et al., 2018) and allows firms to have increased flexibility (Gim & Jang, 2019), stabilize cash flows (Andrew, Damitio, & Schmidgall, 2007), and achieve faster growth without substantial investments (Sohn et al., 2013). Consequently, numerous hotel and restaurant firms globally have ventured into developing their managed and franchise businesses in recent decades. The adoption of an asset-light (AL) strategy by companies has had a profound effect on their cost structure. By pursuing this strategy, firms can take advantage of franchise and management fees without the burden of the high fixed costs associated with owning and operating a business (Graham & Harris, 1999). This allows them to avoid the challenges of dealing with fluctuating profits during periods of uncertain demand.

During the '90s, the Indian hotel industry was fully dominated by local chains like Taj Hotels, Oberoi, and Maurya's. These hotels are considered synonyms of luxury in India, and breaking such a strong brand is a very difficult task for any hotel, especially when it comes from an international brand that does not have a property established in India. But times have changed, and the first name that comes to mind while talking about any luxury hotel is Marriott Hotel, a U.S.-based hotel chain that entered India with one hotel in Goa in 1999 and is now the second largest hotel chain after Indian hotels, lagging behind Taj hotels and other big names in the Indian hotel industry (Das, & Datta, 2018). This is considered an overnight transformation, as Marriott International's takeover of its rival Starwood hotel and resorts cost a whopping \$13.6 million. Starwood Hotels already owns significant hotels in India, and by taking over Marriott, it has almost doubled its numbers and left behind Tata's Taj hotels. By carefully considering it, it can be found out that Marriott International did not own any hotels in India, but they operated in India using the asset light model, that is, by franchising the property of real estate and providing them with their brand name and services.

II. Going asset-light and firm value:

Firms have to incur heavy fixed costs for capital investment in fixed assets, land, and buildings for depreciation and other maintenance costs. Firms going for an asset-light strategy involve higher risk as owning fewer fixed assets increases the amount of risk in problematic situations. However, indulging in higher investment in fixed assets leads to inflexibility for firms as their huge amount of money is already in illiquid assets. Therefore, it is more difficult for firms with a higher fixed asset ratio to tackle the risk than those with a lower ratio. To face higher risk, investors demand higher returns, which ultimately leads to a higher cost of capital (Brealey and Myers, 2002). So, to decrease the cost of capital and increase flexibility, firms can go for the franchising option.

A franchise business option has two components: the initial fee, which is paid at the start of the contract and has a fixed amount, and the continuing fee, which is generally based on some portion of sales revenue. Franchising does not mean that there is no risk, but it minimizes the amount of risk in cases of economic distress and provides proportionately higher income in cases of economic expansion (Sohn et al., 2014). Asset light strategy not only protects firms from sudden failure during economic distress but also increases a firm's chances to perform during economic expansions. It helps improve the firm's value by increasing profits and lowering risks (Sohn et al., 2013). The biggest disadvantage of this model is that it increases the dependency of the franchisor on the franchisee, and it will be very difficult for the franchisor to maintain their brand value, which is their biggest asset (Combs, Ketchen, Shook, & Short, 2011a).

The franchising model of operation is highly developed in the hotel industry, making the industry more advanced in the product life cycle stage. The hotel industry also faces domestic and global competition, making its profit decrease gradually. These factors collectively foster a heightened recognition of the necessity to consider the world from a worldwide perspective (Huszagh, Huszagh, & McIntyre, 1992). The globalization of the hotel industry started in the mid-1950s and continued into 1960, mainly through big hotel chains like Hilton, Sheraton, Holiday Inn, Marriott, and Ramada Inn. Holiday Inn is widely recognized as the pioneer in implementing the franchising model in the hotel business throughout the 1950s (Shook & Shook, 1993). Later on, other hotel chains started to adopt this method, as this model mitigates the financial risk of investment in fixed assets, which requires high capital expenditure while operating globally. Additionally,

this model also facilitates the centralization of power in areas where there is a shortage of skilled labour (Cho, 2004).

III. History of the Hotel Industry in India:

India is a country that is rich in culture and has a rich history of kings and their ideology of “Atithi devo bhava” which means guests are like God. The base of the Indian hospitality industry is based on the above concept (Sanskriti, 2014). The professional hotel industry in India started in the colonial period, when Britishers established hotels on hill stations for cooler places in the summer. Hotel Charles Ville, erected in 1861, and Savoy, constructed in 1895, are two hotels that were established during the 18th century. Hotel Shimla Clarkes was established in 1898 (Bond, 2003). The first hotel that was established by an Indian was the Taj Hotel by Jamshedji Tata in 1903 (Allen, 2008). After that, some other hotels were opened in India, including Oberois, Grand Calcutta, etc. After the end of the British era, the government realized the importance of hotels for the stay of foreign dignitaries and other big events, and the Indian Tourism Development Corporation (ITDC) was set up in 1966 (Davendra 2011). ITDC is responsible for operating and managing hotels across India. In 1982, during the hosting of the Asian Games, India erected different hotels to accommodate the guests in luxurious settings and ensure their comfortable stays. ITDC solely designed seven hotels during that period, including Kanishka, Ashok Yatri Niwas, Akbar Hotel, Lodhi Hotel, Ranjit Hotel, and Qutab Hotel (Devendra, 2001).

The major reform in the Indian hotel industry took place in 1991 when the government opened its doors for foreign investment and economic reforms in India took place. After that, many foreign hotel chains entered India and set up their hotels there. The government also provides various benefits to the hotel industry to attract more and more investment, including 100% foreign direct investment, single window clearance, income tax rebates, and tax shields. Various foreign hotel chains entered India, including Marriott, Hyatt Hotels Corp., InterContinental Hotels Group (IHG), Hilton Worldwide, Accor SA, and Starwood Hotels and Resorts Worldwide (Sufi, 2015). However, the hotel industry experienced the greatest impact during the COVID period. The industry experienced an immediate setback, and there was a significant duration during which this state persisted. The statistical data indicates a decrease in the rate of revenue growth from 2019 to 2021. The recovery began in 2022, and performance metrics outpaced pre-pandemic levels. In 2023, there will be a continued upward trend in performance metrics in the hospitality sector, indicating a strong recovery and resilience of the industry.

IV. About Marriott:

The world's largest and fastest-growing hotel chain, Marriott Hotel, Whitefield, belongs to Marriott International Inc. Marriott hotel chains provide 5-star hospitality service to their customers in prime locations. Marriott International Inc. was founded by J. Williard Marriott and his wife, Alice Sheets Marriott, in 1927. Originally, the company started as a Nine Stool beer restaurant and expanded its business to cafeteria-style restaurants from 1930 to 1940 in Washington, D.C. Their restaurant chain was named Hot Shoppes. The management keeps expanding their restaurant chains. In 1950, the management was taken over by the son of Williard, and the company started its operations in the hotel industry. During his tenure, the company was divided into three divisions: food operations, catering to airlines, and hotels. Marriott's hotel industry grew with heaps and bounces as there was a huge demand for affordable lodging during World War II. During that time, their restaurant chain was responsible for catering services to various government buildings, such as defence plants and government housing centres. However, at the time of the recession, Marriott faced a setback as there was a drop in the US market for firms that are heavily debated and hold illiquid assets (Amihud, Mendelson, & Wood, 1990). To restructure the company and survive the debt trap, Marriott deployed various restructuring strategies. From these restructurings, one strategy is that Marriott would develop hotels with investors' funds and transfer ownership but retain the right to manage the hotel. Through this strategy, the amount of capital invested is less, but it yields higher returns on whatever amount is invested. It was the most innovative step by any hotel company at that time and was unique for everyone.

In 1993, the management of Marriott Corporation decided to split ownership, which resulted in the formation of two distinct entities: Host Marriott Corporation and Marriott International Inc. To expand the business and establish its name in the prestigious luxury brand hotel list, Marriott acquired the Ritz Carlton Hotel Company in 1995. Marriott subsequently established a series of high-end hotels targeting diverse customer segments. This included the introduction of the Autograph collection in 2006, catering to an upscale and luxurious

cliente. In 2007, Marriott collaborated with Ian Schrager to launch the Edition hotel, and in 2013, they introduced Moxy hotels, specifically designed for younger travellers. The biggest strategic move that Marriott took, which makes it the largest hotel company in the world, was in 2016, when it acquired Starwood Hotels & Resorts Worldwide. Starwood Hotels & Resorts has 11 brands and 1,297 properties in 100 countries that are either operated, franchised, or managed hotels (Wilson, 2024).

V. Marriott's and Asset Light strategy in India:

The success story of Marriott in India begins like a dream that started overnight. It started in 2016 when Marriott International took over Starwood Hotels and Resorts for \$13.6 billion, which already had a significant share in India. The results of the acquisition can prominently be seen in the profitability figures of Marriott International, as their sales revenue increased by 34% from 2016 to 2017. Furthermore, revenue per available room (RevPAR) has also increased from \$128.7 to \$131.14 from 2016 to 2017. The operating cash flow reaches \$2,436 million. This acquisition brings a revolutionary change in the hotel industry, positioning Marriott as the largest hotel chain globally and having a wide variety of brands to cater to the needs of their customers, ranging from luxury high-end options like Ritz-Carlton and St. Regis to affordable options like Courtyard and Four Points. Marriott's market offerings are expanded to cater to the younger generation with cookie cutters and the older generation with hipster options. This triggers a chain reaction for another prominent hotel conglomerate in India, Taj Hotels. They are having a close look at the deal for the acquisition of Starwood's, as this deal increases the share of Marriott by twofold, which results in the displacement of Taj hotels from their top position. However, despite attaining the topmost position, Marriott International currently possesses just a limited number of hotels in India. According to the location intelligence reports of ScrapeHero, the Marriott Group operated 150 hotels in India as of 2023. The state with the highest number of hotels is Maharashtra, with 27 establishments, accounting for approximately 18% of all Marriott hotels in India (ScrapHero, 2023). The operations are being conducted using an asset-light technique. It functions by utilizing management contracts and franchisee models.

The hospitality industry is highly familiar with both modes of operation- management contracts as well as franchise agreements. Management contracts are like a partnership agreement between hotel chains and real estate developers (Das & Datta, 2018). The hotel chain assumes responsibility for branding, ensuring the quality of the interiors, training the personnel, and overseeing daily operations in exchange for a predetermined charge. Not only financial resources but human resources as well, which include staff members, are also part of the contract with real estate developers. This cost may be based on a percentage of profits, a percentage of revenues, or a fixed standalone amount. When compared with management contracts, franchise agreements are considered more profitable and easier to operate in the hotel industry. In franchise agreements, all recurring and day-to-day activities are the responsibilities of a third party, while the brand only ensures quality standards and brand-specific requirements. For Marriott, this strategy is proving to be a working strategy not only globally but in India as well. Efficiency and organized structure are the synonyms of Marriott's operating style in India. Marriott, after careful consideration and thoroughly examining the working culture of India, employed only 75 employees who remotely worked in their local offices, and for the rest of the human resources operations, they collaborated with real estate developers such as K. Raheja Corp's Chalet Hotels, the Salgaocar family in Goa, Panchshil Realty, and SAMHI (Das & Datta, 2018). Marriott majorly deploys two strategies to formulate hotels in India: either it contracts with real estate developers from the very beginning for building resorts according to their standards and their designs, or it partners with them during the period in which they are in the mid-construction phase so that it can include some of their standard format design in the hotels while allowing them to follow their designs as well for the property.

Marriott primarily operates through management contracts; however, they also have some franchisee partners in India. Their biggest franchisee partner is ITC Hotels. As a result of this agreement, a majority of the premium and luxury hotel holdings of ITC are now part of Marriott International. Partnership with ITC is also considered crucial for Marriott International, as Starwood, which Marriott captured, has a longstanding brand, Sheraton, which intends to collaborate with ITC for their strategic locations for expansion purposes. Marriott has a wide variety of brands in India catering to the needs of different classes of individuals. It covers all the categories, from a moderate category to the premium class. Majorly, there are 15 brands that are categorized into three broad categories: the luxury category includes St. Regis, Ritz-Carton, JW Marriott, and the W; the premium category includes The Westin and Le Meridien; and the moderate category includes Courtyard,

Fairfield, Aloft, and Four Points. Although large urban areas continue to generate the most income for the business, Marriott is directing its efforts to shift hotels to smaller towns and cities as well.

VI. Conclusion:

In a nutshell, asset light strategy can be riskier in any problematic situation as there is no ownership of the assets of the company, but if applied cautiously and after a systematic analysis of the external environment, it can prove to be a powerful tool. Marriott International not only used this strategy to enter the Indian market but also to assert its dominance in the Indian hotel industry, surpassing even the well-established Indian brand Taj Hotels. The asset light strategy is based on the franchisee model and management contracts. For the hospitality industry, management contracts and franchisee models are common strategic methods to operate. Under management contracts, hotel chains tie up with real estate developers either at their initial stage before construction or during the construction period. Hotel chains provide them with their brand name, interior designs, train their staff according to their brand standards, and manages their day-to-day operations. This is done either for predetermined fees or for the share of profit, the share of revenues, or a combination of both. Meanwhile, in the franchisee model, this partnership gets more extensive, and in this model, even day-to-day operations are carried out by a third party. The hotel chains are only required to disclose their brand names and ensure compliance with their own branding requirements.

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