

**Customer Relationship Management**  
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**Lecture – 17**  
**Economics of CRM (Contd.)**

Hello everybody welcome to the Swayam NPTEL course on Customer Relationship Management. This is Dr. Swagato Chatterjee from VGSOM IIT Kharagpur who is discussing this course. And in this particular video we will be discussing about Umbrella Branding Strategy and how customer loyalty umbrella branding and customer lifetime value calculation all comes together in a strategic decision making.

The case that we are going to discuss is on Redwood. It is a hotel channel — a hotel chain and how they have used customer lifetime value calculation in their decision making is something that we will be discussing.

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The slide is titled "About Rosewood" and contains a bulleted list of facts. At the bottom, there is a date "10-06-2020", a footer "Customer Relationship Management - Prof Swagato Chatterjee", and a page number "2".

- International hotel and resort management company
- Age 25 years
- Privately held
- A number of key executives
- Small number of properties (12 properties, 1513 rooms)
- Luxury segment facing increasing competition
- Heterogeneous properties

So, what is so, actually it should be Rosewood sorry. So, what is Rosewood? Rosewood is an international hotel and resort management company which is there in the market for last 25 years. It is privately held and the number of key executives, so, there will be lots of CEOs and CFOs key executives are there who are handling in multiple part of the company. Small numbers of properties are there. So only 12 properties are there and 1513 rooms are there.

So, this is a company if you have gone to a place called let's say, Taj Palaces if you have gone to any one of the Taj Palaces or let's say, in Bangalore if you have seen Leela Palace, so this particular company is something like that. What they generally do is to acquire old and heritage sites, heritage buildings. They acquire those buildings even Great Eastern in Calcutta if you have known that, that will be an example of like this. So, these guys acquire heritage buildings, transform them to hotels and then they actually try to attract the customers.

Now, the difference is that the hotels are very, very much — if you have acquired let's say, Great Eastern if I am talking about Great Eastern in Calcutta. Great Eastern is very much associated with the colonial history of Calcutta. So, how British came in and how they have established, what kind of the food in that thing is: Bengali or colonial or western or the all the architecture is English architecture, the interior design is English interior design.

So, it has their colonial, I would say a colonial shadow on it. On the other hand if I talk about let's say, Taj Palace which is based out of, based out of Rajasthan which might have a Rajput history. So, or every there will be lots of swords probably spears and shields and then there will be big big pictures of some Rajput kings. And there will be pictures of wars going on between Rajputs and Mughals and Rajputs and somebody else.

So, all of this grandeur will be there, grandeur which is related to the kingliness rather than related to the colonial history. So, when you go in Great Eastern and when you go in Taj Palace which is based out of — any Taj Palace which is based out of Rajasthan. The expectation that you will have in your mind will be very different. Now, when this particular company has acquired such 12 properties, each property will have around 100 odd rooms. So, that gives around 100-120 rooms. So, that gives around 515-113 rooms, but majorly these properties were focusing on the luxury segment.

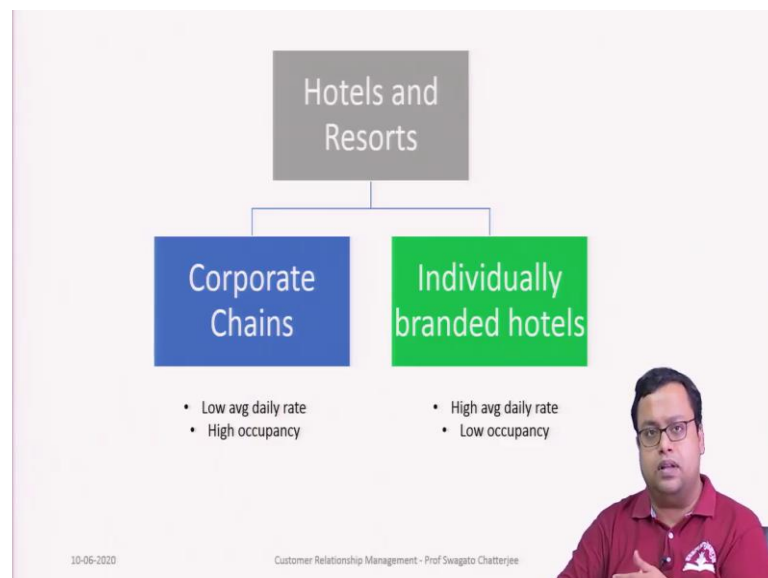
So, luxury segment means people who are willing to pay a lot for this kind of an experience. And the properties were heterogeneous. That is the thing that we are going to discuss together. Every property were different the history were different, the service expectation in that particular property were different, the employees were also trained differently.

Because if I have an employee who is well known about the Rajput Gharana and he comes to Calcutta and gives a, and I he is put in this great eastern and I ask him that you have to serve English food or you have to serve this food that food. And you have or you have to treat the guests as if they are in the colonial time and they are having that kind of an experience.

Then there will be a clash in the mind because this person is trained in a different way. There can be some people who are trained in hotel management, but not every people will be trained in hotel management in such a depth that they will have the cultural flavours also. Certain cultural flavours are very much specific towards that particular place and you cannot pick up a person who is culturally associated with that place and put in another place and then ask him that even here you have to be culturally associated that is not possible always.

So, that heterogeneity of the properties were there and because the properties were heterogeneous; their management was also different; the management also were dealing with this properties differently. They did not want to come together and bring in a similar kind of procedure in all the properties that they did not want.

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So, if I just talk about hotels there are corporate chains and there are individually branded hotels. So, what are corporate chains? For example, one classic example will be like, individually branded hotels is like Leela Palace. You will not get Leela Palace in

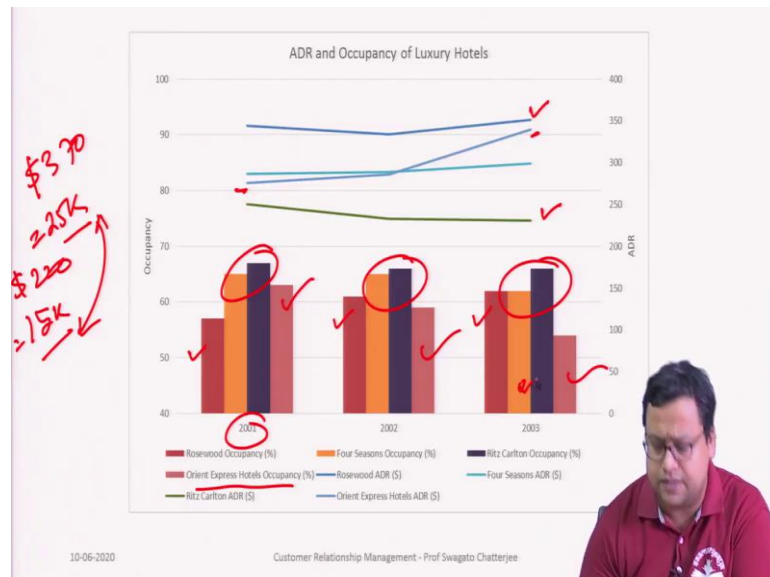
multiple places Leela Palace is there in Bangalore. So, like great eastern is also there in Calcutta. So, these are basically individually branded hotels. But you will get, let's say, Taj Vivanta or let's say, some park hotel that these kinds of hotels you will get in multiple cities.

So, the now Marriott let's say, Marriott is something that will get in multiple cities. So, Marriott, Taj, Vivanta these cities were hotel chains where the average daily rate is low, low means it is lower than individually branded hotels.

So, the individually branded hotel will be around let's say, 15,000, 20,000 rupees per night, these guys will be around 10,000 rupees per night. And the occupancy rate is, that is why because the rates were lower the occupancy rates were also higher. There are multiple reasons of this high occupancy rate of corporate chain and relatively low occupancy rate of individually branded hotels.

And as we come slowly I will be discussing about why this was happening, why the two different kind of hotel chains or hotel and resorts industries — two different kind of business models have different occupancy rate.

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So, to give a picture about what was the case: If you see carefully that the blue line, this one is Rosewood whose ADR was highest; so up to a rate of around 350 up around 370

dollar per night. So, 370 dollar per night means in India's currency it will be around 25K something like that. So, that was something that was Rosewood's case.

On the other hand if I check the Ritz Caltron. Ritz Caltron is around how much — 220, 220, 225. So, 220 will be around 15 k in India's price so that was a difference if you can understand. That was a difference between two; so obviously, that will impact the occupancy rate.

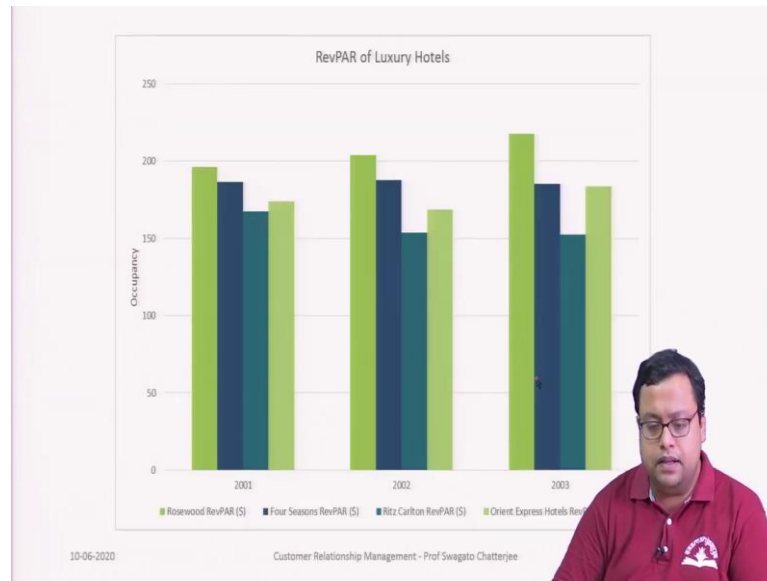
And if I just talk about the occupancy rate, Rosewood's occupancy rate was lower, but still it was growing. So, in 2001 when this particular, so in 2004 onwards this particular case was written. 2001 it was around 55% it went up to 62% and then probably 63% something like that.

On the other hand Orient hotels; Orient Express hotel occupancy came down from here to here to here it came down slowly. Though this particular this Orient hotel actually it came down because they have increased the price. So, if you see here it was around 220 to they have increased it to or two from 250 or they have increased it to around 350.

So, that's what they did actually and that is why the occupancy rate also went down. And the other middle one more or less remains same. So, these did not change much this two probably a little drop for four seasons, but it did not change much.

So, there is this is the current situation that you can see that though they were keeping out the similar kind of price. Though this Rosewood has not changed the price the average daily rate was more or less same their occupancy rate was going up. So, then where is the problem then if your occupancy rate is going up then it is happy, we should be happy where is the problem.

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This is the revenue per arrival I think. So, you can have a look, but let us come up to the problem.

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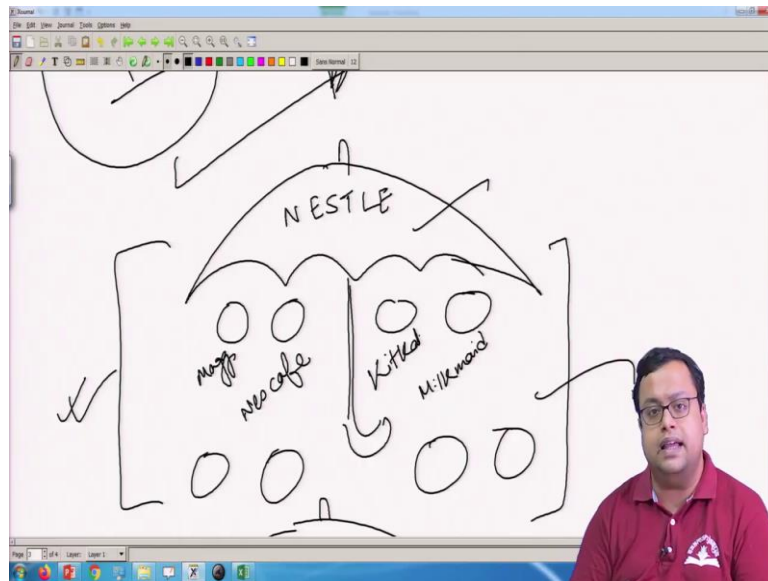
### Rosewoods Branding Strategy

- Individual branding of unique properties
- Property specific ads
- Soft branding of Rosewood name
- "Sense of Place"
- Flexible service and product standards
- Large margin

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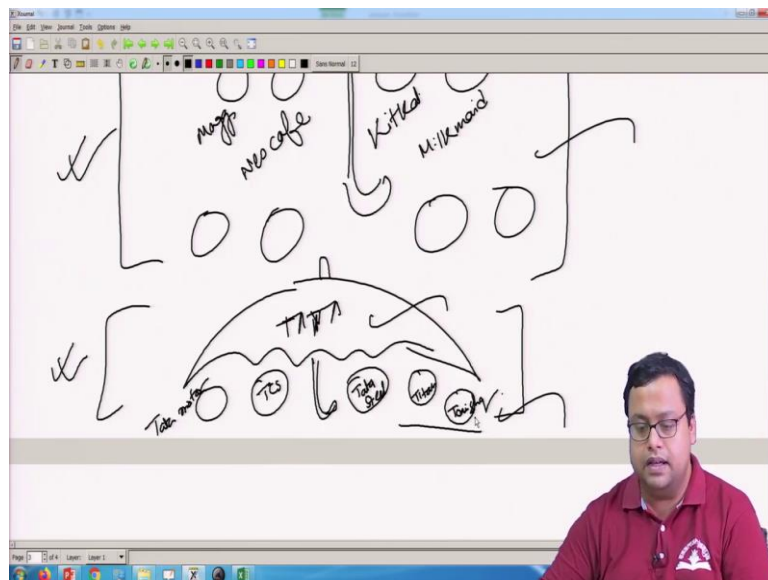
So, what was the problem? So, before I come into the problem let us talk about the Rosewood's branding strategy. So, as I told that each of these it has 15 properties or 12 properties and each property were individually branded. Individually branded means that is where I was talking about, what I was talking about in the last class. So, in the last class if you remember I talked about umbrella branding here.

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And I told that there are certain brands which are under umbrella brand. But which does not require the help of the mother brand and these are, this is the Nestle is the mother brand and these are the sub brand. And sub brands itself are very strong enough they don't need the help of the mother brand.

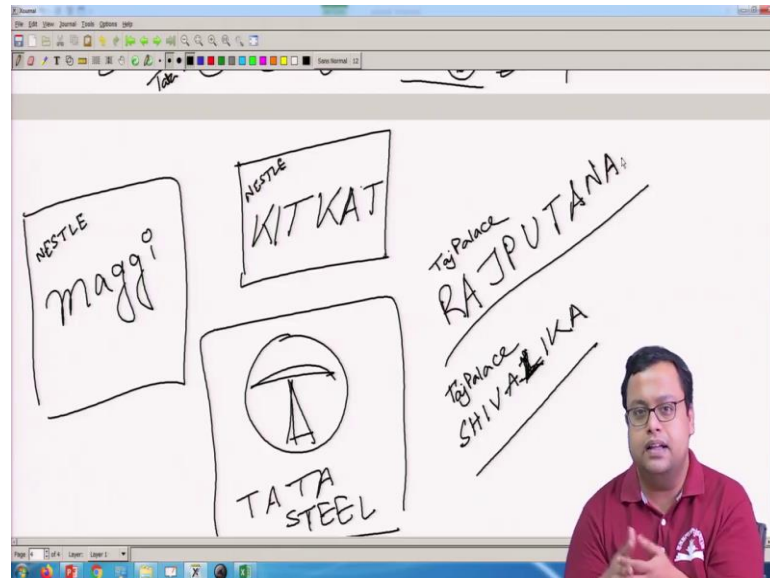
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But here in case of Tata this is the mother brand this is the sub brands, but other than Titan and Tanishq probably all other guys like TCS and Tata motors and Tata steel will require the help of the mother brand while or let's say, Tata Power or let's say, any Tata

Projects all of them will require the help of the mother brand when they are doing branding. Now what kind of branding strategy is right for which kind of company is something that we will be going trying to discuss now.

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So, just think about this thing that if you have checked in Nestle Maggi's case: this is how it is written Nestle and then Maggi this is how the packet looks like or even in KITKAT you will say Nestle and then KitKat something like that will be written. So, here this is called this kind of branding strategy is called individual branding strategy where the mother brand is not giving getting prominence and the individual brands are getting prominence

On the other hand if I say that, if I show a Tata's this thing or Tata's logo something like that I forgot and then if I write Tata Steel that is I am trying to focusing on this Tata part not the steel part or Tata Power I am focusing on the Tata part on the power part Tata Metallic's I am focusing on the Tata Power Tata part not the metallic part.

So, all of these branding strategies when we do this kind of a thing is basically a strategy where we are not doing individual branding we are doing umbrella branding. We are actually focusing on the umbrella we are giving importance to the umbrella we are not giving importance to the....



So, initially what this company had this Rosewood had had was something like this. Let's say, I have if I write Taj Palace Rajputana and let's say, Taj Palace let's say, Shivalika or something like that let's say, anything related to Shivaji I am not....

So, this will be this will related to Maharashtra, this will be related to the Rajput history and the historical facts based on these two groups will be different. And the prominence, the things that you will give more importance to are different because the cultures are different.

And if the cultures are different then you want them to be different brands. So, that a person goes to the Taj Palace Rajputana will get the flavour of Rajput history, a person goes to Shivalika or I could not create a name, but you can create a name like that there we will get a Marathi history or Shivaji's history we will come to know and those kind of a experience you will get.

So, similar thing were done by this Rosewood it used an individual branding strategy for unique properties. So, each property had it is own personnel branding strategy that's why the ads were also property-specific. That is why there was no countrywide ad very localized ads were there.

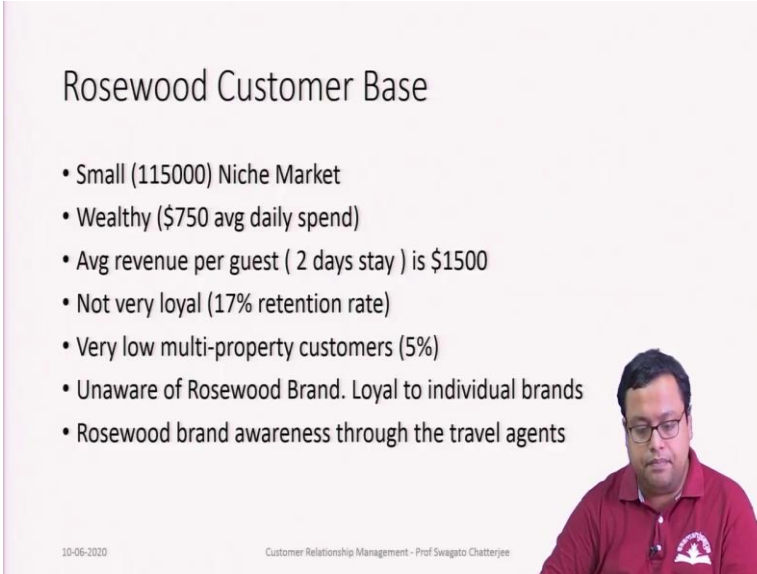
Soft branding of Rosewood name, that the soft branding means the one that I have just showed the Rajputana or the Nestle name is small and the other name is big so that is soft branding.

So, the Rosewood name was soft branded there was a sense of place. Sense of place means whatever this place is talking about you can go in and actually feel that particular thing that you can feel that this place is talking about everything about Rajput history or this place is talking about everything about colonial history of Calcutta so that sense of place was there.

Flexible service and product standards: so each and each any each hotel was given flexibility in terms of what kind of service and products will be given and at what standard what price and margin was pretty high. So, they were actually targeting only those customers who will love that experience.

So, if they love that historical heritage experience only then they will be coming to these things. So, that's why, the margin that they could keep was pretty high and still they were getting pretty good occupancy rate.

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Rosewood Customer Base

- Small (115000) Niche Market
- Wealthy (\$750 avg daily spend)
- Avg revenue per guest ( 2 days stay ) is \$1500
- Not very loyal (17% retention rate)
- Very low multi-property customers (5%)
- Unaware of Rosewood Brand. Loyal to individual brands
- Rosewood brand awareness through the travel agents

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What was the result? The result was they had a very small niche market. So, small means, the total customer size was 115000, and these were majorly wealthy section, they could spend 750 dollars average daily means ADR is 350 dollar if you remember 350 was average daily rate of the room. Outside the room also they can spend another 400 dollars every day that was the condition. And average revenue per guest that is why they used to stay 2 days at least when they in an average when they used to visit.

So, the average daily rate is 1500, but the problem here was that the customers were not very loyal. So, how many times will you go to, go to this Taj Palace Raptana? If I already have that experience once you might not want to go back to that experience again. Because often times we want to just have, we are let's say, if I am a history lover I will go here and a wealthy history lover then I will go here and then next time I will go to some other place where the history is there. So, it becomes like a tick in my travel folder that I have gone to Rajasthan.

So, that's why that retention rate or the repeat customer was very low only 17 %. And multi property customers were further low 5%; that means, a person who is who likes the Rajputana history might not be interested in the Shivalika history or the Colonial history.

There will be very few people who is actually history lover and might go to multiple properties to have the sense of history in the multiple properties. So, that was a major problem.

So, if your repeat customers are low, if your multi property customers are low then every time you have to do new acquisition there is no customer lifetime. Because every, nobody stays nobody gets connected with your overall chain and practically frankly speaking. If you come to know unaware of Rosewood brand nobody even know your name they know the properties name, but they don't know your name they don't know that Taj Palace Rajputana and Taj Palace Shivalika is both are Taj Palace.

If you soft brand Taj Palace in this case if you soft brand Rosewood very low and majorly focus on the — which actually Taj Palace is not doing they are focusing on Taj Palace and not on the; not on the Rajputana or Shivalika part which is good. But Rosewood did wrong, is that if you focus on the individual brands too much and if you don't focus on the mother brand then nobody will know that these two properties are coming under the same property managing or same resort chain.

And I can actually expect certain kind of historical thing here also and if that is not known customers becomes very much loyal to the individual brands and that loyalty also is 17 %.

But multi-property customers becomes much, much lower only 5% and Rosewood brand awareness was only post through travel agent nobody nowhere else because the ads were property specific as it was told in the second line. The majorly the ads were focusing on each property rather than the Rosewood brand. So, there was no, for example, let's say, what is let's say,; let's say, have you seen that the Kerala tourism gives an ad which is like Gods Own Country.

So, when they give an ad on 'Gods Own Country' or Gujarat gives an ad on 'Kabhi to Aao, Padharo Mere Desh' [FL]. These kinds of as I am not talking about a particular location like Munnar or Alleppey or somewhere else they are not focusing on a particular location they are working on a overall brand called Gujarat or overall brand called Kerala.

So, rather than that, if people only focus on small, small brands which are individual brands like in West Bengal we focus on Darjeeling. So, we do not focus on West Bengal as a brand that which becomes, oftentimes detrimental. People think that okay, what to, if you ask somebody from outside majority will do a survey majority will say that in Bengal, we will go to Darjeeling. So, Darjeeling is the only place which is known for Bengal for it is travel which attracts lots of people and obviously, the Calcutta because that is the central.

But outside Calcutta and Darjeeling there are so many travel places people from outside will not know because that umbrella branding has not been done which Kerala and Gujarat has done pretty well. So, that kind of a thing was also happening here that the umbrella branding was not available. So, that was the business problem.

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### Individual vs Corporate Brands

	IB	CB
Pros	<ul style="list-style-type: none"><li>• Differentiate from Luxury Brands</li><li>• IB provides higher ADR and RevPAR</li><li>• Well established IBs</li></ul>	<ul style="list-style-type: none"><li>• Encourage cross sell</li><li>• Operational economies of scale</li><li>• Marketing costs will reduce</li></ul>
Cons	<ul style="list-style-type: none"><li>• Deters multi property cross selling</li><li>• Narrow brand positioning</li></ul>	<ul style="list-style-type: none"><li>• Needs consistency</li><li>• Dilemma with uniqueness and individuality</li><li>• CB may deter some customers and marketing</li><li>• Significant investments</li></ul>

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Now, question comes is how to solve it with how to solve it. So, one way of solving it is to do the umbrella branding to do this corporate branding. Somewhat there are certain pros and cons of this individual and corporate branding also.

The pros of individual branding is obviously, you can differentiate from luxury brands, you can differentiate from Ritz-Carlton, Orient express and say that we are a special kind of brand. And individual branding provides higher ADR you can charge more as you told the margin is high.

So, you can charge high price still occupancy rate will be high and the brands are already well established you don't want to kill the brands. But what are the cons? Obviously, as just told deter multi-property cross selling — cross selling does not happen. And brand positioning is very narrow you don't create an overall brand positioning your brand positioning is too much focused on that particular location.

On the other hand, if you do corporate branding whatever is the cons of individual branding goes to the pros of corporate branding and whatever is the pros to the individual branding comes to the cons of the corporate branding.

Just see that encourage cross sell operation economies of scale can be achieved because lots of people come you can get multi property customers now and marketing cost will

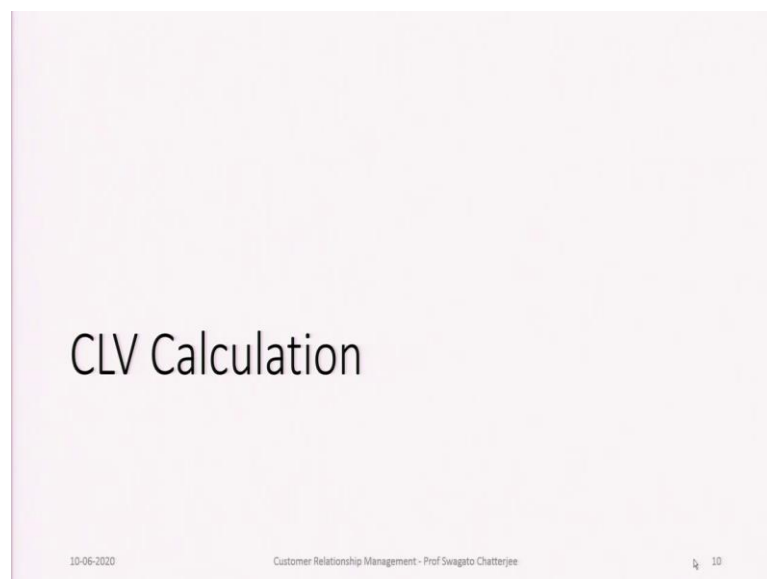
reduce. So, you don't have to acquire customer every day one customer will stay for your multiple properties.

But the problem is it needs consistency which is a nightmare if each of your hotels are different have different culture, different kind of organizational culture also. So, to break them everything and bring into a same standardized way becomes very difficult. So, it needs consistency. Dilemma with uniqueness and individuality there is always there will be a fight between the uniqueness of one property and individuality of that property and with the corporate branding.

Corporate branding may deter some customers and managers because those customers were majorly focused on that particular history or the managers were majorly focused on that particular organizational culture. While it was more focused on the history of that particular or unique aspects of that particular property those people will not be happy and there will require significant investments.

So, this is the last point, which is most important point — that what is the cost if I want to still bring in the consistency if I want to still bring in uniqueness and individuality and blah blah blah. What will be the cost of this corporate branding and whether after doing that whether it will be worth to do that or not. So, that kind of a problem was coming in.

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So, this problem that I was I am discussing till now can be solved using something called CLV calculation which we have done in the last class. And in the next video I will be coming up with the CLV calculation of this particular problem.

Thank you very much for being with me and I will see you in the next video.

Thank you.