Why are consumer goods companies getting into lodging?

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What's the Deal By Daniel Lesser

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(The views and opinions expressed in this blog are strictly those of the author.)

Brand extension, also known as brand stretching, is a marketing strategy in which an established brand uses its name in another product or business category. The primary objective is to leverage the parent brand equity to launch a new product or enter new markets and segments more easily. The pitfall is that if the parent brand is stretched too much, or the new product or business category does not maintain the same values or consumer perception as the original, it may erode the brand's goodwill and image over time.

Consumer goods companies, mostly in the luxury segment, such as Bvlgari, Versace, Armani, LVMH, Ferragamo (jewelry and fashion), Equinox (fitness), RH (furniture) and Shinola (watches and accessories), to name a few, have entered the lodging industry. Many of these brands started off collaborating with hotels by supplying furniture, artifacts, furnishings or linen, and by providing other services such as interior design.

The lobby of the Belmond Cadogan Hotel in London, part of LVMH's portfolio of brands

Lending their name to hotels was the next step and seemingly a great way to showcase the brands' attributes, increase visibility and offer an immersive experience to customers, beyond what is possible in a retail store. The customer base is possibly the same, i.e. someone who enjoys luxury travel and hotels is expectedly a user of luxury consumer goods as well. Hence, existing customers are likely to patronize the extension as they can relate to them, while potential customers could be lured into associating with these brands via a different channel – experiential, boutique hotels.

The key benefits of such brand extension:

- Helps the parent brand diversify into new segments and geographies
- Increases consumer interest
- Lowers the risk perceived by the consumer in trying the new product or service
- Allows the brand to promote its own products
- Offers another way to monetize the brand

- Increases customer base as it targets aspirational customers

However, because these brands have no prior experience in the hospitality industry, the success of such brand extension is highly dependent on the association they have with established owners, developers and operators, until in-house capabilities can be developed. Many of these consumer goods brands have just a handful of hotels and in some cases no more than one or two. Versace was the first luxury fashion brand to enter the lodging space over two decades ago, opening the Palazzo Versace hotel in Australia in 2000, and a second one in 2015 in Dubai. Armani currently has two hotels – one in Italy and the other in Dubai.

On the other hand, some brands have been more aggressive in this space. Bvlgari has a joint venture with Marriott (formed in 2001) resulting in six operational properties and three in the pipeline. LVMH has four operational hotels or resorts under the Maison Cheval Blanc brand in France, the Maldives, and French West Indies. In 2008, LVMH set up a dedicated hotel management team to oversee the brand conception, design, operations and marketing under a management contract model. The company also acquired Belmond (formerly Orient Express Hotels) in early 2019 that owns, partially owns or manages 46 luxury hotels, restaurants, trains and river cruises in 24 countries. Ferragamo has multiple hotels and restaurants under the Lungarno Collection.

One may ask why the entry of consumer goods companies into the lodging industry is mostly in the luxury space. Well, for one, customers are more engaged and less price-sensitive in that segment. They seek greater levels of personalization, exclusivity and authentic experiences, and therefore the association between a luxury consumer goods company and a hotel is likely to serve as a differentiator for both. Moreover, many of these companies have collaborated with hotels in the past at different levels to showcase their products or services, and hence, branding a hotel is a natural progression.

That said, synergy among the brand, the operator and the owner is critical and, understandably, the contractual agreements are unlikely to be cookie-cutter templates, with the brand seeking more control to safeguard its goodwill and image. Development costs are likely to be higher, as the hotels are meant to showcase the brand's attributes; cash flow or ROI may not necessarily be a top priority.

Also, during down cycles, such properties are unable to have an elastic room rate, as dropping rates could impact the brand's image and compromise on the targeted customer profile. Finally, whether such brand extension is limited to just one or a few properties and full-scale diversification into the lodging industry will depend on each brand's vision, initial success and capabilities.

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