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Financing

Marriott ends 2018 ahead despite data breach, strikes

by Elliott Mest | Mar 1, 2019 3:57pm

A data breach, labor strikes, a massive merger and a loyalty program launch impacted Marriott International through 2018, but the company managed strong performance regardless. Photo credit: Marriott International

Marriott International is happy to leave 2018 in the past. During the company's earnings call for the fourth quarter and full-year 2018, the company displayed positive metrics as it completed the integration of Starwood Hotels & Resorts Worldwide into its systems and launched a new loyalty brand, Marriott Bonvoy, that consolidates Marriott and Starwood's loyalty programs. But the conversation frequently returned to the company's data-breach woes—which have already cost it $28 million in expenses during Q4 2018 alone—and a series of labor strikes that dogged eight of the company's properties.

The breach, which was announced during the fourth quarter and has yet to be fully assessed, has impacted millions of guests and originated in Starwood's reservations system several years before Marriott's acquisition of the company in 2016. Rather than beat around the bush, Marriott President/CEO Arne Sorenson addressed the impact of the breach front and center as the call began.

"In a transformation this large and encompassing it would be surprising not to encounter some challenges," Sorenson said. "In late November we disclosed a data breach incident regarding the legacy Starwood reservation database. Beginning with our public announcement of the incident on Nov. 30, we rolled out a broad guest outreach effort … Our forensic review of the incident is complete, and as we said in January the number of guest records impacted is lower than we estimated."

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Sorenson went on to describe Marriott's outreach effort, which included fielding a large number of calls from guests over the following three months. He estimated that roughly 40,000 guests contacted Marriott regarding the breach in December, with that number falling to fewer than 6,000 in January and less than 3,000 in February.

During a question-and-answer session, Shaun Kelley, senior research analyst at Bank of America Merrill Lynch, asked whether the data breach—or any other one-time expenses associated with the Starwood integration—will have an unexpected impact on the company's performance in 2019. Sorenson dismissed this concern, grouping these costs under transaction costs.

By the Numbers

By almost all measures, Marriott International's industry metrics for 2018 were positive. The company's net income for Q4 2018 reached $497 million, a 23-percent increase year-over-year, with net income for the year clocking in at $2.2 billion—a 38-percent increase over 2017.

Marriott's revenue per available room rose 1.3 percent worldwide in the final quarter of the year, though much of that was a result of strong international business, which was up 4 percent verses North America's 0.2-percent increase, most likely the result of labor strikes that persisted for several months at eight Marriott properties. Despite this, Marriott's net income stood out, totaling $317 million in Q4 2018 compared to $114 million the previous year.

The company also added more than 80,000 rooms to its system in 2018, more than 9,900 of which were converted from competitor brands. Marriott's pipeline also is swelling after the company signed a record 125,000 rooms last year. Today, Marriott International's worldwide development pipeline stands at a mammoth 478,000 rooms.

Loyalty Wins

With the integration of Starwood nearly complete, Marriott also launched Bonvoy, a retooled loyalty program that is the result of combining Marriott Rewards, The Ritz-Carlton Rewards and Starwood Rewards. Bonvoy turned heads during its “official” public launch with a series of TV commercials that aired this past week during the Academy Awards broadcast, and Sorenson said that while Marriott currently lacks metrics on Bonvoy's performance, he is more interested in how travelers are interacting with program.

"I’m glad we’re finally on one program and we’re really looking forward to using it,” he said. “We will spend a significant amount of money promoting the program, getting it out there, making sure people know what it is called and know the value that is associated with it.”

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Toward the end of the call, Sorenson addressed concerns regarding demand softness in North America throughout 2019. His company anticipates steady performance for the rest of the year, forecasting RevPAR to grow between 1 and 3 percent and rooms growth of roughly 5.5 percent, overall.

Sorenson gave a short history lesson when asked if he is concerned that growing supply may lead to a downturn, particularly with so many new brands entering the market.

“I’d encourage you to focus less on the number of brands being launched than on the supply growth itself. I don’t know of a turndown in the hospitality business that was caused by supply,” Sorenson said. “It may be exacerbated by supply … but in every instance in my 22 years [in hospitality] it has been caused by a weakening in the demand side of the equation. It really is about how the economy is doing. The number of brands is less important than supply growth … which is at average levels.”

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