Hilton Hotels' luxury Waldorf=Astoria brand is named after the famous New York landmark (above left and right)

Too many brand Dames

Waldorf=Astoria, Crillon, Baccarat, St Regis, the Luxury Collection, JW Marriott... the list goes on. There are now more luxury hotel brands than ever before and they can all become blurred for the customer. **Christian Sylt** looks at the reasons for the market deluge and the returns on offer.

Just 10 years ago finding a luxury hotel was not a tough task.

The famous phrase 'take me to the Hilton' really would take guests to one of the best addresses in town and most of the world's Grande Dames were run by Forte, Four Seasons and Orient Express. Forte alone operated 18 landmarks including Paris' palatial George V and London's Brown's.

But the break-up of the eponymous empire sent its flagship properties under the wings of other chains which used them to build new luxury brands.

It started a trend which is still snowballing. Operating just one luxury brand is no longer enough for the world's top hotel chains.

In the last two years, 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 in July Starwood Capital announced Baccarat, a new brand of palace-style hotels to join its Concorde and Crillon ranges.

It could be a slippery slope for chains. Business travellers 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 soon 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 that they aren't.

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

Named after the fabled New York landmark, the Waldorf=Astoria brand 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 that they will profit from common branding.

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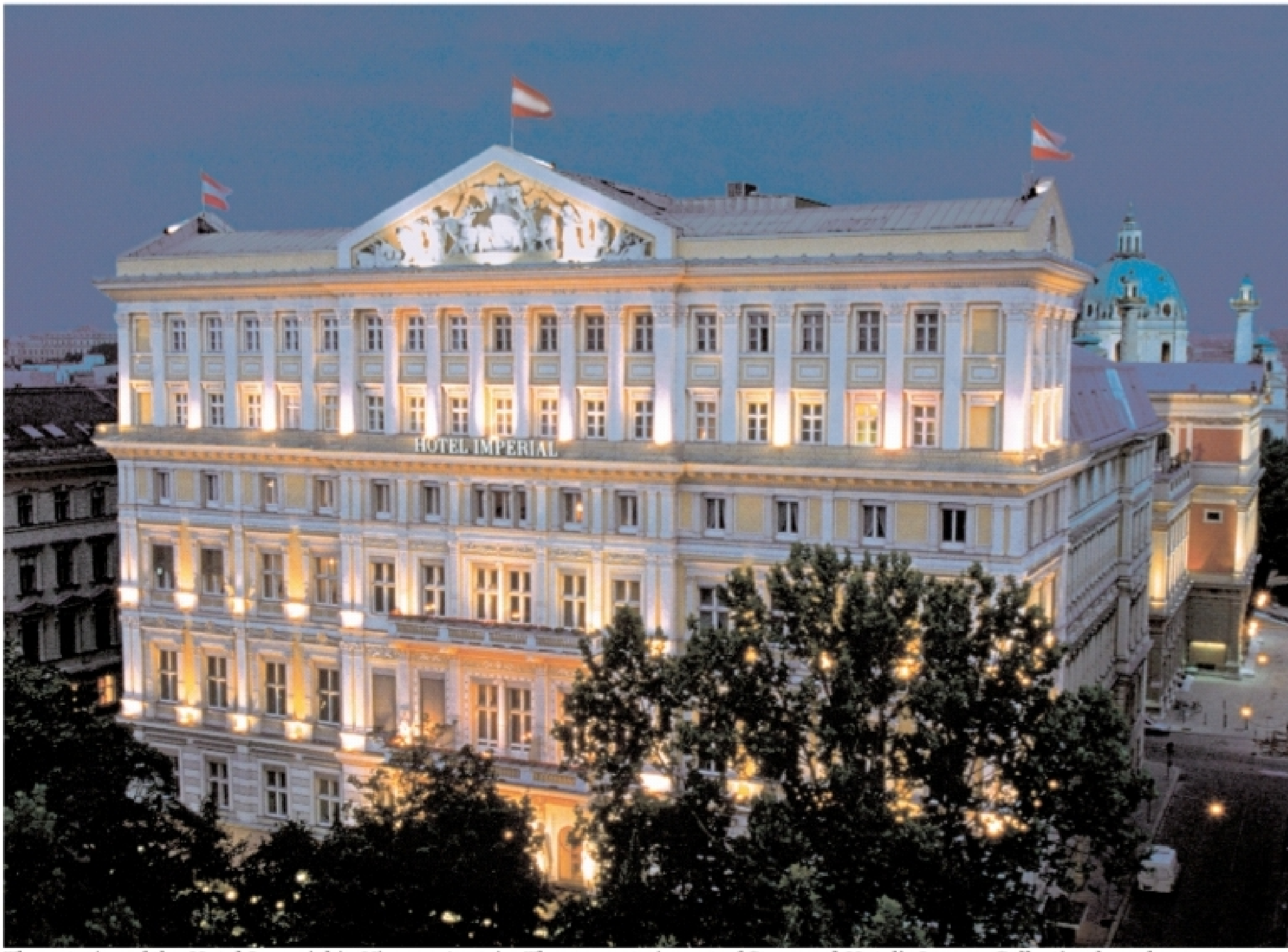
He added: "They may be 'classics' in the city where they are situated, but could benefit from being part of a global network of other such properties, with the backing of a global hotel corporation with a great loyalty programme and reservation system.

"They enjoy the benefits of the infrastructure but retain their identity."

From a meeting planner's perspective, a branded property can be comforting as it gives an avenue of recourse in the event of any problems.

Planners may also be attracted to the idea of using the same luxury brand in multiple cities as they currently do in the mid-market sector where Hilton competes for its business against Marriott and Starwood. Indeed, Hilton's launch of Waldorf=Astoria will see it compete head-to-head with these rival brands on all luxury levels.

Just as Conrad is a more glitzy and upmarket extension of the core Hilton



The exterior of the Hotel Imperial in Vienna, Austria. The property is part of Starwood Hotel's Luxury Collection brand

in the hotel industry?

brand, Starwood's St Regis hotels are the shinier big brothers to its Sheraton hotels. And Waldorf=Astoria is Hilton's weapon to take on Starwood's Luxury Collection – a grouping of around 80 independently-famous hotels, such as Venice's Danieli and Vienna's Imperial, which arguably have better-known names than their umbrella brand. The strong emphasis on heritage helps Starwood to differentiate between the two brands.

"The kind of guest who looks to stay in a Luxury Collection property wants something unique that isn't replicated anywhere else," says Michael Wale, Starwood's director of operations for north west Europe, adding that the hotels have "a sense of history or design and an ambience that really communicates the hotel's locale".

In contrast, location is at the heart of the St Regis bloodline. "The certainty of being in the best place is central to St Regis's positioning," says Wale.

The two brands compete in very few locations and have different selling points for Starwood.

Wale explains that on receiving proposals for new developments in the upper upscale segment, Starwood consults with the owners or developers on the best brand fit.

However, he adds that when the project involves an existing hotel with a well-known reputation, tagging on an international brand "wouldn't work on any level". The benefit for Starwood of taking the hotel under its Luxury Collection wing is driving sales through its network and Wale stresses that scale and exposure are the key draws for the hotels.

"The Luxury Collection... enables them to market themselves 'independently', but offer guests the benefits of Starwood's service, culture, training, brand standards and loyalty programmes," says Wale.

St Regis on the other hand is ideal to plant Starwood's flag in new markets with concentrations of high-net-worth travellers. The brand can be traced back to New York's eponymous St Regis hotel – a Beaux Arts landmark built in 1904 and famed for its soaring lobby dripping with gold leaf and marble.

The hotels reflect this glitzy origin and so it's logical that almost a third of 19 St Regis openings in next five years are in the Middle and Far East.

Wale says that branding is the key to ensuring the business travellers are not confused by the two chains.

Each Starwood brand has detailed descriptions of their characteristics and target market, but given that two luxury lines must generally meet equivalent standards of excellence, it raises the question as to whether the fine points are picked up by travellers and corporate buyers. Wale admits that it can be a tough task to ensure this.

"Our main challenge is ensuring that we have brand clarity so our guests and customers understand clearly the 'personality' of each brand," he says.

Michael Hirst, London consultant for CB Richard Ellis Hotels, agrees.

He says that the key challenge for a chain operating two luxury brands is "making the distinction between the two and delineating the target market".

Hirst adds that "the real danger is that 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".

However, he confirms that, at the moment, this is not a problem.

"There is significant market demand for high end individual travel experiences," Hirst says.

As business travellers cross borders more frequently and their itineraries become tighter and more stressful, they look for a luxury hotel experience to enable them recharge quicker.

"Globally, individual wealth levels continue to grow," adds Mark Woodworth, executive vice president, 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."

Indeed, the health of the market has seen not just Hilton and Starwood launch new luxury labels in the last

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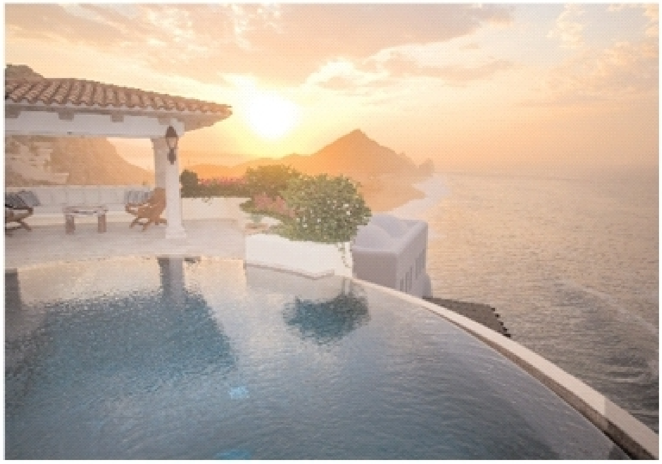

Horst Schulze has established the Capella Hotels brand including the Capella Pedregal (top) and the Capella Castlemartyr (bottom)

two years, but many more too. Former Ritz-Carlton boss Horst Schulze established two new luxury collections. Each of his seven Capella Hotels has less than 100 rooms and combine boutique design with spa and dining services found at large chains.

Schulze's Solis is designed to appeal to the traditional four and five star-hotel guest, but priced "just below the closest competition," says Schulze.

Luxury label Armani is also due to enter the hotel market with a dazzling property in Dubai. Its rival Bulgari is already involved with two hotels, one in Bali and another in Milan.

The bottom line of any decision to launch new brands is purely commercial. "The returns [fees] from a luxury hotel are higher than from hotels at other market levels," says Trevor Ward, managing director of the W Hospitality Group. 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 whilst a premium price is applied to the end product.

Nevertheless, employment costs are one of the biggest overheads of any hotel chain and Hirst says that operating several luxury brands offers multiple economies of scale at a staffing level. These are at "head office services, personnel and training, purchasing, and technical services".

Synergies from harmonising loyalty points and databases also amount to a key economy of scale from introducing new brands to a chain adds Hirst. But for a second luxury brand to stand the best chance of survival, it must develop its own niche and this can be costly.

Starwood Capital has access to US$2.4 billion it raised to expand the Crillon brand and one selling point for Solis is 'defect-free' properties.

"Things like the television remote control battery being dead, the toilet not flushing, or the meeting room being set up incorrectly – those things can't happen," says Schulze.

A bugbear for many business travellers is the increasing cost of in-room services with mini-bar and Internet access topping the list.

Paradoxically, Hilton's mid-range Garden Inn brand offers customers complimentary wired and wireless high-speed Internet whereas it can cost as much as US$70 at Conrad or Waldorf=Astoria hotels.

However, differentiation doesn't have to come at a price.

"At this end of the market there is plenty of scope for originality and creativity which will guarantee a continual flow of innovation and there is always the fact that customers want to try out new products and be seen in the latest places," says Hirst.

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

To stand out, Wale says that it is essential to have "brand clarity so the potential and existing guest knows they are guaranteed a certain experience when buying into a luxury hotel brand". He adds that being "treated as a guest, not as a reservation booking number".

The Luxury Collection takes this to an extreme since the branding can be so subliminal that guests "may not realise the hotel is part of a global hotel company".

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

Both Waldorf=Astoria and Crillon are set to rollout 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 that this "probably more applies to one per city rather than a finite number globally".

He added: "Four Seasons is a good example of being able to maintain high standards, but expand internationally in large numbers."

Wale agrees that market saturation is a brand-specific issue. "We are looking to double the Luxury Collection portfolio in the next five years, to 150 properties globally. St Regis is a brand we would look to grow to 30 or 40 properties, but no more, as on a larger scale the brand would lose its exclusivity and key attributes of address and bespoke."

He explains: "The Luxury Collection has more potential for growth as these individual properties are found the world over – and as we find ones that fit into the collection then we can include them in the portfolio to offer our guests more choice."

But perhaps the biggest problem that the new luxury brands may face is that a global chain of independently famous hotels could be a self-contradiction.

The very top corporate clients which Waldorf=Astoria and Crillon target are business travellers who might be 'Savoy-men' when in London, 'George V-men' when in Paris and 'Eden-men' when in Rome.

One thing they don't tend to be are travellers who stay with a chain.

The result could be that the new luxury collections eventually follow the Luxury Collection's tried and tested lead of being 'soft' branded with the property name taking precedence over the umbrella brand.

The chains are in it for the fatter margins but it could still leave guests asking 'what's in a name?'

Big margins are to be made from the economies of scale of operating several brands in the same category