



Hotel Fashionista

With high profile openings from Versace, Armani, Missoni and Moschino expected in 2008, fashion hotels are suddenly very much in vogue. We examine the reasons for this trend and consider the opportunities and risks for hotel operators and luxury retailers as they venture out onto the catwalk together.

Fashion hotels are part of a rapid expansion in the market for luxury branded consumer products. According to Verdict Research, global expenditure on these goods has grown by 31% over the past five years to reach \$263 billion in 2007. Verdict expects the growth rate to accelerate over the next few years to reach \$450 billion by 2012, boosted by high demand from the emerging economies.

Since the pioneering Palazzo Versace opened its doors on Australia's Gold Coast at the beginning of the current decade, the impetus for fashion hotels has come from the retailers themselves.

Way of life

As the luxury goods market grows increasingly competitive, the major fashion labels seek new ways to innovate and reinforce their brand strength. In today's 'experience economy' luxury goods are promoted as part of a broader aspirational lifestyle, encompassing all aspects of work and leisure.

Luxury consumers are invited to buy not only the product, but the way of life associated with the product: they can aspire not only to wear the brand, but to eat it, drink it, walk it, talk it, feel it... and even sleep in it.

For luxury goods retailers, fashion hotels demonstrate that the luxury brand is strong enough to expand beyond its traditional space, and offer a new way of engendering loyalty to the 'mother brand'.

These hotels can open up new revenue streams, channels to market and opportunities for cross-selling. Products are available for purchase from the hotel catalogue so that

guests can take the lifestyle back home with them when they check out at the end of their stay. A luxury retailer can sell a diamond ring to a couple and send them away on honeymoon to one of its own hotels.

Design principles

A number of major fashion houses have opted to follow in Versace's footsteps, developing high-end, luxury hotels very much in their own image. These hotels seek to replicate the successful design principles of the luxury products themselves.

For example, Bulgari Hotels & Resorts are designed around values of contemporary Italian refinement, with subtle product placement, semi-precious materials, unobtrusive technology and attentive service. Armani Hotels & Resorts will showcase the designer's trademark minimal, clean aesthetic to create a feel of casual elegance. Palazzo Versace and Philip Treacy's 'g Hotel' adopt a more appropriately flamboyant style, with opulent features, gaudy colours and a glitzy image.

Damage limitation

However, whilst the major fashion companies are renowned for their inspirational design skills, the mechanics of building and running a hotel remain very much a foreign country for most of them.

The preferred business model emerging in this segment involves some form of collaboration between the fashion house and the hospitality or real estate industries. Versace (Sunland Group) and Armani (Emaar Properties) have both forged partnerships with regional property developers to build and operate hotels in Australia and the Persian Gulf.

As luxury retailers move into unfamiliar territory they run the risk of damaging the world-class reputation of their brands. To minimise this danger a number of fashion houses are now courting the attentions of established hotel chains with a proven track record of expertise in the luxury sector.

Joint venture

Partnership with the hotel industry may take the form of a licensing agreement, enabling the hotel chain to operate a number of properties under the fashion label, as is the case with Rezidor Hotels and Missoni. Collaboration may also take the form of a full joint venture, such as the deal concluded between Marriott International and Bulgari.

In the latter arrangement both parties fund the venture with their own capital, and share decision making as regards site selection and product design ranging across the architecture of the buildings, the staff selection process and the services offered. Bulgari retains a heavy creative input at all stages whilst Marriott assumes responsibility for the day-to-day operations.

Partnership value

The future evolution of the fashion hotel sector is likely to involve further such approaches to the hospitality industry. But what is the value of these partnerships for the major hotel brands themselves?

The obvious answer might be revenue, but this is not necessarily the chief selling-point for hotel groups. Although the pricing structure of fashion hotels is typically at the top end of the luxury market, the relatively niche scale of these operations limits their overall benefit to the bottom line.



For many hotel operators the real value of partnership with iconic fashion brands lies in their strategic importance far more than in their economic contribution.

Strategic halo

According to Marriott's head of global brand Mike Jannini, the acquisition of Ritz-Carlton in the late 1990s created a 'strategic halo' around the group, demonstrating its ability to execute brand strategy successfully across a wide spectrum.

Jannini believes that the Bulgari partnership "has enhanced this strategic halo even further, taking it to even more specialised, more refined levels of execution."

For Marriott the value of the deal also lies in its contribution to the organisational competency of the group. The experience gained from partnership with Bulgari has directly enriched the group's new relationship with boutique designer Ian Schrager, with whom Marriott plans to create a new brand of up to 100 lifestyle hotels.

Question marks

Nevertheless, for the lodging industry the development of fashion hotels offers risks as well as opportunities. A question mark hangs over the long-term sustainability of partnership with the fashion houses.

Is the longevity of the hotel brand assured or are the fortunes of the brand wholly dependant on the current generation of individuals who control many of these family-run businesses?

Whilst this remains a risk in some cases, a growing number of luxury fashion retailers are reportedly contemplating stock market flotation, following a path already trodden by Bulgari. This would represent a major cultural change for many family dynasties, but would give them access to funds for expansion into new markets and a more managerial business style enabling them to compete with global luxury groups.

Another key risk for the hospitality industry is the threat of 'cannibalisation': the danger that high profile fashion brands may siphon off customers from other luxury brands in the hotel group's portfolio.

Distinct market

The key to avoid this danger is to ensure that the fashion hotel brand appeals to a distinct and clearly identifiable market segment. Bulgari Hotels targets the core Bulgari demographic of independently wealthy travellers, as does its Marriot stable mate Ritz-Carlton.

However, whilst Ritz-Carlton guests have more of a male bias, typically from relatively

traditional financial service-type backgrounds, Bulgari Hotel customers have a stronger female bias, tend to work in the arts, entertainment and fashion industries, and often travel for personal reasons.

Fashion hotels can benefit from the growing economic power of women as owners of wealth, and as career high-fliers. For example, a recent study from the Centre for Economic and Business Research found that women currently hold 48% of the UK's personal wealth and estimated that this proportion will grow steadily to 60% by 2025.

Creating cachet

Fashion hotels may remain distinct from traditional upscale hotel brands by targeting the status needs of the most affluent and fashion-conscious customer segments.

Luxury goods, once the preserve of the wealthy, have become increasingly accessible to mainstream consumer markets in recent years through premiumisation and counterfeiting. By creating hotels at the very top end of the luxury sector, fashion houses are able to reassert a sense of cachet and exclusivity. For example Palazzo Versace is famously billed as 'the most expensive hotel in Australia.'

Merrill Lynch's World Wealth Report estimates that the number of High Net Worth Individuals¹ increased globally by 8.3% in 2006 to reach 9.5 million people. As luxury products become more mainstream, these wealthiest consumers, and those who aspire to join their ranks, increasingly seek to assert their status by collecting 'luxury experiences' such as travel rather than by traditional material acquisition.

Location, location, location

To summarise, the rise of fashion hotels is likely to continue due to a confluence of trends: increasing competition and the need for innovation in the luxury goods industry; global patterns of wealth and the changing nature of luxury consumption; and the hotel sector's evolution into a sophisticated brand management culture able to execute successfully across the widest possible spectrum.

So where are the fashionistas of the future likely to be checking in? Existing hotels and current pipelines focus on Italy, the heartland of the luxury goods industry,

Where are the fashionistas?		
Fashion designer	Current hotel portfolio	Future expectations
Palazzo Versace (Sunland Group)	One hotel: Gold Coast (nr. Brisbane), Australia	Dubai (2008); up to 15 planned worldwide
Armani Hotels (Emaar Properties)		Dubai (2008); at least seven hotels & three vacation resorts planned including Milan, London and New York
Bulgari Hotels (with Marriott)	Two hotels: Milan, Italy & Bali	At least 12 planned worldwide
Missoni (with Rezidor)		Kuwait & Edinburgh (2008); up to 30 hotels planned worldwide
Moschino		Milan (2008)
Philip Treacy (g Hotel)	One hotel: Galway, Ireland	London (2010)
John Rocha (Beacon Hotel)	One hotel: Dublin, Ireland	
Christian Lacroix (Hotel du Petit Moulin)	One hotel: Paris, France	Up to five hotels planned
Miss Sixty (Sixty Hotel)	One hotel: Riccione, Italy	Intentions to develop worldwide with Rome, Dubai, Barcelona, Amsterdam & Berlin suggested
Ferragamo (Lungarno Hotels)	Seven hotels: Florence, Rome, Italy	
Camper (Casa Camper Hotel)	One hotel: Barcelona, Spain	
Krizia (K Club)	One hotel: Barbuda, Caribbean	
Ron Arad (Hotel Duomo)	One hotel: Rimini, Italy	
Roger Saul at Mulberry	One hotel: Somerset, UK	
Vera Wang (Vera Wang honeymoon suite)	One hotel: Hawaii	
Byblos (Art Hotel Villa Amista)	One hotel: Verona, Italy	
Diesel (Pelican Hotel)	One hotel: Miami, US	
Karl Lagerfeld at Chanel (Schlosshotel)	One hotel: Berlin, Germany	

Source: Company websites and press Dec 2007

gateway cities such as London, Paris and New York, and one of the world's fastest growing luxury destinations, Dubai.

Future development will follow along these lines, concentrating on prestigious shopping locations where fashion houses already have successful retail outlets, offering a ready-made target audience. Europe, the US and the Persian Gulf continue to offer ripe opportunities, whilst Asia Pacific is likely to take a growing slice of this niche market.

China goes bling

Verdict Research forecasts that the Asia Pacific region will account for 36% of global spending on luxury branded products by 2012, equalling the share of the currently dominant region Europe. China is expected to be in the vanguard of this growth. Japan's share is diminishing, however the saturated Japanese luxury goods market

also suggests potential for diversification into the hotel arena.

Well-known luxury brands have very high status value for wealthy consumers in emerging markets as they seek to differentiate themselves from less well off groups. Fashion hotels in gateway Asian cities are likely to emerge as a means of building brand loyalty amongst these newly prosperous consumers.

Learning ground

As the hotel sector increasingly adopts a culture of brand management, many operators are looking beyond the traditional boundaries of their industry to meet the challenge of continual product innovation.

In the future, hotel groups will find themselves in collaboration with very different kinds of consumer brands and partners from very

different backgrounds, offering new challenges and requiring new skill sets. From Siena to Shanghai, the development of the fashion hotel sector offers opportunities, risks and above all an important new learning ground for the hospitality industry. ●

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1. Individuals with net assets of at least US\$1 million, excluding their primary residence and consumables