Two's company

The best barometer of the hotel industry's health is the wealth of luxury brands on the market. Some chains with a luxury range are even launching another – but is it too much of a good thing, asks Christian Sylt?

THE HOTEL INDUSTRY has never had as many luxury brands as it has today. Just 10 years ago, the world's most prestigious properties were primarily under four main chains: Forte, Four Seasons, Orient Express and Sheraton. Forte alone operated 18 landmarks including Paris's palatial George V, London's Brown's, and Washington's Watergate. But the break-up of the empire in 1997 meant its flagship properties came under different chains which used them to build up new luxury brands. It started a trend which is still snowballing.

In the past 12 months, Hilton and Starwood Capital have launched new luxury brands to sit alongside their existing upscale ranges. Hilton's new Waldorf Astoria collection accompanies the firm's existing Conrad line and Crillon, a new brand of palace-style hotels, joins Starwood Capital's Concorde range.

It could be a slippery slope for chains. Business travellers and corporate travel buyers may be left wondering which really is the top tier to book, and the brand equity of what was previously the chain's only top-of-the-line product could be eroded unless delineation between products is crystal clear. But the real questions are whether these brands have been launched simply to cash in on the luxury sector's higher margins and whether they are just too close in character to each other. The hotel chains, of course, claim they aren't.

"Waldorf Astoria is all about traditional luxury, with some history, and notable architecture, whereas Conrad offers more contemporary luxury and chic styling," says Ian Carter, chief executive of Hilton International.

Have these brands been launched simply to cash in on the luxury sector's higher margins and are they too close in character?

The Waldorf Astoria brand, named after the famous New York landmark, has heritage at its heart and accordingly the properties in its portfolio are already independently famous. The Arizona Biltmore, California's La Quinta and the Grand Wailea in Hawaii launched the Waldorf Astoria collection along with its New York namesake. And although they are vastly different hotels, Carter says they will profit from common branding.

"They may be 'classics' in the city where they are situated, but could benefit from being part of a global network of other properties, with the backing of a global hotel corporation with a loyalty programme and reservation system. They enjoy the benefits of the infrastructure but retain their identity," he says.

From a meeting planner's perspective, a branded property is comforting as it gives an avenue of recourse in the event of any problems. As Matthew Hart, president and chief executive of Hilton Hotels, says: "If a group goes to an independent hotel and there's a problem, what leverage do they have?"

Just as Conrad is a more glitzy and upmarket extension of the core Hilton brand, the JW Marriott collection takes the traditional Marriott hotels to a more upscale level.

Belinda Pote, Marriott's senior vice president of field marketing, says: "Distinctive design and a relaxed →

The interior of the George V in Paris epitomises luxury hotel style

and comfortable environment are key to differentiating this brand [JW Marriott] within the luxury segment." Its brand position is between upscale and high-end luxury and Marriott goes to great lengths to communicate this.

"We focus our sales and marketing on differentiating our brands in the portfolio, through our global sales office teams, through the travel trade shows we exhibit at, through advertising and marketing communications in general," says Pote. "We have separate brand identities and marketing strategies for each of our brands."

And the brand identities are as explicit as they come. But given that two luxury lines must generally meet equivalent standards of excellence, it raises the question of whether the fine points are picked up by travellers and corporate buyers. Pote admits it can be a tough task to ensure this.

"Differentiating our brands within the portfolio of Marriott International hotel brands to meet different customer segments can be challenging, particularly when entering new and emerging markets where our brands are less well-known," she says.

Michael Hirst, London consultant for CB Richard Ellis Hotels, agrees. He says the key challenge for a chain operating two luxury brands is "making the distinction between the two and delineating the target market".

Hirst adds: "The real danger is there will be too many high-end brands for the market demand and then they will have to start trading down, which would be self-defeating."

"Globally, individual wealth levels continue to grow," says Mark Woodworth, executive vice president of PKF Consulting. "This trend, along with increased sophistication levels of more high-end travellers, presents a growing number of opportunities for hotel firms that offer a product to this market. The Waldorf Astoria and Crillon meet this standard."

"Travellers are getting younger and younger. This Generation X traveller places much more emphasis on style and innovation"

This is borne out by the luxury sector's results. US firm Smith Travel Research tracked 248 luxury hotels for the year ended June 2006 and reported that occupancy rates increased 1.5% to 76.3% while revenue per available room (revPAR) rose more than $22 to $200.21. This is at a great premium to the overall industry where the average occupancy rate for almost 49,000 hotels tracked by Smith over the same period was 70.8% while revPAR grew $5.47 to $68.82.

But increased fees are just the tip of the iceberg. Big margins are to be made from the economies of scale of operating several brands in the same category. Buying in bulk can lower procurement costs while a premium price is applied to the end product.

But as the market becomes more crowded it will become tougher for any of the brands to stand out, let alone those that sit alongside several luxury brands within their parent chains. With choice rapidly increasing, only the strongest brands will survive.

"It is essential to be known as reputable and reliable – a brand that provides quality product and services worldwide," says Pote.

"We are seeing that the traveller is getting younger across all our markets. This younger, generation X type traveller uses hotels differently – they place much more emphasis on style and innovation, for example.

"Today, people's homes are often better in terms of style and design than the hotels they stay in so it's important we adapt our rooms and public spaces to be seen as more current and stylish. Product design and technology are also crucial to this younger segment of consumers. The younger traveller has grown up with technology – they adapt quickly so we need to ensure we are providing technology solutions in-room and in public spaces to meet their needs as they travel."

Whether this will manifest itself into the creation of another luxury brand in future remains to be seen.

However, even with the clearest brand delineation, the new luxury labels face an uphill battle to bed in.

Both Waldorf Astoria and Crillon are set to roll out in major capitals across the US and Europe to drive brand recognition and market penetration. However, the danger is that the more hotels they launch, the less exclusive the brands will become.

However, Hirst says: "This probably more applies to one per city rather than a finite number globally. Four Seasons is a good example of being able to maintain high standards but expand internationally in large numbers."

But perhaps the biggest problem the new luxury brands face is that a global chain of independently famous hotels could be a self-contradiction. The very top corporate clients who Waldorf Astoria and Crillon target are business travellers who might be 'Savoy men' when in London, 'George V men' in Paris and 'Eden men' in Rome. One thing they do not tend to be are travellers who stay with a chain.

Turning around this ingrained way of thinking could be a tough task. It may be a long time before Hilton, Starwood Capital et al check out significant brand value from their new collections. But in the meantime they'll be watching their margins grow. ■