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Value investment strategies based on the company's marketing characteristics: Taking the Luxury Industry as an Example

Sitong Liu. [1] **Xiaohan Ni**[2]

Newcastle University, Newcastle, NE1 7RU, United Kingdom

Abstract:

In recent years, the marketing of the luxury industry has developed rapidly, and luxury investment based on value pursuit and spiritual pursuit has gradually risen. However, traditional value investment strategies ignore the impact of corporate marketing on corporate valuation, let alone pay attention to the new changes in the development of the luxury industry. In this context, this paper first studies the development trend of value investment strategy in the Internet era and explores the key factor of corporate marketing; secondly, the luxury industry as an example to explore the necessity of updating the value investment strategy of the luxury industry, and finally analyzes the marketing characteristics of the luxury industry and proposes the value investment strategy of the luxury industry based on the company's marketing characteristics. The basic principle is to calibrate the company's valuation through the marketing characteristics of digital enterprises and then invest concerning the principles of traditional value investment strategies to obtain returns.

Keywords: Corporate Marketing Methods; Luxury Industry Corporate; Value Investing

1. Value Investing Strategies

1.1 Value investment strategy

The value investing strategy was constructed by Benjamin Graham and David Dodd [1]. It essentially refers to finding stocks in the market that are intrinsically undervalued and holding them long-term. Warren E Buffett Lawrence A. Cunningham[2]applied the value investment strategy to practice and found that when the stock price is much lower than its intrinsic value, the stock has a large margin of safety, and investors can obtain higher returns with less risk by buying it. In general, the core points of value investment thinking mainly include the estimation of the intrinsic value of the company's stock because the stock is the company's future income distribution right, the emphasis on the margin of safety, which is the deviation of the market value from the intrinsic value, and its essence is the fault tolerance space, which represents the risk taken by investors, and the use of "Mr. Market", which controls the overall trend of stock price fluctuations.

Since Benjamin Graham proposed the value investing strategy, the idea of value investing has continued to evolve and improve. Different investors quantify the intrinsic value of stocks from different emphases: Harry M. Markowitz [3] assumes that the return on risk assets conforms to a normal distribution and finds that the portfolio can reduce variance and diversify risk through the "mean-variance" model so as to construct an effective asset portfolio. Stephen A. Ross[4] believes that the price of a security is closely related to a risk factor and that the risk factor can explain the return on the security, which is known as the Arbitrage Pricing Theory Eugene Fama and Kenneth French [5] divide the market into value stocks based on B/M, E/P, D/P and growth stocks based on C/P standards. However, they all agree that the intrinsic value of stocks reflects the company behind them, and investors should choose stocks to invest within the margin of safety they can afford.

1.2 Value investment strategy based on the company's marketing characteristics

In quantitative investment research, previous scholars have not only laid the theoretical foundation of the efficient market hypothesis, the capital asset pricing model, the arbitrage pricing theory, etc. but also deeply studied the various factors that affect the asset price in the market. However, in modern enterprise development, brand marketing is gradually valued and utilized, and good brand marketing can even enhance the company's value [6]. Louis Vuitton, for example, has been spending 9,602 million euros on advertising and marketing since 2008, with 63% of respondents knowing Louis Vuitton's name and potentially influencing their purchase behavior, becoming a medium influence on Instagram in the first half of 2023The second largest brand with sales of $554.6 million.

From the perspective of corporate marketing and corporate value: firstly, marketing behavior intuitively shows the ambition and strategy of enterprises to pursue value enhancement to consumers and investors[7]; secondly, active marketing can quickly attract consumers, expand the influence of products and services, increase market share, and increase corporate revenue[8]; finally, corporate marketing behavior is the cultivation of market direction and customer maintenance ability, which will be used as an intangible asset of enterprises to help enterprises to differentiate products faster and better, and enhance enterprise value[9].

Therefore, the marketing characteristics of a company are an important factor that affects its performance. Formulating a value investment strategy based on the company's marketing characteristics can help investors better grasp investment opportunities, reduce risks, and achieve long-term stable investment returns. However, investors must also fully consider factors such as market environment, industry competition, and personal risk appetite when choosing investment targets and formulating investment strategies to ensure the scientificity and rationality of investment decisions.

2. Value investing strategies for the luxury sector

2.1 Luxury industry

As an important part of the global economy, the luxury industry has always been known for its high-end positioning, high-quality products, and unique brand culture. The global economic situation, consumer demand, and market trends influence the development of the luxury market. With the continuous growth of the global economy and the improvement of consumption levels, the luxury market has shown a steady growth trend, and the sales revenue of the global luxury market will reach about 1.5 trillion euros in 2023, a year-on-year increase of about 10%. As the world economy continues to evolve, research on luxury goods and luxury brands has received much attention in academia and practitioners [10]. The definition of luxury is also quite different from the past, i.e., it is now more focused on customers' subjective feelings and personal needs [11]. Cabigiosu divides luxury goods into three categories according to the sales market: inaccessible luxury goods, medium luxury goods, and affordable luxury goods, which correspond to different target customers. This pyramid classification also points to the problem that the more products are at the bottom of the pyramid, the greater the pressure and risk, and the easier it is to be eliminated due to other factors.

2.2 Value investing strategies for the luxury sector

On the one hand, the luxury industry plays an important role in growing economies and promoting the development of democracies. On the other hand, luxury goods are attracting the attention of many investors as a market full of opportunities and challenges。 However, as more and more consumers pursue luxury goods, conspicuous consumption is widely known. More and more people want to reap the benefits of investment, including the desire to use luxury goods to enhance their reputation and prestige to achieve inner self-satisfaction and spiritual comfort [12], this phenomenon is a stage that must be experienced in the development of luxury goods.

Over the past few decades, the luxury industry has experienced rapid growth and change, attracting the attention of many investors. The ever-changing global market also brings challenges and opportunities to the luxury business. Although the trend of younger and more popular luxury consumption in recent years has expanded the customer base, inflation, political turmoil, changes in consumer consumption patterns, and the emergence and use of digital marketing will all have an impact on the development of luxury goods in the context of greater economic uncertainty and risk [13]. Coupled with the intensification of competition within the industry and the tightening of external regulatory standards, luxury companies need to constantly innovate and improve their competitiveness to adapt to changes in the market and demand. Loeb [14] pointed out in the research report that due to the increase in costs, the price increase is between 6% and 18%, and the current attitude of customers towards the increase is positive. Still, the attitude is uncertain in the future. Such uncertainties and risks make it difficult for investors to obtain investment returns in the luxury industry.

In short, the particularity and complexity of the industry may lead to continuous change in the value of luxury companies, and the traditional value investment strategy will make investors face many challenges when choosing investment targets and formulating investment strategies.

3. A value investment strategy for the luxury industry based on the company's marketing characteristics

3.1 Marketing characteristics of the luxury industry

Luxury companies have unique marketing characteristics in the market competition, which not only affect the company's brand image and market position but also directly affect investors' decision-making and return on investment. The marketing characteristics of the luxury industry are mainly divided into brand building, pricing strategy, and channel management.

3.1.1 Brand Building

Luxury companies focus on brand building, creating a unique brand image and values through expensive and unique brand culture, historical heritage, and product design to attract consumers' attention and recognition[15]. From the perspective of the trade-off effect of positioning, a luxury company's choice of a positioning model at the end of the product line means that it will inevitably abandon the positioning model of mass customers. Suppose you want to pursue higher sales revenue and profits and meet the needs of as many customer groups as possible. In that case, this will erode your brand image and competitive advantage. Excellent brand building enhances the company's market position and competitiveness and brings investors a stable return on investment. Bian and Forsythe [16] argue that the socially functioning attitudes of luxury brands can positively impact consumers' purchase intentions. At the same time, Albert and Merunka's study explores the co-creation meaning between consumers and luxury brands, emphasizing the importance of consumer participation in brand meaning-making.

3.1.2 Pricing Strategy

The marketing of luxury companies subverts the "4C" theory. It adopts high-end positioning and high-price strategies, which are not only to maintain the uniqueness and scarcity of products, attract high-end consumers, and increase the added value of products but also to meet the needs of luxury business strategies[17,18]。 However, due to the increasingly fierce competition in the luxury industry for traditional luxury goods, it is possible to create greater consumer demand by extending and expanding the brand to create a multi-gradient price space. An excellent pricing strategy drives the company's profitability and market share and brings investors a significant return on investment.

3.1.3 Channel Management

Luxury goods companies are building their channels and partnerships to expand their sales channels and improve the quality of their services to meet consumer demand and enhance brand loyalty. Excellent channel management improves the company's sales efficiency and market coverage and brings investors stable investment returns. With the rise of social media, Hughes et al. [19]and other studies found that social and social media influencers can help increase consumers' luxury purchase intentions through communication and recommendations. Atwal and Williams[20] examine a strategic approach to marketing through luxury offline store experiences. Research by Chapman and Dilmperi[21] shows that luxury brands can effectively add value to their products by providing their customers the highest level of engagement through the unique experiential service content of online brand communities.

3.2 A value investment strategy for the luxury industry based on the company's marketing characteristics

In the empirical study, the company's marketing behavior is usually measured by the ratio of the company's annual sales expenses to the company's total assets in the current year [22]. Lu Gang et al. [23] used China's A-share listed high-tech private enterprises to construct their business databases as a sample. They confirmed a positive correlation between marketing behavior and corporate value and that corporate marketing behavior can eliminate part of the losses caused by expanding management power to the company's value. However, the luxury industry is different from other industries in that luxury goods pay more attention to matching consumers' self-consciousness and have a higher sense of coldness [24]. Therefore, identifying and measuring the marketing characteristics of companies in the luxury industry should mainly collect a large amount of data for comprehensive analysis. This data may be derived from the company's official website, annual reports, sales channels, marketing frequency on major social platforms, and information published through other channels. Specifically, investors can collect information such as brand logos, product images, and product descriptions through the company's official website or third-party platforms, analyze the visibility and prominence of the brand logo, and use this as a basis to judge the brand architecture strategy (Laforet and Saunders, 1994; Rao et al., 2004), and on the other hand, based on the financial position disclosed in the company's annual report, further confirming the relationship between the luxury brand and the industry average (Rao et al., 2004; Hsu et al., 2016). Based on comprehensive analysis, the marketing characteristics of luxury companies are quantitatively analyzed.

The traditional enterprise valuation methods are the cash flow discount method, the relative valuation method, and the asset valuation method. However, the value enhancement brought by corporate marketing in the traffic era has not been considered, and some new valuation models have emerged. Most of these valuation models estimate the company's sales revenue and future cash flows, then connect with absolute valuation methods. Specifically:

Metcalfe's law, the externality of the network is such that the value of the network grows faster than the square of the number of users, where K is the market value coefficient and N is the number of users;

P/U (Market Cap to User Traffic) method, although it is not yet accepted in the industry;

Zeng Liqing's law states that the quality of network information is related to the distance between nodes, where K is the market value coefficient, N represents the number of users, and R represents the contact time, speed, interaction, and content generated between users.

Based on the company's preliminary valuation, the company's marketing data can be coupled to carry out a value investment strategy in the luxury industry based on the company's marketing characteristics. Specifically, investors believe that the market occasionally overreacts to luxury goods, causing them to price below their intrinsic value, and buying these undervalued luxury goods within a sufficient margin of safety allows the investor to reap the benefits when they regain their true value in the future.

4. summary

Investment in the luxury industry is an expression of rapid economic development and a spiritual pursuit of self-satisfaction and psychological comfort for consumers. However, in the context of political turmoil, the rise of digital marketing, and fierce competition in the industry, traditional value investment strategies not only ignore the impact of corporate marketing on corporate valuation but also ignore the characteristics of marketing in the luxury industry in terms of historical inheritance, price gradient, and channel management. Therefore, under the new development pattern, the value investment strategy of the luxury industry based on the company's marketing characteristics is of great significance. Only by collating and quantifying the marketing characteristics of the luxury industry through multi-channel data and using the new enterprise valuation method to connect with the absolute valuation method to re-determine the enterprise value can investors make the right choice, build the right value portfolio strategy, avoid risks and improve returns.

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