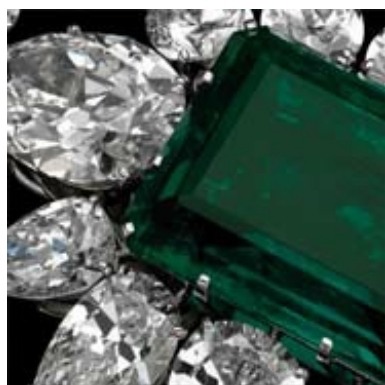


LEGAL/PRIVACY

Why Bulgari's legal issues will not damage its reputation

March 15, 2013



By ERIN SHEA

LVMH's Bulgari had its assets seized by Italy's Guardia di Finanza for alleged tax evasion, but this setback is not likely to permanently destroy the brand's reputation, experts say.

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The company's assets were seized by Italian tax police after it allegedly declared fraudulent earnings and evaded tax payments of approximately \$4 billion during the time from 2006 to 2011. Approximately \$59 million worth of assets from executives have been detained for the alleged tax evasion and, although the details of the situation and the truth have yet to be brought to light, this is not likely to do permanent damage to the Bulgari brand.

"It certainly is not going to destroy the brand," said Al Ries, founder and chairman of **Ries & Ries**, a Roswell, GA-based marketing strategy consultancy. "Many consumers are sympathetic to tax avoiders because they feel the tax laws are unfair.

"I suspect the Bulgari story will drag out for many years and not become really resolved," he said.

"If so, the brand should survive relatively intact."

Foreign dealings

Bulgari executives allegedly reallocated approximately \$4 billion of the Rome-based brand's revenue into subsidiaries outside of Italy to avoid paying the higher Italian tax rates. This included subsidiaries in Switzerland, the Netherlands and Ireland, according to [Bloomberg](#).

Italian tax police seized real estate including a store in Rome's Via dei Condotti, life insurance policies and corporate investments that were traceable to Bulgari executives totaling approximately \$60 million.



Bulgari store

The authorities named brothers Paolo and Nicola Bulgari, who serve as chairman and vice-chairman of Bulgari, respectively, and lawyer Valentini Maurizio in the investigation.

Bulgari issued a statement about the allegations March 14.

The statement described the issue and said that certain top managers and directors of Bulgari had been notified before the precautionary seizure by the Italian tax police.

"The company reminds that the foreign companies at issue that were defined as fictive are real and genuine companies performing an undisputable strategic role for the group and employing about 300 employees of various profiles," the statement said.

"Therefore, the claims that are made are unfounded, which will be demonstrated before the competent authorities," it said.

Also, the statement makes a point that certain media were informed of the seizure before it was notified to the Bulgari employees involved. The company explains that it believes this was a breach of legal rights and said that it will seek retribution.

No damage done

While the details are still being sorted out, which could take a significant amount of time, the brand is not likely to lose value.

Many consumers may even sympathize with the brand.

"Italy is a legal mess," Mr. Ries said.

“Sure, tax avoidance is common among wealthy Italians,” he said. “On the other hand, the tax laws are so confusing that many people cannot avoid breaking the law.”

Many of Bulgari’s affluent consumers may even find it easier to side with the brand because they understand the pains of being watched by the government.

“There are some places where part of living a privileged life includes being watched closely by the government,” said Chris Ramey, president of **Affluent Insights**, Miami.

“Clients and best prospects will watch this unfold with a sense of empathy rather than disdain,” he said.

Although Bulgari may be getting some negative attention now, the increased awareness will not affect the brand and its parent company LVMH one way or the other.

“Italy is known for its overreaching corporate laws,” Mr. Ramey said.

“Although it is a hassle for the organization, it will have little long-term effect on the Bulgari or the LVMH customer,” he said.

“In the long run, it will not damage the brand.”

Final take

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