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COLUMNS

Will Kering's plan to restore Gucci to past glory work?

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Gucci is the engine powering the Kering luxury group. Image: Gucci

By Pamela N. Danziger

Kering, owner of Gucci, Yves Saint Laurent, Bottega Veneta, Balenciaga and Alexander McQueen and the world's second-largest luxury conglomerate after LVMH, reported depressing results for the third quarter of 2023.

With a 13 percent reported decline overall and a 9 percent comparable shortfall, third-quarter revenues for the group dropped from $5.4 billion last year to $4.7 billion this year.

Set against a backdrop where sales growth is slowing across the luxury sector, investors expected a poor showing for the quarter but not as bad as it turned out.

Headwinds or gale?
The Wall Street Journal reported that shares on the Paris-listed Kering dropped 5 percent after the company's earnings report. Its stock is now trading at just more than $400 per share after reaching a high of $635 at the end of March, making its stock "one of the cheapest in the luxury goods industry, trading at just 13 times projected earnings."

With the exception of eyewear, which rose 34 percent, a micro-category contributing less than 10 percent of revenue, all other reporting segments took a dive.

Down the most was its other houses category, dropping 19 percent on a reported basis. This segment includes Balenciaga and Alexander McQueen, which deliver just about one-fifth of revenues.

Bottega Veneta, a small brand with less than 10 percent of revenues, was off 13 percent, and Yves Saint Laurent, which contributes about 20 percent of revenue, dropped 16 percent.

Then there is Kering's flagship Gucci brand, on which half the company's revenues depend. Its sales declined 14 percent on a reported basis, from $2.7 billion in the same period last year to $2.3 billion this year. And revenues were down 7 percent on a comp basis.

Amidst talk of normalization, rationalization and consolidation during the earnings call, Kering deputy CEO Jean-Marc Duplaix reflected on Gucci, saying the changes in expression and attitude reflected in the introduction in

September of newly installed creative director Sabato De Sarno's first collection will "reestablish Gucci's edge in sparkle."

Yet he also admitted it is a "little bit too early to comment on the results from this collection."

Billed as "Gucci Ancora" Italian for "Gucci Again" The New York Times called it a "breeze, rather than a wind, of change." In other words, it did not blow anyone out of their seats.

Rather, Gucci is facing hurricane-force headwinds right now, blowing strongest in North America (22 percent of revenues), where comparable sales were down 22 percent in the third quarter and the same over the first nine months of the year.

Also, it is off 5 percent in Western Europe (26 percent of revenues) in the third quarter.

Even Asia Pacific, which generates nearly 40 percent of brand revenues, dropped 3 percent in the most recent quarter.

Intersection of luxury and fashion
Mr. Duplaix described the vision for Gucci is to reaffirm its position at the intersection of luxury and fashion. But these two business models are at odds with each other.

The fashion business model rests on being trendy in the here and now, luxury on enduring quality that transcends time.

"Unlike luxury, fashion does not sell timelessness," writes luxury sage Jean-Nol Kapferer. "As soon as the fashion season ends, sales and super-sales that slash margins are employed to eliminate inventory."

Luxury brands' timelessness allows them to continually increase prices while controlling the full value chain. But Mr. Duplaix suggested that Gucci prices may have to hold for a time.

"We had some tactical price increases during the year, but pure price increases, considering where the brand stands now, that's not clearly the right decision," he said.

The executive added it is too risky to raise prices right now, given the "revision of the brand" and the as-of-yet unknown response to Mr. De Sarno's vision for the brand.

"So to add on top of that a pure price increase, it's not part of this offer strategy," he said.

Four strategic priorities
Mr. Duplaix mapped out four priorities to put the sparkle back in Gucci.

The first is directed to enhance brand consideration and desirability. Greater investment in marketing communications is going to carry that bag.

This would support the luxury business model with its objective to build aspiration for the brand.

On the other hand, the fashion business model uses advertising first and foremost to generate sales.

Given where the Gucci brand stands now, it may not have the luxury of creating long-term aspirations when more sales are needed in the short term.

Thus, Gucci could easily break a cardinal rule in the luxury business model.

"Do not advertise to sell," Mr. Kapferer states.

"Luxury communicates to build the dream and to recreate it," he said. "This is not measured by short-term sales increases because, unlike consumer packaged goods, possession of a luxury good dilutes the excitement one had before the purchase was made."

Gucci's second and third priorities are to enhance product quality a must and more exclusive distribution, which Mr. Duplaix hinted may have gotten out of hand.

Currently, Kering operates 534 Gucci boutiques out of the company's total 1,722 Asia Pacific leads with 181, followed by North America at 112 and Western Europe at 103.

"We don't expect massive retail expansion in the coming years, rather in some cases, consolidation or relocation of some stores," he said.

In addition, Mr. Duplaix also revealed that wholesale distribution across all luxury brands dropped 29 percent, demonstrating how it is executing plans to control distribution.

However, a sharp drop in online ecommerce sales was not planned, particularly in North America and Western Europe.

The fourth strategic initiative is greater efficiency.

"We're working to improve the efficiency of the communication at Gucci," Mr. Duplaix said. "And we mentioned that it's not only something that we can do by increasing the cost of the communication, there is also a question of reallocating to be more efficient."

Efficiency of communications means different things within the luxury and fashion business model.

Under a fashion business model, return on immediate investment is the objective.

"The media plan must concentrate on the target consumers, and nothing but the target consumers every person reached beyond the target is a waste of investment money," Mr. Kapferer writes.

However, campaign-level ROI takes a back seat to building brand equity long-term under the luxury business model.

"It is essential that there should be many more people that are familiar with the brand than those who could possibly afford to buy it for themselves," Mr. Kapferer writes.

Gucci has an uphill climb to restore its brand equity. It plummeted 31 percent in the last year, dropping from $38 billion in 2022 to $26.3 billion in 2023, according to the Kantar BrandZ report.

"Time is money" is the efficiency manager's mantra, which is code for getting the most productivity out of resources in the least amount of time.

But for luxury brands, the time-money equation is reversed: It takes time to make money.

Luxury brands have to invest time to build brand equity with the payback coming in the future.

Brand before fashion, not the reverse

Ever since the Tom Ford and Domenico De Sole days in the 1990s, Gucci has made it a habit with each subsequent creative director and CEO team to completely remake the brand image without necessarily honoring the brand heritage.

That was the case following Messrs. Ford and De Sole, through the latest team of creative director Alessandro Michele and CEO Marco Bizzarri, both of whom departed Gucci this year.

Now Sabato De Sarno has been appointed creative director, but a permanent CEO has yet to be named.

Rather, Kering CEO Francios-Henri Pinault's "right-hand man," Jean-Francois Palus, has been installed to makeover the brand on an interim basis.

"Great luxury brands have a way of creating continuity and evolving their storytelling as creative directors come and go," said luxury brand advisor Susanna Nicoletti.

"For Gucci, new creative directors seem to destroy the past just to realize their own vision of the brand," she said. "Even if they are successful, it won't last."

The fact that Gucci appointed a new creative director before a CEO suggests where the brand's emphasis is: on the instant gratification of fashion before the enduring legacy of the brand.

"The idea is if you give an eccentric creative director full control to do whatever he wants, there can be success with no limits," Ms. Nicoletti said. "But that is not true.

"The truth is, the more you invest in the brand value when you put into the brand DNA, brand values and brand message the more you can hope to survive even in the worst economic or geopolitical situation as we have now.

"You don't build a sustainable luxury brand when you follow the trends."

THERE IS A playbook from which luxury brands such as Gucci can choose.

Ms. Nicoletti points to Karl Lagerfeld and his tenure at Chanel as the best example of how the creative director must serve the luxury brand, not the other way around.

"Karl didn't invent anything," Ms. Nicoletti said. "He didn't disrupt anything. He just magnified the brand DNA, brand values and brand roots. He made an incredible contribution by putting Coco and Chanel first, even as he was larger than life.

"A luxury brand is like a tree," she said. "It can't thrive without deep roots. You can't keep uprooting it and transplanting it and expect it to continue to grow. That's what Gucci has done and looks like it is doing again."


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