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May 24, 2019

Marketing Analytics

MKT 809 - SV

**Branding to Increase Customer Profitability and Lifetime Value**

The purpose of this document is to summarize the Rosewood Hotels & Resorts branding dilemma and to calculate the missing components to determine if the proposed corporate strategy is worth investing in.

Rosewood Hotels is a collection of unique luxury properties. Each location has its own theme, where it incorporates local foods, cultures, and experiences. Rosewood faced a branding issue in the early 2000’s. Customer’s were well aware of some of Rosewood’s most popular properties, however due to the company’s branding strategy, the Rosewood brand was kept separate from the property’s brand. Initially this was a successful strategy for the market that Rosewood was operating in. There was something about the uniqueness of the property and experience that lured customers in. Rosewood was aware that they only owned a small portion of the luxury hotel market and an even smaller portion or the general hotel market. The company had two main types of competitors - corporate branded unique luxury hotels and chain-like luxury hotels.

The leaders at Rosewood strongly felt a new branding strategy would give them the edge in acquiring more of their competitor’s market share. They brainstormed a few ideas to increase customer retention. Most of these ideas were either not feasible entirely or not sustainable in the long run. One of these ideas was a customer loyalty or rewards program. However, after evaluating the costs associated with such a program, that idea too was deemed not sustainable. Eventually the leaders decided on introducing the corporate brand to the luxury property brands. initially this was thought to have a negative impact on the property brands however before making the final decision the leaders at Rosewood wanted to crunch some numbers to see if indeed using corporate branding would increase customer lifetime value over using the existing Rosewood luxury property brands.

The way the Rosewood leaders came to this decision was by calculating the average marketing expense per guest under the existing branding verse the new Rosewood corporate branding. they looked at how those numbers what effect retention and then ran two simultaneous calculations to see which version of the brand name would yield the largest customer lifetime value. From our calculations in exhibit 1 we see at the average marketing expense per gas increases with the new corporate branding however this also increases guest retention rates at the average profit per guest. Exhibit 2 shows how these numbers are compounded over the course of six years and the value of each customer with adjustments made for retention. According to our calculations we find that the existing branding for the luxury properties yields a customer lifetime value of $725.40 and the new proposed Rosewood corporate branding yields a customer lifetime value of $942.34. With this information we can conclude at the Rosewood corporate branding would yield a larger amount and thus is worth switching to. When considering these two branding strategies the Rosewood corporate branding method maximizes the customer lifetime value, but that's not to say that there isn't a better branding strategy that would increase gas retention at customer lifetime value even further.

**Exhibit #1**

|  |  |  |
| --- | --- | --- |
|  | Without Rosewood Branding (2003) | With Rosewood Corporate Branding |
| Total number of unique guests | 115000 | 115000 |
| Average daily spend | 750 | 750 |
| Number of days average guest stays | 2 | 2 |
| Average gross margin per room | 0.32 | 0.32 |
| Average number of visits per year per guest | 1.2 | 1.3 |
| Average marketing expense per guest (systemwide) | 130 | 138.6957 |
| Average new guest acquisition expense (systemwide) | 150 | 150 |
| Total number of repeat guests | 19169 | 24919 |
| Of which: Total number of multiproperty stay guests | 5750 | 11500 |
|  |  |  |
|  |  |  |
| Average Guest Retention Rate | 0.1667 | 0.2167 |
| Average Gross Profit per Guest | 576 | 624 |

**Exhibit #2**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Without Rosewood Branding (2003) |  |  |  |  |  |  |  |
| Years | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| Gross profit per guest | 576.00 | 610.56 | 647.19 | 686.03 | 727.19 | 770.82 | 817.07 |
| Acquisition expense per new guest | 150.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Marketing expense per guest | 130.00 | 133.90 | 137.92 | 142.05 | 146.32 | 150.71 | 155.23 |
| Net Profit per Guest | 296.00 | 476.66 | 509.28 | 543.97 | 580.87 | 620.11 | 661.84 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Retention factor | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 |
| Discount factor | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 |
| Net Present Value (NPV) | 296.00 | 73.57 | 72.78 | 71.98 | 71.17 | 70.35 | 69.53 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| With Rosewood Corporate Branding |  |  |  |  |  |  |  |
| Years | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| Gross profit per guest | 624.00 | 661.44 | 701.13 | 743.19 | 787.79 | 835.05 | 885.16 |
| Acquisition expense per new guest | 150.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Marketing expense per guest | 138.70 | 142.86 | 147.14 | 151.56 | 156.10 | 160.79 | 165.61 |
| Net Profit per Guest | 335.30 | 518.58 | 553.98 | 591.64 | 631.68 | 674.27 | 719.55 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Retention factor | 0.22 | 0.22 | 0.22 | 0.22 | 0.22 | 0.22 | 0.22 |
| Discount factor | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 |
| Net Present Value (NPV) | 335.30 | 104.05 | 102.92 | 101.77 | 100.61 | 99.44 | 98.25 |