



Gucci Owner Kering Banks on De Meo's Record for Its Turnaround

(Bloomberg) -- While fixing French carmaker Renault SA, Chief Executive Officer Luca de Meo pursued a hobby that would feed into his next job as CEO of Kering SA: A taste for the finer things in life, particularly Swiss watches.

"Brand management and marketing are his forte, which dovetails with what the luxury industry does — for which he seems passionate," Luca Solca, an analyst at Bernstein wrote in a note, recalling a conversation about fine timepieces with De Meo at a Renault event three years ago. Now that De Meo has been named as CEO of the French owner of Gucci and other luxury brands, "it is not hard to imagine how intriguing he found the Kering opportunity," Solca said.

Although De Meo has no direct fashion or consumer-goods sector experience — having spent his entire career in the auto business — luxury industry observers are betting his keen sense for what clients want and the attention to detail he displayed at Renault may be just what Kering needs.

De Meo led the turnaround of Renault after taking charge of the French carmaker about five years ago, returning it to profit and growth despite substantial challenges facing the global auto industry, including an uncertain transition to electric vehicles, escalating trade tensions and the rise of highly competitive Chinese rivals.

The promise of what his appointment might do for Kering drove the company's shares up 12% on Monday, while the announcement of his departure on July 15 from Renault sent the carmaker's stock down 8.7%.

Kering, led by Francois-Henri Pinault for more than two decades, can use the help as the luxury industry weathers a slump in Chinese demand and the threat of higher US tariffs. Before the jump on Monday, Kering's stock had lost almost 80% of its value since reaching a record in August 2021 as it fell further behind rivals such as LVMH and Hermes International. The group has tried to turn around its main brand Gucci by naming new designers but the efforts have failed. Kering has also appointed new CEOs for labels including Gucci and Yves Saint Laurent in the past year.

"De Meo has a titanic challenge ahead of him" said Solca. "Critically, investors will need to hear what it is that De Meo plans to do and digest how soon his plans can be realized. If he says 'more of the same,' then investors would (quickly) go back to where we are now. If he comes in with a vision, then it could be something else."

Task Ahead

In addition to finding growth again at Gucci, De Meo will need to win the trust of all the teams after sweeping changes of top managers in recent years, said Ariane Hayate, a fund manager at Edmond de Rothschild Asset Management. He'll also need to tackle the group's elevated debt, which has soared over the past three years, she said.

Some investors are worried that De Meo's lack of experience in the luxury industry will mean a failure to address the absence of revenue growth in a difficult industry context, according to Zuzanna Pusz, a UBS analyst.

"The concern is that the focus could potentially be on cost cutting," she said.

What the executive has going for him is the fact that he's an Italian who has worked for many years at French





groups, noted Morgan Stanley analysts including Edouard Aubin and Grace Smalley. Kering's Italian Gucci brand accounts for almost two-thirds of its profit. Also, De Meo "has a strong track record as a turnaround executive and is very well regarded within the automotive industry," the analysts said.

Renault was in crisis when De Meo — who had previously worked at Fiat and Volkswagen AG — took charge in mid-2020. The French company was coming off a record first-half loss and had announced plans to slash almost 15,000 jobs. Then, even after Russia's invasion of Ukraine prompted the manufacturer to pull out of what had been its second-biggest market, Renault vastly outperformed its European rivals and its longtime Japanese alliance partner Nissan Motor Co.

"We credit him for bringing back 'color,' energy and peak results to Renault after years of sub-par product and financials," Jefferies analyst Philippe Houchois wrote in a note.

'New Things'

During his tenure, De Meo inked partnerships for Renault with fashion brands such as Agnès B. His affinity for style has also been evident in his custom-made suits and his pocket squares — always impeccably folded with three or four points. A polyglot — he's fluent in Italian, French, Spanish, English and German — De Meo has authored a book entitled "A Dictionary for Car Lovers," showing a commitment to the emotional appeal of brands.

For instance, one of the first big moves he made after taking over as CEO was to re-brand Renault's Formula 1 team as Alpine, starting with the 2021 season. Alpine, a more than half-century old French marque that Renault had revived only a few years earlier after two decades of dormancy, could become "a mini Ferrari," the executive boasted in October 2020. He then set out to build up the brand's scale and status.

While the Alpine efforts have yet to show success in Formula 1, De Meo impressed investors by the pace of the company's new model launches. Last year, Renault introduced 10 new car models, including the Renault 5 — with accessories, including a wicker basket as baguette holder. This year, it is launching seven, including the electric Renault 4 and Alpine A390. De Meo's approach became a case study for Harvard Business School.

Just how critical he considers brand building was evident at the Geneva car show last year. Even as almost all of the world's carmakers stayed away, calling car shows a thing of the past, De Meo and Renault turned up, winning a lot of attention they may not have gotten for the launch of the new Renault 5 — a car of the past that Renault modernized and launched as electric for the future.

It was vintage De Meo — and helped make R5 one of the company's most high-profile new launches in recent times.

De Meo is someone who has "great brand insight but who's also able to re-energize the teams he works with and has the courage to try new things," said Fabrizio Ferraro, professor of strategic management at IESE business school. That's crucial for Kering since "the usual playbook of the luxury industry seems to have run out of steam," he said.

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