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Gucci is poster child for luxury key-designer risk

Investors reckon $34 bln Kering's revamp hinges on its main brand's new creative, Demna. Evidence that a few star designers can drive shareholder value explains recent sector musical chairs. Yet fickle buyers, changing trends and weak sales make experimentation all the riskier. LONDON, Sept 8 (Reuters Breakingviews) - How critical are Big Luxury's designers to the bottom line? Judging by the current musical chairs across European groups like Chanel, LVMH (LVMH.PA) , opens new tab and Kering (PRTP.PA) , opens new tab , the answer seems to be: a lot. But while there's a wealth of circumstantial evidence that some star creatives can drive revenue growth and shareholder value, pegging one's fortunes too closely to one creative – as is arguably now happening at Kering's key brand Gucci – carries increasing risks.

The churn in design talent is stark. Nearly 20 major European brands – including Chanel, LVMH labels Dior, Celine and Givenchy, and Kering's Bottega Veneta, Balenciaga and Gucci – have swapped creative chiefs in the past year, with more expected to follow. Matthieu Blazy has gone from Bottega Veneta to Chanel, while Jonathan Anderson has quit Loewe to head to Dior. And, in March, Kering promoted the head of its Balenciaga brand, Georgian creative Demna, to lead Gucci.

The upheaval reflects that Big Luxury is running out of easy levers to pull. Between 2019 and 2023, industry sales grew at 5% a year, McKinsey reckons. But over 80% of that , opens new tab came from price hikes, and Covid-induced inflation is now long gone. Rather than cut prices – a risky manoeuvre anyway for brands that are supposed to radiate high class – the obvious move is to hope that an aesthetic shift will prompt a surge in sales. That's certainly what seems to have driven Demna's elevation at Kering, where revenue fell 12% in 2024 as weak demand in China deepened Gucci's struggles.

Embattled luxury executives have plenty of encouraging precedents to cling to. Tom Ford rescued Gucci in the 1990s, increased sales eightfold to 1.5 billion euros ($1.76 billion) with a sleek minimalist style allied to an extravagant, jet-set persona. Alessandro Michele tripled the same company's revenue to 10 billion euros between 2015 and 2021 with so-called “ kaleidoscopic maximalism , opens new tab ”, and Demna himself quadrupled sales at Balenciaga. Jonathan Anderson turned LVMH's Loewe from an obscure brand generating revenues of 200 million euros in 2013, to 1.6 billion euros in 2024, per Morgan Stanley estimates.

That also creates a correlation between star designers and share outperformance. Michele's eight-year tenure coincided with a jump in Kering's valuation worth 2.5 turns on an enterprise value-to-sales basis, Bernstein analysts calculated. Nadège Vanhee-Cybulski, doyenne of Hermès (HRMS.PA) , opens new tab , has seen her company rise over 6 turns on the same metric during her decade-long tenure.

Yet while the virtuous circle between a hot designer and revenue growth can be real enough, it's not easy to maintain – or replicate. Michele's exuberance eventually lost steam with the dawn of the “quiet luxury” trend – meaning a focus on understated elegance – and by 2022 Gucci sales growth had slowed. His successor **Sabato De Sarno** then produced humdrum collections that went too far the other way, leading to plunging revenues and his exit after barely two years.

The core problem is that a creative director is a necessary ingredient of a brand revamp, but not always a sufficient one. That also requires simultaneous and coordinated changes in merchandising and collection structure, media communication, social media, in-store environment, events, PR, ambassadors, and more. And even if all these factors align, fickle consumer tastes can shift.

Trying to get out in front of this is all the harder given a fundamental shift currently occurring in the fashion sector. So-called “aspirational” shoppers, who spend less than 5,000 euros a year on bling, made up 70% of overall luxury sales in 2013, but have now shrunk , opens new tab to around 60%, according to Boston Consulting Group. A third of these aspirational buyers are now cutting back, BCG says. Sales from Chinese consumers, who still account for a quarter of industry sales, have gone from rising 18% a year in the boom years to falling 7% , opens new tab in 2024.

The slack is being taken up by the ultra-rich, however. Fewer than a million individuals, according to BCG, now drive nearly 23% of global sales. They are in a different universe: a 2,000-euro entry level handbag may be just for the beach. Their loyalty depends less on theatrical runway shows than on personalised service, brand consistency and flawless quality.

One solution is for everyone to be more like Hermès. Despite Vanhee-Cybulski's decade-long tenure, the brand grew sales 9% in the second quarter, trades at nearly 50 times 2025 earnings, and has a market capitalisation of $250 billion on a single brand. But its success reflects a restrained approach to scale, and quiet luxury has rarely delivered fast growth. Between 2012 and 2015, when the understatement style dominated, industry revenues stagnated at 0% to 2% a year, Bank of America analysts estimate. The risk is brands try to pivot their way, as De Sarno did at Gucci, and it doesn't work. Or they miss the next louder fad – the summer's breakout new names, Pucci and Missoni, are thriving on flamboyant patterns that double as logos.

One way to insulate a luxury brand against betting on the wrong designer is to adopt less of a star-designer culture and adhere to its legacy and roots. Louis Vuitton, Hermès and Moncler (MONC.MI) , opens new tab exemplify this trend, Bernstein said in a 2020 report. When these brands change one element in the designer chorus, fewer people notice.

The problem for Kering's incoming new boss Luca de Meo is that his company arguably exemplifies all the wrong trends at once. It's depending on an all-or-nothing debut collection from its new star Demna, but the show won't appear until March. His background in ironic streetwear arguably runs counter to the broader industry focus on quiet luxury. And Gucci was a notable hit for the 2010s aspirational luxury buyer who is now less inclined to splash out.

Investors trying their best to guesstimate what happens next seem pessimistic. Some Gucci shareholders had hoped for Hedi Slimane, a proven design star at Celine, Dior, and Kering's Saint Laurent – the negative surprise probably explains Kering shares' 12% dive on Demna's appointment. The takeaway seems to be that creative experimentation is fine, and occasionally essential – but attempting it right now means doing so without a safety net.

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