



Haute Couture Hotels: A Systematic Review on the Practice of Brand Extension by Luxury Fashion Labels into the Hospitality Industry

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Abstract. Luxury brands have long recognized the potential of expanding their reach beyond traditional product lines. Brand extension into the hospitality industry allows them to offer their customers a complete luxury lifestyle experience, increasing brand loyalty and attracting new consumers. One prime example of this trend is the Italian luxury brand Bulgari. They have successfully entered the hospitality industry with hotels in major cities such as Milan, London, and Bali. The hotels are designed with the same attention to detail and craftsmanship that is evident in their fashion collections. This extension has allowed Bulgari to tap into a new market of affluent travelers seeking luxurious and unique experiences. Overall, the trend of luxury brands entering the hospitality industry is a strategic move to increase market share and brand loyalty by offering a complete luxury lifestyle experience to customers. By maintaining the same level of quality and attention to detail in their hotels as they do in their products, luxury brands can continue to expand their reach and remain relevant in an ever-changing market. Due to this, the study examines different cases of brand extension into the hospitality industry by luxury fashion labels, along with their rationales and distinctions.

Keywords: Haute Couture Hotels · Luxury Brands · Hospitality Industry · Luxury Fashion Brands

1 Introduction

The vast majority of industries have been drastically affected by the ongoing COVID-19 pandemic. The hospitality industry saw a significant drop in global revenue from 369.80 billion USD in 2019 to 143.90 billion USD in 2020 [1], a 61 percent drop [2]. However, as the pandemic slowly becomes a topic of the past, there has been a clear and steady return in the industry, with a 66 percent revenue growth in 2021 [2], and almost a full recovery in 2022 just short of the previous global revenue at 362.90 billion USD [1]. However, the total revenue of the luxury goods industry kept a gradual increase, showing the resilience of the sector. In order to continuously consolidate the existing market position and explore additional possible areas of profitability, luxury brands have always reached beyond their industry borders, creating ventures in other social sectors. Brand extension in luxury fashion brands to increase their recognizability beyond their usual industry

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S. Tehseen et al. (Eds.): ICEDBC 2023, AEBMR 258, pp. 269–274, 2024.

https://doi.org/10.2991/978-94-6463-246-0_33

is not unheard of. Luxury fashion brands such as Bulgari have continued to launch additions to their line of luxury hotels, even during the pandemic, with the opening of Bulgari Hotel Paris on December 2nd, 2021, with an additional five locations announced to open between 2023 and 2026. The practice of brand extension has been studied and researched extensively by the general community. However, academic analysis on brand extension into the hospitality sector by luxury fashion brands is relatively scarce. Some research has been conducted; Dr. Alice Dallabona, University of Leeds, has researched this topic most notably. However, in recent years, this topic has been untouched. This paper aims to provide a systematic review of the luxury fashion hotel industry, with a focus on two different case studies. The author will examine the distinctions and contradistinctions, along with the benefits which each brand extension brings, that such aforementioned hotels hold, along with the limitations of luxury fashion flagship hotels. Lastly, throughout the study, there will be case studies of prominent, well-established hotel brands and industry competitors with variations upon the same fundamental idea.

2 Brand Extension of Luxury Fashion Labels in the Hospitality Industry

Brand Extension is generally known as the use of established brand names to enter new product categories [3]. For example, food production and management manufacturers, after the completion of extensive layouts, began to enter the field of consumer goods. Brand extension is widely used by many well-established bands as the already established brand image not only reduces financial risk but also allows for brands to have an initial head start in a new market due to past positive reputation [3]. It is also indicated that brand extensions related to luxury brands are evaluated higher than those by non-luxury brands [4]. This is primarily due to the luxury status, and culture [5], associated with the parent brand being carried over into the market of extension by existing consumers; this is why extensions by luxury brands stand to provide symbolic benefits other than purely functional benefits [6].

As mentioned in the previous section, studies on general brand extension are already abundant, it is redundant to go into further detail on the brand extension concept as a whole. As mentioned above, luxury brands' brand extension is beneficial primarily due to the symbolic status and feelings evoked by the connotations associated with the brand name [3]. Additional Luxury brands, specifically luxury fashion labels, have more specific brand codes on a fundamental level, allowing for a more cohesive integration, as many standard brand codes are so fundamental that they can be the base of any product and design. This provides luxury fashion labels to be more flexible in their brand expansion. While not solely unique to the expansion of luxury fashion brands, research shows that brand extension into a new area result in an increase in the market share of the parent brand. This is mainly due to the potential attraction of new consumers that were not prior users of products by the parent brand [7]. Additionally, brand extension is imperative to many luxury brands as many fundamental lines are loss-makers; however, as these lines are essential to the brand, they cannot be eliminated [8]. Hence why extending and becoming profitable in other markets is essential. As the luxury hospitality industry is continuously driving the growth of the luxury sector, it coherent that expansion

into the hospitality industry would be pursued by luxury fashion brands [7], especially as authentic luxury brands, while ultimately selling a product, focus on the experience and customer service almost as much as the product itself, which is directly in correlation with the essence of luxury hospitality. One of the first to venture into the hospitality industry Versace, with the opening of the Palazzo Versace hotel located in Golden Coast, Australia, in September of 2000 [9]. In the following years, multiple luxury fashion labels followed suit. Most notable and successful was Bulgari, with the introduction of Bulgari Hotels & Resorts, founded in 2001, launching its first hotel, Hotel Milano, in 2014 [10]. Followed by Resort Bali in 2006 and Hotel London in 2012. Bulgari continued to roll out additional locations, such as Dubai and Paris, over the next decade, with five future announced hotels and resorts planned to open between 2023 and 2026 [11].

3 Vertical or Horizontal Extension: A Case Study of Armani Hotel

As previously mentioned, a brand extension of luxury brands benefits hugely from instant recognition due to the previously established reputation of the parent brand. However, there are multiple means of extension, all with different purposes and effects, both on the extended line and the parent brand. Two main categorizations of such types of extensions are vertical extension and horizontal extension. Vertical brand extensions, as the name suggests, refer to one brand extending its product line on a vertical plane. Introducing products or services in similar categories as the parent brand, but at different price points or quality. Horizontal extension, on the other hand, is expansion on the same price point or prestige, but just in a different category. Vertical extensions bring tremendous market potential, as it allows the brand to directly expand into a new customer segment; however, it also brings a larger risk of potential brand dilution. As most extensions are purposely marketed as part of the parent brand, these extensions directly tie in and effect the image of the parent brand. This is as every extension made by the parent brand forces consumers to redefine the image of the whole brand [12]. Hence, consistency and cohesiveness are crucial, especially for luxury brands, during brand extension as they have such strong fundamental symbolic identities and core values that the brand is built upon. Without such consistency, a brand extension can lead to negative diffusion of such core brand DNA. Furthermore, poorly executed brand extensions that reach beyond the brand's "area of competence" can lead to negative lash back, resulting in negative associations placed on the whole brand image [3]. This is especially prevalent in vertical diffusion, as it is hard to keep the sense of exclusivity fundamental to all luxury brands when the price range is lowered. However, the benefits of the vertical extension might out way the cons for certain brands. A prominent example is the vertical extension by Armani.

It is largely suggested that the marketing habits of luxury fashion brands in their core categories directly reflect on extended industries such as hospitality [4]. This is clearly shown in the case of Armani Hotels. Apart from the hospitality industry, Armani already implements the practice of vertical brand extension. Releasing multiple brands since the Italian brand's initial foundation in 1975, under the fashion category, including Giorgio Armani, Emporio Armani, and A/X Armani Exchange. These sub-brands range in price range from masstige, premium products that are available to the vast range of consumers, to luxury. While such vertical extensions have resulted in Armani losing its

prior luxury reputation, the accessibility of the Armani brand has appealed to a largely vast range of consumer bases. It is also important to note that almost all luxury brands, no matter their prestige, practice vertical brand extension to some extent. However, some brands like Armani have made it more or less part of their brand identity. This is no different in their non-fashion ventures. With the initial opening of the Armani Hotel, Dubai, in 2010. Armani then had multiple extensions into the luxury hospitality industry, such as the Armani Hotel Milano in 2011. Just as their practices in the fashion sector, vertical extension is prevalent in their extensions into the hospitality industry as well. The Armani Hotel Milan offers accommodation at the usual luxury range, similar to extensions by Bulgari and Versace, with a high price range; however, Armani also offers experiences of the brand at different price ranges with their other projects, such as the Armani Bamboo Bar, sporting significantly lower prices [4]. Offering both products in luxury and masstige ranges, Arami Hotels employees' strategies are similar to those of its parent company. Such practices allow Armani to fully utilize the benefits of brand extension, reaching the largest amount of untouched customer segments, even though it does come with the negative side effects of slight brand diffusion. While such practices might not be fit for Armani's competitors within the luxury fashion industry, Armani has effectively positioned itself in a price range of accessibility, enough to expand their consumer reach, increasing profit, while keeping their prestige image. It is also important to note that while the average room price of Armani is much less exclusive than its competitors, such as Versace and Fendi, Armani also has suits with price positioning significantly more premium than its counterparts.

4 The Success of Palazzo Versace: A Case Study

Founded in 1978, Gianni Versace S.r.l, referred to colloquially as just "Versace", is an international luxury fashion brand and label with product lines in multiple luxury sectors, including: "haute couture, prêt-à-porter (ready-to-wear), accessories, jewelry, watches, eyewear, fragrances, and home furnishings all bearing the distinctive Medusa logo". With an international D.O.S network, including over 200 boutiques and over 1500 wholesalers [13], the Versace Group is one of the most established and powerful luxury fashion brands in the market. In 2000 Versace opened the three-story tall Palazzo Versace, Gold Coast, Australia. The AU\$250 million construction consisted of the Palazzo Versace luxury hotel along with 72 privately owned condominiums. Being the first to venture into the hospitality sector, Palazzo Versace emerged as the first example of a hotel both branded and designed by a luxury fashion label [14].

Interestingly, the Versace Group did not need to use company liquidity to fund the revolutionary project, as even though the design, including architecture, interior and gardens, where was done by Versace, the Versace group held little direct financial burden in the direct construction of the Palazzo Versace. Under the management of Kempinski Hotels and Resorts, the Versace Group presented a modification to past licensing business models. By allowing for the use of their brand image, Versace both receives periodic royalties along with a percentage of the total revenue generated by the hotel. Additionally, product placement strategies are presented across the hotel, including an in-house boutique to further sales [14]. Another important factor in Palazzo Versace's

success was the importance they placed on brand coherence and authenticity, as while arguably the largest benefit of brand extension is the use of a pre-established reputation, inadequate quality in brand extensions can tarnish the larger brand image and may lead to negative brand diffusion. Being located in the third most popular destination in Australia at its time of opening [14], another factor in the long-term success of Palazzo Versace in Australia was most definitely largely due to the location, as the Palazzo Versace Gold Coast region, having lower interest rates, developed infrastructure, new job opportunities, lead to it becoming the fastest growing region in Australia shortly following the opening of the luxury fashion hotel [15]. It was also made a perfect tourist destination with its seventeen theme parks and thirty-one shopping complexes, making it the perfect destination for Palazzo Versace's wealthy target consumer base, with likings to consumption.

5 Conclusion

In conclusion, luxury fashion brands are expanding their reach beyond traditional product lines by extending into the hospitality industry. This move allows them to appeal to a growing consumer base that seeks luxury experiences over tangible products. The normalization of the post-covid era and the steady growth of the hospitality industry provide an ideal opportunity for luxury brands to continue expanding into the hospitality industry. With the increasing role of social media in shaping consumer behavior, luxury hotels that are extensions of well-known fashion brands are likely to attract a larger consumer base. Therefore, luxury fashion brands' entry into the hospitality industry can be viewed as a strategic move to increase market share and brand loyalty by offering a complete luxury lifestyle experience to their customers. As a result, it is anticipated that this trend will continue to grow in the future.

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