



Case study

## THE GUCCI FAMILY



## ORIGINS

The Gucci story is more of a switchback ride, which starts with an inspired founder, grows through the next generation, and ends in the survival of the brand but the loss of the business. This is not quite the paradigm of shirtsleeves to shirtsleeves in three generations, but close to it, as we shall see.

The Gucci name today continues to stand in the public mind as one of the world's most successful and glamorous designer fashion houses; like many such icons it grew from humble origins. The story starts with the founder Guccio Gucci, whose parents scraped a living making straw hats in Florence, Italy. Guccio left home and worked his way to England. He found employment at London's famous Savoy Hotel, and although his wages were low, he worked hard and learnt the skills of his trade. Returning home with his savings four years later he married Aida Calvelli, daughter of a tailor.

On getting married they adopted Aida's illegitimate son Ugo, and soon after their family increased when Aida became pregnant and delivered their first daughter, Grimalda. They went on to have four more children, all boys, one of whom died in infancy. The survivors were Aldo, born in 1905, Vasco in 1907 and Rodolfo in 1912. But it was the adopted boy, Ugo, who was the harbinger of destruction in the family, and who as a man became a local official in Mussolini's fascist party.

With his modest savings and 25,000 lire from an investor, Guccio opened the first Gucci retail shop in Florence. He bought high-quality leather products from Tuscan manufacturers as well as imports from Germany and England to sell to the tourists who flocked to Florence. He aspired to elegance himself, and was always dressed impeccably in fine shirts and crisply pressed suits. He opened a small workshop behind the store where he made his own leather goods to supplement the imported products, and started a repair business that quickly became profitable. Guccio's hallmark was service combined with first-class workmanship.

As Guccio's children grew, they began to work for the family business, all except Ugo who showed little interest and was always something of an outsider. Aldo had the keenest sense of trade, and stood out from early on as an entrepreneur. Vasco enjoyed spending time on country leisure pursuits, and took on responsibility for production. Rodolfo was less drawn to the business, and soon as he was old enough to work he set off to pursue his dream of working films. As a father, Guccio was a strict disciplinarian with a strong personality, and he

commanded the respect of his children, whom he parented in a distant and authoritarian manner. He rigorously impressed his thrifty values on his children.

## THE GUCCI BROTHERS

Aldo started working in the family business Guccio Gucci in 1925 at the age of 20, delivering packages by horse and cart to customers staying at local hotels. He was also given simple tasks in the shop such as tidying up and rearranging merchandise displays. His knack of mixing work and pleasure was obvious from the start. All the time developing his salesmanship skills, Aldo was able to entice women, knowing they would become his prized customers. In the meantime, he married Olwen, who gave birth to three sons in quick succession: Giorgio, Paolo and Roberto.

Aldo steadily became more involved in the family business while his brother Rodolfo remained detached and uninterested, something that disturbed his father Guccio. So it was Aldo who possessed the skills to take the business forward, and who proceeded to make Gucci a symbol of status and style in Europe and increasingly in America. Although Guccio regularly shot down Aldo's ideas, he privately acknowledged his son's flair for business. Rodolfo meanwhile enjoyed his career as an actor, but big roles were not coming his way, so after the end of the war he asked his father if he could join the family business. He had also become a family man, marrying Alessandra, whom he had met when she was a young actress, and who had given birth to their son Maurizio in 1948. Rodolfo's first contribution to the business was to run the Milan store, and later to take the lead in the design of Gucci handbags.

Gradually, Guccio let Aldo take on the mantle of business leader, and by the time of Guccio's death in 1953, Aldo had become the key driving force of the company. Guccio died a millionaire, passing the empire on to his sons, little dreaming of the bitter quarrels that would follow, and for which unwittingly he had laid the groundwork. First, his parenting strategy had always been to play his sons off against each other in the belief that competition among the siblings would stimulate them to perform better. Second, as a traditionalist in his beliefs about gender and labour, he excluded his daughter Grimalda from inheriting shares in the firm.

This was to be the cause of a major rift. Grimalda was incensed on discovering that she was excluded from inheriting any part of Gucci. She had worked tirelessly in the shop while her husband had helped Guccio with funding to see him through the challenging early days of the business. When she realized what had happened she took her claim to court, but lost.

## ALDO'S REIGNS

Aldo, now the family leader, met his brothers Vasco and Rodolfo every two or three weeks in Florence to discuss business. The younger siblings gave Aldo freedom to drive the strategic direction of the business, so long as he didn't stray too far from their family's values. His management style was embracing – he treated staff as an extended family and in return benefited from their staunch commitment and loyalty. Aldo now began to encourage his sons to join the business. Like Guccio, Aldo was a tough and domineering father. His sons Giorgio and Roberto both joined the New York office where Aldo was based. However, Giorgio disliked having to live under his father's shadow and soon returned to Italy to take over management of the store in Rome. Meanwhile Paolo established himself in Florence rather than work with his authoritarian father in New York. Paolo was undiplomatic and

unrestrained in expression. He let his father know exactly what he thought of his oppressive style. Aldo was coming to realize that he was not going to have an easy time with his children.

Yet as an entrepreneur and leader Aldo was highly successful, continually finding new opportunities and expanding the business to new international markets, including Japan, a crucial market for the firm. By 1974 there were 14 Gucci stores and 46 franchised boutiques around the world. He had also diversified the business into perfumes, which helped provide a vehicle to occupy his sons in business.

In 1974 the middle brother Vasco died of cancer, leaving his one-third stake in the company to his widow, Maria. The couple had no children. The two surviving siblings offered to purchase their sister-in-law's shares in order to keep the ownership of the company in the company, and she agreed. With that, Aldo and Rodolfo became the sole controlling shareholders of the Gucci empire with 50 per cent ownership each. Aldo felt it was time to give his son a stake in

the company, and split a small percentage of his shares between his three sons, giving 3.3 per cent each to Giorgio, Paolo and Roberto. Although he didn't give voice to the sentiment, privately Aldo felt that Rodolfo's 50 per cent stake in the company was out of proportion to his contribution to the business.

Tragedy had struck the family when Rodolfo, at the age of 42, lost his wife Alessandra to a sudden illness. This blow made Rodolfo ever more protective and possessive towards his son and only child, Maurizio, having him followed in a car when the boy went out on bicycle rides and keeping a strict curfew during school term. His strategy for teaching his son the value of money was to withhold the meagre pocket money he allowed him for any infraction. Intimidated by his father, Maurizio became loathe to ask him for anything.

Like many a possessive parent, Rodolfo resented his son's relationships and bitterly disapproved of the young man's marriage to Patrizia Reggiani. He appealed directly to the cardinal of Milan to block the wedding planned for October 1972, threatening to disinherit Maurizio because of his suspicions about his future daughter-in-law's motives. Rodolfo found it hard to believe that she could love his son for himself rather than his fortune. But for Maurizio, Patrizia and her family were a source of strength and protection, and he began to distance himself from his father. Rodolfo had himself never remarried, and was alone and embittered by what he saw as his son's abandonment of him, and too full of pride to seek reconciliation with Maurizio. So it was that, on Uncle Aldo's advice, Maurizio, who had finished his studies at Milan University, went to work for the family firm in New York.

## PAOLO GUCCI

Ebullient by character, creative and at times eccentric, Paolo, the second of Aldo's three boys, did not settle to an easy life. In his private life he married and divorced twice during his lifetime. In the business he always wanted to be his own man, and felt frustrated by his failure to secure a large role in the family firm. Before long he began to lock horns with his uncle Rodolfo, to whom he reported. Paolo began using his presence at the family boards meetings to put his ideas about design, production and marketing on the table. He also started asking uncomfortable questions about company finances,

backed up by often quite blunt and critical letters. All this was too much for his uncle to tolerate, and there was an angry confrontation in which Rodolfo suggested that Paolo leave Italy and go to work for his father in New York.

Paolo's response was defiant, but still he took his uncle at his word. Without giving notice or finding a replacement, he packed his bags and left Italy for New York. His nephew's behaviour infuriated Rodolfo. Paolo was now intent on revenge – his burning aim was to destroy uncle Rodolfo's position in the company. But nor was all sweetness and light with his father. Paolo soon found Aldo's hot-tempered ways hard to take.

Throwing caution to the wind, Paolo, now undisputedly the black sheep, decided to launch his own line – the Paolo Gucci (PG) Collection. News of this reached Rodolfo indirectly, from several suppliers whom Paolo had approached. This enraged both brothers, who realized that Paolo could become a threat to the Gucci name and all they had achieved. Aldo had no intention of letting his son compete with the family business while still employed by Gucci. Thus Paolo was fired in September 1980, ending his 28- year career in the family firm.

Meanwhile Rodolfo, who was being treated for prostate cancer, had begun to rekindle his relationship with his son Maurizio, and was encouraging him to become more active in the business. With his nephew Paolo now in open competition with the rest of the family, he wanted Maurizio to help fight off the threat from Paolo by all means possible. Gucci informed all their licensees that if Paolo approached them any attempt to distribute products under the PG name would be blocked.

This conflict was a mere foretaste of the deeper conflicts that were looming. The first major fissure between the second-generation brothers started to develop when Rodolfo realized that Aldo was shifting a significant amount of company revenues into a subsidiary, Gucci Perfumes, in which Rodolfo only had a 20 per cent stake, with the rest of the shares divided equally between Aldo and his three sons. Starting in 1979, the Perfumes division began to take off, fuelled by the launch of a new more mass-market line, Gucci Accessories Collection.

While the family, and especially Aldo's branch, reaped short-term profits from the sales of the new line, the exclusive image of the Gucci brand was being badly dented. Roberto confronted his brother over the issue of ownership inequity. Aldo was not in a mind to back down and give Rodolfo a larger chunk of the new business, and so Roberto approached his lawyers. Aldo was now daggers drawn with his brother, and sought an ally whom he knew shared his feelings: Paolo. Summoning Paolo to his office, he asked him to pledge his allegiance at an

upcoming shareholding meeting. He misread his son: Paolo's riposte was sharp and negative. Why, asked Paolo, should I do you any favors when you and Roberto have attacked me and treated me so unfairly? Aldo saw red at this, and picking up a crystal ashtray, hurled it across the room toward his son, smashing it to fragments. It wasn't just the ashtray that was shattered, but any hopes of bringing Paolo back into the family fold. Paolo left determined to bring the house of Gucci to its knees.

## PAOLO'S REVENGE

Time passed and Aldo wanted once again to bring the family together and find reconciliation with Paolo. He invited his son for Christmas in 1982 and made him an offer. He proposed to give each of his son an 11 per cent stake in the firm, while he would retain 17 per cent, and Paolo would be named vice chairman of Guccio Gucci SpA. In addition, he offered Paolo leadership of a new division that would commercialize the products that Paolo had included in his own PG line. This was the role that Paolo had always craved, but he was apprehensive about the proposal. He mistrusted his father's motives. His doubts were confirmed when he attended the next board meeting with a detailed plan for the new division and the directors unanimously rejected his proposals on the grounds that a cheaper product line would damage the Gucci brand. Paolo felt he had been tricked. Matters were coming to a climax.

Paulo came prepared to the next board meeting, in July 1982. He pulled out a sheaf of papers and began to recite his grievances and table what he regarded as critical questions. His intervention was ignored by the other directors. At this point Paolo produced a tape recorder, insisting that his statements were recorded in the minutes. Aldo yelled at him to turn off the recorder. Paolo refused, at which point Aldo ran around the table and smashed the machine. There was a tussle, leaving Paolo's face scratched. Paolo, blood-stained, left the meeting and soon filed lawsuits against the family firm, seeking \$30 million in damages. The press was gleeful. The Gucci infighting had become the nation's favorite soap opera.

Paulo had by no means run out of steam. During his years of working at Gucci, he had been quietly collecting and analyzing all the financial documents he could get his hands on. He wanted to know the inner workings of the company. In the course of his investigations he discovered that millions of dollars were being siphoned to offshore companies by Aldo under a system of false invoicing. Now he had a nuclear weapon in his arsenal, and he was going to use it to claim his right to market the PG brand.

## MAURIZIO GUCCI

Unlike his cousin, Maurizio kept his head down while working with Aldo, whom he admired as an entrepreneur, winning his uncle's trust. Following the death of his father in 1983, Maurizio saw his chance to become the ruler of the empire, especially now that he had inherited his father's 50 per cent stake in business. Maurizio believed that the company needed to be set on a different direction, with major changes to product range and styles. But he didn't yet hold the reins of power or have access to the finances to implement such decisions. Because his father had so cosseted him he lacked experience, if not confidence.

Aldo had not anticipated how much the loss of his brother might disturb his own grip on the business, and he underestimated the forces ranged against him, on three counts. First, he failed to apprehend the scale of Maurizio's ambition to shake up Gucci and reshape the policies that had made the company successful. Second, he was too dismissive of his son Paolo's determination to win the right to do business under his own name. And third, he had put out of mind the very real danger presented to him

by the US Internal Revenue Service for his tax evasion. Not only had he illegally transferred millions of dollars to offshore companies, but he had also personally cashed checks worth hundreds of thousands of dollars that had been made out to the company. He had been acting as if Gucci was his own personal kitty bank, with no clear separation made between personal and company affairs.

Maurizio, believing that his uncle could go to jail, decided to seize the initiative and enlist the support of Paolo to create a new company called Gucci Licensing. This would control all

licensing under the Gucci brand, in which Maurizio would hold a 51 per stake and Paolo the balance. In exchange for this, Maurizio asked Paolo to cast his 3.3 per cent vote Maurizio's 50 per cent, giving him de facto control of the company. He also made an agreement to buy Paolo's stake for \$20 million on condition that all pending legal suits were dropped.

## PLOTS AND MANEUVERS

Thus Maurizio set in motion his plan to oust his uncle Aldo. A board meeting was called at which Domenico de Sole, a sharp legal brain who had been hired by Rodolfo in 1980 and who had been given the controlling proxy by Maurizio, called for the board to be dissolved. Aldo, the mighty leader, was toppled from the empire he had done so much to build up. Maurizio had blossomed into a leader with as much ruthless zeal as his uncle had ever practiced.

Before he died Rodolfo had predicted to Patrizia that her husband, his son Maurizio, would change once he had money and power in his hands. In this respect Rodolfo was right. Over the years since Maurizio had become more involved in the family business, his distance from Patrizia and his daughters had grown. He no longer heeded her opinions and advice. She had entered the marriage with an image of herself as a strong woman standing solidly behind a weak man, but now she found the story had changed.

He had become increasingly assertive and neglectful of her. Often he would not come home on weekends, and he was careless of his personal appearance. So it was that in 1985, Maurizio packed a small suitcase and left, never to return to his family. He said that he felt suffocated around Patrizia and wanted freedom. His estranged wife's world was falling apart and she became depressed. Although Patrizia made every effort to bring Maurizio back to her, Maurizio made it clear to the children that he no longer loved their mother. Yet the break-up of his marriage was just one of Maurizio's problems. Aldo's retaliatory move against Maurizio for seizing control of the company was to file a case against him, supported by his sons, alleging that he had forged his father's signature on his share certificates after his death to avoid paying inheritance taxes.

Aldo's forced exit from the firm was the beginning of his end. Paolo's earlier betrayal of his father to the tax authorities had set a legal juggernaut in motion, and in January 1986 Aldo was forced to plead guilty in New York federal court to defrauding the US government of \$7 million in back taxes. He also admitted he had taken \$11 million out of company for himself and members of his family. For this, Aldo was

sentenced to a year and a day in prison. This was the ultimate ignominy; brought low by his son, his nephew and the state.

By 1987 there were a total of 18 law suits pending that involved the Gucci family. At one court meeting an advocate was head to say, 'Here we have to save Gucci from the Guccis.' In the Gucci world of shifting alliances, Maurizio's plan to ally with Paolo was short lived. Paolo, always quick to spot treachery, concluded that Maurizio was out to cheat him, and determined to teach him a lesson. Again, whistle-blowing was his preferred instrument of revenge: Paolo proceeded to send photocopies of documents to tax authorities showing how Maurizio had diverted funds to evade taxes. The repercussions were immediate, and the authorities came with arrest warrant. Maurizio was hauled in front of a court in Milan and found guilty of tax fraud, for which he was given a suspended jail sentence. There was also a large bill to pay of millions in taxes and fines.

## THE FINAL CURTAIN

Maurizio, facing mounting pressure on his personal finances, dreamed up a plan that would ease his personal situation, secure the ousting of the other branch of the family and create a platform to rebuild the business. His scheme was to find a financial partner to buy out the shares owned by his cousins. Supported by Gucci's new partners, Investcorp, he succeeded in buying the shares of Roberto and Giorgio, leaving Aldo with his 17 per cent stake. To Aldo it became clear that he could no longer exercise any power. He had little option but to follow his son's lead and to sell out. Shortly there-after in January 1990 Aldo, a spent man, passed away at the age of 84. Paolo, his maverick son, died bankrupt a few years later in 1995 of liver disease.

Meanwhile, under Maurizio's management, the company's strategy had been refocused on luxury products and sales had started to decline, while a profligate approach to expenses led to a slide in profits. Maurizio's plan to buy out his partners, Investcorp, was heading nowhere as his credibility began to crumble. With the company ever more deeply into the red, his financial investors concluded that Maurizio was ineffective as a business manager, and moved to buy out his 50 per cent share. Maurizio, his own finances in poor shape, was forced to concede, thus ending the Gucci family dynasty.

The troubles for the Guccis were not at an end, and there was a dramatic postscript. Maurizio's ex-wife Patrizia was angered to learn that her husband had deprived her children of their heritage by selling his stake. Maurizio, now living with his new partner Paola, moved against Patrizia, serving her with divorce papers, ordering her to stop using the Gucci name and banning her from entering the family estates. Patrizia, who had been diagnosed with suspected cancer, was deeply hurt by Maurizio's hostility. When she had been in hospital, recovering from a successful operation to remove a benign tumour, Maurizio had not even taken the trouble to visit her. At that point Patrizia vowed to destroy her ex-husband, jealous of his self-indulgent lifestyle. She wanted nothing less than his life, and she started looking for a hit-man to terminate his existence. On 27 March 1995, a hired killer shot Maurizio on his way to his office. Patrizia was eventually arrested and tried for the murder of her ex-husband. She was found guilty and sent to prison for a sentence of 29 years.

## COMMENT

Thus did the curtain close on the Gucci family dynasty – European in location but pure Hollywood in plot line. It is a story that illustrates several key truths. Number one is the truth about character. The gene lottery means that sometimes it can occur that people with street fighting instincts are all vying for the same space in a family. If people do not manage their weaknesses, they will destroy them. Second, bad blood breeds bad blood. The sins of the parents are inherited by the children if there is no moderating or regulating force within a family, a role often played by spouses. But here two generations were fighting personal and

proxy wars simultaneously. Third, they say revenge is a dish best eaten cold. Here it was hot and calculated to burn people at every turn. The only possibility is escalation.

What could have been different? Failings in parenting and leadership abounded here, which could have been curbed or compensated for. The abundance of money only acted as a turbocharger for people's need and greed. Concepts such as love, loyalty, forgiveness and charity were entirely absent, and needlessly so. This was a great business, built with care by a family. It was worth loving and nurturing as a collective project from which all could gain.

Again and again in these sad sagas of family feuds we see people with their eyes fixated on their narrow self-interest, not the commonwealth that could save and support them all.