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**LUXURY TRENDS,
HIGH NET WORTH
INDIVIDUALS &
THE FERRARI CASE**

Relatrice

Ch.ma Prof.ssa Anastasia Giakoumelou

Laureando

Christian Morinelli
Matricola 903946

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摘要 ABSTRACT

本论文旨在全面探讨奢侈品行业的演变与转型，并以法拉利这一代表性品牌为案例，结合理论阐述、财务数据与市场评估，进行系统性分析。

全球奢侈品行业是当代经济体系中最具活力与韧性的领域之一，持续受到文化变迁、技术创新以及消费预期演进的影响。奢侈品的概念最初源于传承、工艺与独特性，如今已不断拓展，涵盖多样化的消费形式，并逐渐适应不同世代与全球市场的多元需求。

本研究重点分析了不同关键因素，其中包括社交媒体的作用、可持续发展理念，以及 ESG（环境、社会与治理）原则的崛起。此外，消费模式也正从以产品为中心的导向，转向体验与参与的互动形式。同时也观察了年轻消费者的消费特征、电子商务的发展，以及定制化、二手奢侈品、人工智能与 NFT 等数字化创新所带来的新兴消费趋势。

本论文特别关注高净值人群（HNWIs），尤其是中国市场。通过分析该群体的心理特征、消费行为与投资偏好，结合中国经济的快速发展，展现其在塑造奢侈品行业未来的关键作用。

在案例研究部分，论文从多个角度分析了法拉利的发展战略，涵盖可持续发展、利益相关者管理与公司治理等，并结合传统与替代性财务评估进行分析。通过情景预测方法，对法拉利至 2030 年的出货趋势进行预测，进一步解析其在全球市场中的战略定位。

综上所述，本论文通过宏观行业视角与微观案例研究的结合，深化了对文化变革与财务战略在奢侈品行业演进中如何交织互动的理解，并为品牌在面对挑战与机遇时的韧性与适应力提供有价值的参考。

The purpose of this thesis is to provide a comprehensive understanding of the luxury industry and its transformation, while also offering a focused analysis of Ferrari as a representative case within this sector, by combining theoretical perspectives with financial and market-based evaluations.

The global luxury industry represents one of the most dynamic and resilient sectors of the economy, constantly reshaped by cultural shifts, technological innovation, and evolving consumer expectations. Once rooted in heritage, craftsmanship, and exclusivity, the concept

of luxury has progressively expanded, embracing new forms of consumption and adapting to the aspirations of diverse generations and markets worldwide.

Particular attention is devoted to key drivers such as social media, sustainability, and ESG principles, as well as to the shift from product-centered consumption to experiential engagement. The study also examines the influence of younger generations, the rise of e-commerce, and new consumption models, including customization, second-hand luxury, and digital innovations such as artificial intelligence and NFTs.

A central focus is placed on High Net Worth Individuals (HNWIs), with a specific emphasis on the Chinese market. Their psychological profiles, consumption patterns, and investment preferences are analyzed in relation to China's rapid economic growth, underlining their pivotal role in shaping the future of the luxury sector.

The case study of Ferrari integrates policy analysis, covering sustainability, stakeholder management, and governance, with financial evaluation through traditional and alternative valuation metrics. A scenario-based forecast of Ferrari's shipments to 2030 further illustrates the company's strategic positioning in the global market.

By combining a macro-level industry overview with a micro-level case study, this thesis contributes to a deeper understanding of how cultural shifts and financial strategies intersect in the evolution of luxury, offering insights into the resilience and adaptability of iconic brands.

引言 INTRODUCTION

2018 年，全球奢侈品市场总价值接近 1.2 万亿欧元，其中奢侈汽车和个人奢侈品合计约占三分之二，凸显了该行业在经济与文化层面的重要地位。

尽管学界和业界对奢侈品领域已有广泛关注，但相关研究仍较为分散，缺乏对行业结构转型与企业层面动态的系统性分析。目前文献多聚焦于奢侈品消费趋势或企业财务表现的单一方面，鲜有研究能够有效结合理论视角与企业实际经营。本文旨在弥补这一不足，通过对奢侈品行业整体格局与法拉利这一典型品牌的深入剖析，探讨全球变革如何影响企业战略选择与财务表现。

因此，本研究主要针对三方面：首先，探讨奢侈品市场的增长路径及转型动力；其次，分析高净值人群（HNWIs）的消费行为，尤其关注中国市场状态；最后，结合财务与战

略分析方法，评估法拉利在不断变化的奢侈品行业中的市场定位。研究方法上，本文综合运用了学术文献的理论框架，以及市场报告、企业公开信息和财务报表等二手数据。同时，通过情景分析对法拉利未来出货趋势进行预测，进一步探讨其发展前景与战略方向。

论文首先系统梳理奢侈品市场，涵盖其结构特点、历史演变及细分市场发展脉络。特别关注推动行业发展的关键因素，包括社交媒体兴起、可持续发展理念普及以及 ESG（环境、社会与治理）原则的广泛应用。同时，分析奢侈消费模式的演变，由以产品为核心的传统购买行为，逐步转向更具体验感的参与式消费。为展现奢侈品的多样化特征，本章还探讨了“轻奢”（masstige）、原产地效应及性别消费偏好等议题。

第二章深入研究塑造行业的新范式。具体探讨重塑奢侈品行业的主要趋势与前景，包括世代群体影响力提升、电子商务快速发展，以及新冠疫情对消费者行为的深远影响。此外，本章还分析定制化、二手奢侈品市场与工艺复兴等现象，并关注人工智能、增强现实和 NFT 等数字技术如何日益融入奢侈品牌战略。

随后，研究重点聚焦高净值人群（HNWIs）及中国奢侈品市场，分析富裕及超高净值消费者的特征、心理及消费习惯，以及其投资偏好。同时，探讨中国经济快速发展与奢侈品行业的紧密联系，凸显中国消费者在全球奢侈品格局形成中的重要影响力。

第四章聚焦奢侈品财务层面，回顾传统与替代性的绩效评价指标。内容涵盖净利润、投资回报率（ROI）、息税折旧摊销前利润（EBITDA）、贴现现金流、市场倍数及经济增加值（EVA）等多种高级估值方法，全面考察企业绩效的评估工具。同时，分析传统会计方法的局限，强调技术创新在重塑行业估值体系中的关键作用。

最后，论文以法拉利这一汽车奢侈品领域的标志性品牌为案例，奠定理论分析基础。内容涵盖法拉利在可持续发展、利益相关者管理及公司治理方面的政策介绍，并结合多种估值指标对其财务表现进行深入分析。特别着重法拉利的出货量及其在中国市场的扩展，利用悲观、现实和乐观三种情景，对其至 2030 年的交付量进行量化预测，进一步说明其在全球市场中的战略定位。

The global luxury industry represents one of the most dynamic and resilient sectors of the economy, constantly reshaped by cultural shifts, technological innovation, and evolving consumer expectations. Once rooted in heritage, craftsmanship, and exclusivity, the

concept of luxury has progressively expanded, embracing new forms of consumption and adapting to the aspirations of diverse generations and markets worldwide. In 2018, the global luxury goods market was valued at nearly EUR 1.2 trillion, with luxury cars and personal luxury goods together accounting for two-thirds of the total, underscoring the significant economic and cultural relevance of this sector.

Despite the extensive academic and managerial attention devoted to luxury, there remains a need for integrated studies that connect the industry's structural transformation with detailed company-level analysis. Much of the existing literature treats the evolution of luxury consumption or the financial performance of luxury firms separately, while fewer studies combine these perspectives in a way that highlights both theoretical frameworks and concrete business practices. This thesis seeks to address this gap by analyzing the luxury industry in general and Ferrari in particular, positioning the company as a representative case to illustrate how global trends interact with corporate strategies and financial outcomes.

Accordingly, the purpose of this work is threefold: first, to examine the drivers of growth and transformation in the luxury market; second, to analyze the consumption patterns of High Net Worth Individuals (HNWIs), with a special focus on the Chinese market; and third, to apply financial and strategic evaluation tools to the case of Ferrari in order to assess its positioning within the evolving landscape of luxury. Methodologically, the thesis combines theoretical perspectives from academic literature with secondary data from market reports, company disclosures, and financial statements. In addition, forward-looking projections of Ferrari's shipments are developed using scenario analysis to provide insight into potential future developments.

This thesis begins offering a comprehensive overview of the luxury market, examining its structure, historical development, and segmentation. Particular attention is devoted to the drivers of growth, including social media, sustainability, and ESG principles, as well as to the transformation of luxury consumption, from traditional product-centered purchases to increasingly experiential forms of engagement. Issues such as masstige, country-of-origin effects, and gender segmentation are also addressed to highlight the multiple dimensions through which luxury can be understood and redefined.

The second chapter investigates the evolving paradigms shaping the industry. It explores the trends and forecasts that are redefining the sector, including the growing influence of generational cohorts, the rise of e-commerce, and the impact of the Covid-19

pandemic on consumer behavior. It also examines the role of customization, the second-hand luxury market, the revival of craftsmanship, and the disruptive influence of the digital era, where artificial intelligence, augmented reality, and NFTs are increasingly integrated into luxury strategies.

Further on, the work narrows the focus to High Net Worth Individuals (HNWIs) and the Chinese luxury market. This part analyzes the profile, psychology, and consumption patterns of wealthy and ultra-wealthy consumers, as well as their investment preferences. Furthermore, it explores the relationship between China's rapid economic growth and its luxury sector, underlining the importance of Chinese consumers as key players in shaping the global luxury landscape.

The fourth chapter shifts to the financial dimension of luxury, reviewing both traditional and alternative performance metrics. From net income, ROI, and EBITDA to advanced valuation approaches such as discounted cash flow, market multiples, and EVA, this section examines the tools available to assess company performance. It also considers the limitations of conventional accounting practices and highlights how technological innovation is redefining valuation frameworks in the industry.

Finally, it provides the theoretical foundation for a case study on Ferrari, one of the most iconic luxury brands in the automotive sector. This section outlines Ferrari's policies on sustainability, stakeholder management, and corporate governance, before analyzing its financial performance through multiple valuation metrics. Special focus is placed on Ferrari's shipments and its expansion in China, with a quantitative forecast of deliveries up to 2030 developed under three scenarios: pessimistic, realistic, and optimistic.

1. THE GLOBAL LUXURY MARKET: STRUCTURE, GROWTH, AND SEGMENTATION

1.1 A FIRST OVERVIEW OF LUXURY WORLD

A recent study estimates the value of the global luxury market at approximately US \$265 billion at wholesale or corporate value (Lu, 2010). The luxury industry encompasses the production and sale of automobiles, yachts, clothing, footwear, premium alcoholic beverages, jewelry, watches, perfumes, cosmetics, and personal care products. (Deloitte, 2019, as cited in Młody, 2020).

In 2018, the global luxury goods market reached a value of nearly 1.2 trillion EUR, with two-thirds of this figure attributed to luxury cars and personal luxury goods. The sector experienced a 5% growth that year, showing positive performance across most luxury segments. By 2025, the personal luxury goods market is projected to grow at an annual rate of 3%–5% (Bain & Company, 2019, as cited in Młody, 2020). Luxury car sales continue to dominate the market, increasing by 5% year-on-year from 471 billion EUR in 2017 to 495 billion EUR in 2018 (Michał Młody, 2020).

In particular, according Chobe (2023, as cited in Młody, 2020) the luxury car market has long been a highly profitable industry, largely driven by brand image and prestige. In recent years, there has been a notable shift towards electric and hybrid luxury vehicles as consumers become increasingly environmentally conscious. In response, luxury car manufacturers have invested heavily in research and development to create high-performance electric vehicles that rival traditional gasoline-powered models. Additionally, there is growing demand for advanced safety features and cutting-edge technology, including self-driving capabilities. As the market continues to evolve, it will be fascinating to see how luxury car manufacturers adapt to meet consumers' changing needs and preferences.

As regards personal luxury goods instead, it has been found that this product category outpaced other luxury categories with a 6% rise, reaching a record value of 260 billion EUR. Growth has also been observed in luxury cruises, hospitality, fine wines and spirits, and high-end furniture, while private jets saw a 3% decline. Other categories have remained stable. Bain & Company (2019, as cited in Młody, 2020) predicts strong growth in apparel, leather goods, footwear, accessories, jewelry, watches, fragrances, and cosmetics.

The personal luxury goods market has expanded across most global regions, with Europe leading sales (32%), followed by the Americas (31%), Asia (including mainland China), Japan (8%), and the rest of the world (5%) (Michał Młody, 2020).

1.2 LUXURY THROUGH THE YEARS

The concept of luxury has deep historical roots. In the great civilizations of the ancient world, luxury goods were closely linked to wealth, exclusivity, and power, as well as the fulfillment of non-essential needs. In ancient Greece, indulging in luxury (*tryphé*) was viewed as a potential threat to society, as excessive pleasure was believed to divert citizens attention away from public affairs and toward private life. Similarly, the Romans assigned an ambiguous, often negative, meaning to luxury. According to the *Oxford Latin Dictionary*, the term "luxury" derives from the Latin *luxus*, meaning "soft or extravagant living, opulence, and sumptuousness," and is related to *luxuria*, which conveys notions of excess and self-indulgence (Dubois et al., 2005, as cited in Alessandro Brun, 2013).

Throughout the centuries, the perception of luxury evolved. The term became more associated with the Latin root *lux*, meaning "light," and referred to precious objects such as gold and gemstones, crafted for royalty and church dignitaries. However, until the 14th century, the concept of luxury still carried negative connotations among the general population. It was only with the rise of the bourgeoisie in Europe that luxury began to be linked to "sumptuous surroundings" that enhanced comfort.

The transformation of luxury into a symbol of wealth and refined living helped extend its appeal beyond the aristocracy. By the late 19th century, the Second Industrial Revolution solidified the modern interpretation of luxury as "the habit of indulging in something rare or expensive" or "an enjoyable or comfortable experience beyond basic needs." This shift led to various interpretations of luxury, including its role as a status symbol, a form of personal indulgence, and a marker of leisure time (Okonkwo, 2007, as cited in Alessandro Brun, 2013).

The modern luxury goods industry emerged in 19th-century Europe. Following the Industrial Revolution, visionary entrepreneurs founded companies specifically to create exceptional products for the elite of the time. Before this period, luxury items were handcrafted by local artisans and sold primarily within regional markets. However, as industrial production required higher volumes and local demand was limited, these

companies expanded their reach beyond national borders, laying the foundation for today's global luxury brands (Antoni et al., 2004, as cited in Alessandro Brun, 2013).

The expansion of business in the 20th century further broadened the luxury market, elevating well-established brands through their reputation for outstanding quality. Initially, products were considered luxury items due to their superior craftsmanship, durability, and design. However, today, brand image plays a crucial role in a company's success in the luxury market, with emotional engagement becoming increasingly significant. Modern consumers seek products that offer high-quality performance and flawless precision while also desiring an immersive and memorable shopping experience (Alessandro Brun, 2013).

1.3 WHAT IS LUXURY?

The concept of luxury has its shades according to whom defines it. There are academic definitions, experts definitions, but what really matters are the factors that define goods 'luxury' goods.

Luxury goods are not just consumed for their intrinsic value but as a means of signaling wealth and status (Veblen, 1899, as cited in Alessandro Brun, 2013). While Ng (1987, as cited in Alessandro Brun, 2013) emphasizes that luxury goods are valued for their high price, others argue that price alone is not enough to define luxury (Prendergast et al., 2000; Dubois & Czellar, 2002, as cited in Alessandro Brun, 2013). Instead, luxury goods combine high cost, exceptional quality, and exclusive distribution channels (Kapferer, 2001; Vigneron & Johnson, 1999, as cited in Alessandro Brun, 2013). Luxury brands are also distinguished by their strong brand identity, craftsmanship, and emotional appeal (Quelch, 1987, as cited in Alessandro Brun, 2013). Phau & Prendergast (2000, as cited in Alessandro Brun, 2013) highlight that exclusivity, brand recognition, and customer loyalty are key factors. Luxury goods should be easily recognizable and integrate into a consumer's lifestyle.

Reddy & Terblanche (2005, as cited in Alessandro Brun, 2013) categorize luxury brands into symbolic luxury brands (valued for status and lifestyle, e.g., Louis Vuitton) and functional luxury brands (valued for performance, e.g., Porsche). However, beyond branding, perceived value through superior design, materials, and craftsmanship remains essential (Hanna, 2004, as cited in Alessandro Brun, 2013).

Another crucial aspect of luxury is prestige, uniqueness, and exclusivity (O’Cass & Frost, 2002; Kapferer, 2001, as cited in Alessandro Brun, 2013). Wetlaufer (2001, as cited in Alessandro Brun, 2013) describes a successful luxury brand as timeless, modern, fast-growing, and highly profitable, though maintaining this balance is challenging. Due to its exclusivity, the luxury market requires specialized management strategies beyond traditional marketing (Beverland, 2003, as cited in Alessandro Brun, 2013).

Antoni et al. (2004, as cited in Alessandro Brun, 2013) highlight three essential factors that contribute to success in the luxury market: excellence, brand aura, and desirability. Excellence is defined by the superior quality of luxury products and services, which justifies their high price. Brand aura develops through consistent excellence over time, enabling a brand to build a strong reputation and uphold a prestigious status; achieving luxury status requires a distinctive, legitimate, and recognizable identity. Desirability stems from a blend of strong aesthetic appeal that harmonizes modernity with tradition, premium pricing that reinforces exclusivity, and the rarity or uniqueness of the product. Since luxury is a subjective concept shaped by individual perceptions and values (Hanna, 2004, as cited in Alessandro Brun, 2013), its definition varies. However, common characteristics identified in various studies help outline a set of critical success factors (CSF) that define luxury products and influence competition in the market. Industry experts (e.g., Altgamma, 2008, as cited in Alessandro Brun, 2013) recognize that, in the absence of a universally accepted definition of luxury, the best approach is to pinpoint the key product attributes that luxury brands deem fundamental (Alessandro Brun, 2013).

Another perspective on defining luxury, in contrast to the ones discussed earlier, is luxury should not be conceptualized as a set of characteristics and attributes. Luxury should not be understood merely as a set of fixed characteristics or attributes. Instead, it should be examined in terms of its role across three key spheres: material, individual, and social. These spheres give rise to three dimensions of luxury: functional, experiential, and symbolic. Within this framework, luxury and utility are not opposing concepts but rather exist along a continuum, where each product or service occupies a different position based on context, market segment, and individual consumer preferences (Lockshin, 2015).

A further approach to defining luxury shifts the focus from identifying what distinguishes luxury products from ordinary ones to examining whether consumers purchase luxury items in the same way they buy regular products. If the purchasing mechanisms are

similar, marketers could apply strategies commonly used for mainstream brands to enhance the performance of luxury brands. For instance, they could prioritize market penetration over purchase frequency and work to strengthen both the physical and mental availability of the brand (Romaniuk & Sharp, 2015, as cited in Lockshin, 2015). This perspective relies exclusively on quantitative data. Overall, findings confirm that mental and physical availability are key drivers of sales success (Lockshin, 2015).

1.4 DRIVERS OF LUXURY

Consumers' persistent desire for luxury is primarily driven by the need for status, which encompasses respect, admiration, and social recognition. This need influences the way individuals select, use, and interpret status-related signals in the marketplace, whether through material goods, experiences, or knowledge. These signals, in turn, enhance the perceived status of those who possess them.

Recent research identifies three key factors that shape status-driven luxury consumption: biological, socio-psychological, and structural influences. From a biological perspective, studies by Nave et al. (2023, as cited in David Dubois, 2021) provide causal evidence that testosterone, a hormone linked to status-seeking behavior in both animals and humans, increases the desire for luxury brands. Their research found that men who received testosterone showed a stronger preference for luxury brands like Calvin Klein, while their interest in non-luxury brands of similar quality, such as Levi's, remained unchanged. Non-conventional studies highlight the interaction between biological and social factors in shaping luxury consumption. For example, male customers tend to purchase more expensive products when a physically dominant male employee is present, with this effect being more pronounced among shorter men or those with a high hand-digit ratio, a man indicator of lower testosterone levels. These findings align with the idea that evolutionary instincts and mating goals significantly influence consumers' purchasing behavior in the luxury market. Additionally, neuroscientific research suggests that the mere presence of another person can heighten female consumers' attention to luxury products. This is because the arousal state triggered by social presence enhances the emotional appeal of luxury items, making them more desirable (David Dubois, 2021).

Recent research has explored the connection between consumers' beliefs, personal goals, and their desire for luxury, particularly from a socio-psychological perspective. Studies by Kim et al. (2023, as cited in David Dubois, 2021) build on the idea that conservatives place a higher value on maintaining social status. Their findings suggest that individuals with conservative beliefs who also have a high socioeconomic status show a stronger preference for luxury brands and products. Additional research supports the notion that conservatives are drawn to luxury because it allows them to assert vertical differentiation within the social hierarchy and reinforce their belief in the legitimacy of this structure. In contrast, liberals tend to express their identity through non-hierarchical differentiation, favoring unique and creative consumption choices that are typically outside the luxury domain. Moreover, power dynamics influence luxury consumption patterns in different ways. Studies suggest that individuals with a greater sense of power develop a stronger need for uniqueness rather than assimilation to high-status groups. As a result, they exhibit a greater preference for experiential luxury over material luxury, as experiences provide a more effective way to satisfy their need for distinctiveness (David Dubois, 2021).

The consumer behavior has been further illuminated by the rise of big data from social media, online searches, and consumer interest tracking has provided new insights into how social and economic structures influence the desire for luxury. Studies show that higher income inequality makes people more sensitive to status symbols, increasing their interest in luxury brands. For example, research found that luxury brands like Louis Vuitton and Rolex were mentioned more often on social media in areas with greater income inequality, while everyday brands showed no such pattern. Another study on online searches revealed that in U.S. states with high income inequality, over 70% of the most common searches were related to luxury brands and jewelry, while in states with lower inequality, there were no status-related searches among the top 40 queries. Additionally, research on brand visibility found that in regions with greater income inequality, people searched for images of high-end brands more often than text-based information about them, suggesting a stronger focus on visual status symbols. However, this pattern did not apply to lower-end brands. These findings show how economic inequality fuels interest in luxury goods, as people seek ways to display their social status (David Dubois, 2021).

1.4.1 SOCIAL MEDIA

Over the past 30 years, luxury brands have seen significant global expansion, reaching an estimated \$1 trillion market value in 2018 (BCG-Altgamma, 2019, as cited in Joya A. Kemper, 2022). While nearly half of all luxury sales come from the U.S. and Europe, emerging markets, particularly in Asia, are growing at a much faster pace (Deloitte, 2019, , as cited in Joya A. Kemper, 2022). In 2019 alone, Chinese consumers drove 90% of global market growth, whereas sales in Europe increased by just 1% (Bain & Co, 2020, , as cited in Joya A. Kemper, 2022). As the digital “experience economy” continues to shape consumer culture (Lonsway, 2009, as cited in Joya A. Kemper, 2022), luxury brands have increasingly turned to social media to strengthen their brand image and engage with customers, particularly in Asian markets (Charoennan & Huang, 2018; Duan & Dholakia, 2018, as cited in Joya A. Kemper, 2022).

Asia currently leads the world in social media usage, with consumers spending the most time online (Digital Marketing Institute, 2018, as cited in Joya A. Kemper, 2022). As a result, social media has become a critical marketing tool for luxury brands (Francois, 2020, as cited in Joya A. Kemper, 2022), making it essential to understand its impact on consumer behavior. While much research has examined how social media influences consumer attitudes and purchasing decisions (Arrigo, 2018; Godey et al., 2016; Kim & Ko, 2012, as cited in Joya A. Kemper, 2022), there has been less focus on how consumers interact with luxury brands online and the broader implications of these interactions (Leban, Seo, & Voyer, 2020, as cited in Joya A. Kemper, 2022).

One key behavior is sharing luxury consumption experiences online, a fundamental aspect of digital marketing in the experience economy (Ordenes et al., 2019, as cited in Joya A. Kemper, 2022). Social media amplifies conspicuous consumption, enabling consumers to showcase their luxury purchases to a global audience without geographical limits (Duan & Dholakia, 2018; Lampel & Bhalla, 2007, as cited in Joya A. Kemper, 2022). This expanded reach allows people to share their purchases with a much larger audience. Studies indicate that consumers post about their luxury items on social media to project a sense of superiority (Vogel, Rose, Roberts, & Eckles, 2014, as cited in Joya A. Kemper, 2022) and enhance their social status (Lampel & Bhalla, 2007, as cited in Joya A. Kemper, 2022) (Joya A. Kemper, 2022).

1.4.2 SUSTAINABILITY

As global development accelerates, concerns about resource depletion, climate change, and unethical labor practices have intensified over the past decade across various industries (Vachon & Mao, 2008, as cited in Mislav Ante Omazic, 2023). Businesses now face increasing pressure from investors, consumers, and regulators to be transparent about their social and environmental impact (Martinez-Ferrero & Fras-Aceituno, 2013, as cited in Mislav Ante Omazic, 2023). As a result, concepts like corporate social responsibility (CSR), sustainability, and socially responsible investment (SRI) have gained significant importance worldwide (Kim, 2013; Branco & Rodrigues, 2007, as cited in Mislav Ante Omazic, 2023). Sustainability has become a key priority in modern business, requiring companies to conserve resources, minimize pollution, adopt ethical labor practices, and implement eco-friendly packaging and recycling initiatives (Dyllick & Hockerts, 2002; Johnson, 2009, as cited in Mislav Ante Omazic, 2023).

However, there is a fundamental tension between luxury fashion and sustainability (Achabou & Dekhili, 2013, as cited in Mislav Ante Omazic, 2023). Luxury is defined by exclusivity, craftsmanship, and heritage, whereas sustainability is centered on ethics and environmental responsibility. Luxury brands often emphasize handcrafted production, controlled distribution, and rarity, which seems at odds with concerns about working conditions and environmental impact. Despite enjoying high profit margins, the luxury sector, like all industries, is ultimately profit-driven and must compete in a dynamic market (Kapferer & Michaut-Denizeau, 2013, as cited in Mislav Ante Omazic, 2023). This raises the question of whether luxury brands can successfully integrate sustainability into their business models (Rahman & Yadlapalli, 2015, as cited in Mislav Ante Omazic, 2023). In fact, this is where the Sustainability Paradox comes into play: the challenge of making luxury fashion sustainable is complex.

On one hand, luxury exists to celebrate creativity and beauty, often requiring significant resources for the enjoyment of a privileged few (Godart & Seong, 2014; Rahman & Yadlapalli, 2015, as cited in Mislav Ante Omazic, 2023). Cost-efficiency is not a priority, as higher prices enhance a brand's prestige (Cais, 2021, as cited in Mislav Ante Omazic, 2023). In this sense, sustainability efforts could diminish the brand's allure, as some consumers equate

sustainability with mass-market accessibility rather than exclusivity (Achabou & Dekhili, 2013, as cited in Mislav Ante Omazic, 2023).

On the other hand, failing to adopt sustainable practices could harm a brand's reputation (Kapferer & Bastien, 2009, as cited in Mislav Ante Omazic, 2023). This has led many luxury brands to explore sustainable innovations that align with consumer expectations while maintaining their image. Looking ahead, the success of luxury brands will depend on their ability to merge sustainability with exclusivity. Encouragingly, consumer attitudes are shifting in favor of sustainable luxury, making it easier for brands to adopt eco-friendly practices without sacrificing desirability (Rahman & Yadlapalli, 2015, as cited in Mislav Ante Omazic, 2023). However, rather than copying mainstream sustainability efforts, luxury brands must develop unique, high-end approaches that set them apart from competitors (De Pierre Bruno & Barki, 2015, as cited in Mislav Ante Omazic, 2023).

Luxury also raises concerns about social inequality, as it symbolizes status and exclusivity, whereas sustainability promotes fairness and equal opportunities (Gardetti & Torres, 2015, as cited in Mislav Ante Omazic, 2023). This has led some to argue that luxury, by its nature, contradicts sustainability principles. However, research suggests that luxury consumers prioritize brand heritage over ethical concerns when making purchasing decisions (Davies et al., 2012; Alsop, 2006; Caruana, 1997; Ulmer, 2001, as cited in Mislav Ante Omazic, 2023). According to Osgood and Tannenbaum (1955, as cited in Mislav Ante Omazic, 2023), the more a consumer admires a luxury brand, the less they perceive ethical issues as problematic. From this perspective, luxury buyers do not necessarily view their purchases as conflicting with sustainability but rather as a means of self-expression, wealth display, and social status (Kastanakis & Balabanis, 2011; Troung & McColl, 2011; Veblen, 1899, as cited in Mislav Ante Omazic, 2023) (Mislav Ante Omazic, 2023).

Sustainable luxury is defined as a return to the essence of luxury, emphasizing thoughtful consumption, artisan craftsmanship, high-quality materials, and a commitment to social and environmental responsibility (Gardetti & Torres, 2015, p.4, as cited in Mislav Ante Omazic, 2023). Its goal is to generate a positive impact on both people and the planet (Girón, 2014, as cited in Mislav Ante Omazic, 2023). Sustainability focuses on respecting human rights, preserving natural resources, and ensuring long-term profitability without compromising the well-being of future generations. Therefore, it is essential to examine how effectively luxury fashion brands incorporate sustainability into their operations and to what

extent they align with key sustainability principles (Gazzola et al., 2020, as cited in Mislav Ante Omazic, 2023). Muratovski (2015, as cited in Mislav Ante Omazic, 2023) suggests that luxury brands, with their strong and aspirational image, have the potential to drive meaningful social change. Their influence could make them pioneers in sustainability, capable of shifting consumer preferences from a focus on exclusivity and status to a greater emphasis on ethical and environmental responsibility (Kapferer, 2010; Godart & Seong, 2015, as cited in Mislav Ante Omazic, 2023). However, historically, luxury brands have prioritized rarity, premium pricing, and superior quality, often viewing sustainability as irrelevant to their core values. In the past, only a few luxury brands unintentionally conveyed sustainable messages through their craftsmanship and longevity.

A significant shift, however, began in the mid-2010s, as consumer attitudes started evolving toward a more ethical and conscious mindset. With growing environmental awareness, modern consumers increasingly prioritize sustainability in their purchasing decisions, supporting brands that reflect their values and distancing themselves from those that do not (DiPasquantonio et al., 2021, as cited in Mislav Ante Omazic, 2023). Affluent consumers, in particular, have become more discerning about sustainability claims, leading to a trend that could expose companies engaging in greenwashing and accelerate genuine efforts to reduce environmental impact (Phan & White, 2022, as cited in Mislav Ante Omazic, 2023). At this turning point, luxury brands can no longer afford to overlook sustainability. The industry is now embracing a more holistic approach, recognizing that sustainability is not just a trend but a fundamental expectation among modern consumers (Mislav Ante Omazic, 2023).

1.4.3 ESG (ENVIRONMENTAL, SOCIAL AND GOVERNAMENTAL)

Luxury brands now recognize that corporate strategy and ESG strategy have become inseparable. By adopting Science-Based Targets Initiative (SBTi) methodologies, they are setting ambitious environmental goals, including reducing greenhouse gas emissions and defining a clear path for industry-wide decarbonization. Notably, luxury fashion houses have a long-standing history of environmental advocacy (KPMG, 2022, as cited in Mislav Ante Omazic, 2023).

Leading luxury brands are taking bold steps to cut GHG emissions and responsibly source materials, setting a new sustainability standard within the high-end market (Anderson, 2022, as cited in Mislav Ante Omazic, 2023). Many are exploring innovative supply chain solutions, minimizing travel, and leveraging digital advancements, such as virtual showrooms, to curb their carbon footprint. Additionally, they are actively collaborating on humanitarian initiatives, supporting fair trade, and implementing ethical business practices.

Beyond environmental efforts, luxury brands are also driving social change, advocating for fair wages, diversity, equity, and inclusion. Their initiatives focus on fostering cultural diversity, eliminating discrimination, and promoting ethical, socially responsible practices (Deloitte, 2020; KPMG, 2022, as cited in Mislav Ante Omazic, 2023) (Mislav Ante Omazic, 2023)

1.5 LUXURY CONSUMPTION FORMS

Luxury consumption has moved beyond the traditional idea of buying and showing off well-known products from fancy brands. Now that luxury is reaching more areas and markets, how people consume it has changed in diverse, new, and sometimes unexpected ways. These changes can be seen in traditional luxury, in new kinds of luxury, and even in actions that go beyond just buying things.

When it comes to regular luxury items, what consumers like shows their personal reasons and how they see the value of luxury. For example, people who haven't bought luxury items much before, often called "luxury excursionists," usually prefer obvious products with big logos. These consumers often come from lower socioeconomic backgrounds and use these visible luxury items to connect with wealthier, more experienced social groups. On the other hand, experienced luxury consumers usually want subtle, understated luxury items with little or no visible branding. They want to stand out from regular consumers while keeping their status and exclusivity. Luxury consumption is also shown in the choice between classic, iconic items (that have been luxury collection staples for decades) and seasonal items (that change with each collection). Both types show high social status, but seasonal luxury products give the idea that the status was earned, not inherited. This makes people see the consumer as more socially recognized because it

suggests success through personal effort instead of privilege. Another new trend in luxury consumption is that vintage items are becoming more popular. Items like vintage luxury watches give unique symbolic and emotional benefits. By connecting the past, present, and future, vintage luxury items help people connect with history and might even help with worries about life, like the fear of death (David Dubois, 2021).

In today's market, where sustainability and mindful spending are becoming increasingly relevant, consumers are redefining the way they engage with luxury goods. Instead of exclusively purchasing from traditional luxury brands, many individuals choose to complement or even replace these items with non-traditional luxury or mainstream products to enhance the symbolic value of their purchases. For example, affluent consumers often mix high-end and everyday products, such as pairing gourmet foie gras with comfort food like mac and cheese, to set themselves apart from middle-class norms. Similarly, some opt for unique, non-luxury statement pieces (e.g., bold red sneakers) instead of classic status-symbol luxury goods, using unconventional choices to express their exclusivity. Environmental concerns have also shaped luxury consumption. While some buyers appreciate the long-lasting nature of luxury goods as a form of sustainability, others perceive the environmental footprint of luxury production as reinforcing its exclusivity and desirability (Ward M, Dommer SL, Dahl D, unpublished, as cited in David Dubois, 2021). Moreover, although luxury has traditionally been synonymous with aesthetic elegance, there is a growing appeal for "ugly" luxury designs. These unconventional styles, often seen as bold, unique, and trendsetting, are commanding premium prices due to their rarity and avant-garde appeal (Cesario L, Townsend C, Shi Z, unpublished, as cited in David Dubois, 2021) (David Dubois, 2021).

As luxury consumption behaviors evolve, people are looking beyond material possessions for new ways to experience and express status and exclusivity. They are increasingly investing in education, parenting, and personal well-being, recognizing these areas as modern symbols of cultural capital and social prestige, which were once primarily linked to traditional luxury goods. For instance, parents feel growing pressure to enroll their children in elite schools and kindergartens, provide enriching extracurricular activities, and foster their cultural development at home, all in pursuit of social recognition and respect within certain communities. The amount parents spend on their children's education has a significant impact on family well-being and a country's overall development. Similarly,

leading a healthy and sustainable lifestyle has become a status symbol. Purchasing from specialty grocery stores, investing in premium fitness programs and equipment, and adopting eco-friendly energy sources and materials are increasingly linked to privilege and high social standing. On a broader societal level, public advocacy for social justice and economic fairness is often associated with affluent individuals and high-status groups. As status-seeking behaviors continue to shift beyond traditional consumption, these emerging trends offer compelling opportunities for further research into the evolving meaning of luxury (David Dubois, 2021).

1.5.1 MASSTIGE

Mass Prestige, often referred to as Masstige, was first introduced by Silverstein and Fiske in their 2003 Harvard Business Review article "Luxury for the Masses." They describe Mass Prestige marketing as a strategic approach designed to penetrate the market with premium yet accessible brands by leveraging brand equity. This approach seeks to build brand knowledge, foster likability and affection, and create strong consumer attachment, all rooted in a sense of prestige (Silverstein & Fiske, 2003, p. 68, as cited in Pietrzak, 2019). Generally, marketing strategies aimed at appealing to middle-class consumers differ substantially from those used by traditional luxury brands, though they share some common elements. Mass Prestige strategies carefully balance the perception of prestige with value premiums to uphold a luxurious brand image, while deliberately excluding certain characteristics that are inherently associated with traditional luxury and are less relevant for more mainstream products (Pietrzak, 2019)

Consequently, mass Prestige strategies are moving away from the "unattainable dream" concept that relies on making products prohibitively expensive. Many high-end companies are letting go of the long-held notion that exclusivity and sky-high prices are necessary for a brand to be perceived as prestigious. Instead, mass Prestige brands are priced just above those of comparable mid-range products to signal superior quality while appealing to a broader audience than the small niches targeted by traditional luxury brands (Pietrzak, 2019).

Another key difference involves historical and cultural heritage, a cornerstone in luxury brand marketing. Newly affluent consumers often lack a tradition of luxury consumption, which means their awareness, appreciation, and understanding of luxury

brands tend to be limited. As a result, the longstanding history and cultural legacy of established brands have little impact on them. Additionally, their purchasing behavior and decision-making processes tend to be more conventional, characterized by comparison shopping and lower service expectations (Seringhaus, 2002, as cited in Pietrzak, 2019) (Pietrzak, 2019).

1.6 LUXURY REVISITED

The concept of luxury has been shaped differently across various contexts, highlighting its fluid and evolving nature (Kapferer, 2008; Mortelmans, 2005, as cited in Holmqvist, 2020). Recently, emerging and unconventional perspectives on luxury have shifted the focus from material possession to personal experience, encapsulated in the transition from “having to being” and “owning to experiencing” (Cristini et al., 2017, p. 101, as cited in Holmqvist, 2020). Although empirical research on these unconventional forms of luxury remains limited, a growing body of studies has explored this evolving notion since Lipovetsky and Roux (2003, as cited in Holmqvist, 2020) first proposed that luxury should be understood as an intangible and subjective concept.

These studies examine the relationship between luxury experiences and aspects of self-identity (Hemetsberger, von Wallpach, & Bauer, 2012, as cited in Holmqvist, 2020), the rise of inconspicuous luxury (Eckhardt, Belk, & Wilson, 2015; Walters & Carr, 2019, as cited in Holmqvist, 2020), the increasing demand for hyper-personalized luxury goods (Rosenbaum, Ramirez, Campbell, & Klaus, 2019, as cited in Holmqvist, 2020), and the concept of luxury as an act of giving rather than possessing, which fosters self- and other transformation (Llamas & Thomsen, 2016, as cited in Holmqvist, 2020) (Holmqvist, 2020).

In order to define what ‘unconventional luxury’ is, we need to discuss the different focal aspects of traditional versus unconventional luxury conceptualizations. While traditional definitions of luxury have emphasized its ontological scarcity, product-centered nature, and passive consumption, research on unconventional luxury conceptualizations instead highlights its epistemological scarcity, experiential essence, and active engagement. This shift is particularly evident in the transition from ontological scarcity to epistemological scarcity: traditional views on luxury often define it as a scarce resource, limited by its high cost, exclusivity, and accessibility only to a privileged few (Kapferer & Bastien, 2009, as cited

in Holmqvist, 2020). According to early luxury research, a luxury good is something highly desired precisely because it is not widely available (Berry, 1994, p. 41, as cited in Holmqvist, 2020). This perspective emphasizes ontological scarcity, where luxury is seen as something expensive, individually owned, and inherently rare.

In contrast, unconventional perspectives suggest that luxury is not necessarily about financial exclusivity but rather about the consumer's perception and awareness. Instead of being defined by price or ownership, epistemological scarcity refers to the uniqueness of a luxury experience: something that can be accessible to many but is only recognized by those who are mindful of it. Luxury, in this sense, can arise in unexpected situations and does not always require a significant financial investment (Banister, Roper, & Potavanich, 2020; Holmqvist, Diaz Ruiz, & Peñaloza, 2020; Kreuzer et al., 2020; von Wallpach et al., 2020, as cited in Holmqvist, 2020). From this perspective, what makes something luxurious is not its cost or its value to society but rather its personal significance to the consumer. The experience of luxury is more about internalizing and appreciating something special rather than merely owning an expensive or prestigious item (Belk, 1988, as cited in Holmqvist, 2020) (Holmqvist, 2020).

This redefinition of luxury not only challenges traditional notions of scarcity but also reshapes the role of the consumer, shifting the focus from receptive to agentic: traditional views on luxury often portray consumers as passive recipients of luxury goods, where luxury is something they acquire rather than create. In this perspective, luxury items serve as social markers, symbolizing status and prestige (Appadurai, 1988, as cited in Holmqvist, 2020). Simply owning a luxury product, which has been given symbolic value through branding and marketing, is enough to define it as luxury: there is no need for the consumer to actively shape the experience.

Conversely, unconventional views on luxury shift the focus from simply acquiring high-end goods to actively creating and experiencing luxury. Instead of luxury being something predefined by brands, it is something that individuals can construct and shape through their own personal experiences (Banister et al., 2020; Holmqvist et al., 2020; Leban, Seo, & Voyer, 2020; Turunen, Cervellon, & Carey, 2020, as cited in Holmqvist, 2020). Importantly, this agentic approach to luxury does not require wealth or physical resources. Even individuals with limited means, such as those in hospice care, can still experience luxury in deeply meaningful ways that are not tied to status or material possessions (Sudbury-Riley et al.,

2020). In this view, luxury is not just about what one owns but how one perceives and creates special moments in their life. Consumers are empowered to shape their own luxury experiences, deciding where, how, and how often they enrich their lives with moments of luxury (Holmqvist, 2020).

1.7 EXPERIENTIAL LUXURY: FROM PRODUCT FOCUSED TO EXPERIENTIAL

luxury research has traditionally centered on defining luxury through product attributes that fulfill desires beyond basic necessities (Sombart, 1922, as cited in Holmqvist, 2020). However, in today's world, even fundamental resources such as clean water, air, and food can be considered luxuries depending on time, place, and socio-economic context (Cristini & Kauppinen-Räsänen, 2020, as cited in Holmqvist, 2020). Conventionally, luxury has been associated with high-quality products that command premium prices and confer prestige upon their owners through public or shared symbolic value (Ko et al., 2019, as cited in Holmqvist, 2020). This is reflected in Han et al. (2010, p. 16), who describe luxury goods as those that grant prestige to the owner merely through their possession or display, regardless of their functional utility.

Contrasting with this traditional, product-centered perspective, contemporary research introduces alternative conceptualizations of luxury that emphasize experiential aspects (e.g., Kreuzer, Cado, & Raïes, 2020; von Wallpach, Hemetsberger, Thomsen, & Belk, 2020, as cited in Holmqvist, 2020). Rather than being defined by publicly shared meanings tied to a conspicuously consumed brand or product, modern interpretations of luxury prioritize personal, ephemeral experiences that hold significance only for the individual. From this unconventional viewpoint, luxury becomes a subjective and idiosyncratic experience, existing in the perception of the consumer rather than serving as a means for the elite (Kastanakis & Balabanis, 2012; Okonkwo, 2009; Truong, Simmons, McColl, & Kitchen, 2008, as cited in Holmqvist, 2020) or the masses (Han et al., 2010, as cited in Holmqvist, 2020) to showcase their status, wealth, or power (Holmqvist, 2020).

Consumers in the 21st century seek deeper connections with brands that go beyond mere financial transactions (Shin et al., 2021, as cited in Damini Goyal Gupta, 2022). They engage with various brand elements to evoke emotional and sensory experiences, fostering a unique and personal bond with the brand (Verhoef et al., 2009; Pine & Gilmore, 1998, as

cited in Damini Goyal Gupta, 2022). This desire for a meaningful relationship is particularly strong in the luxury sector compared to non-luxury brands (Hwang & Kandampully, 2012, as cited in Damini Goyal Gupta, 2022). Consequently, luxury brands have become synonymous with delivering highly personalized and memorable experiences (Klaus & Manthiou, 2020, as cited in Damini Goyal Gupta, 2022). In the luxury industry, experiences are crafted by offering not only functional value but also symbolic and experiential value (Atwal & Williams, 2009, as cited in Damini Goyal Gupta, 2022). This is achieved through various marketing strategies, including immersive store atmospheres, seamless online experiences, engaging social media presence, and tailored brand communication (Kapferer & Bastien, 2009, as cited in Damini Goyal Gupta, 2022).

However, the COVID-19 pandemic and the subsequent lockdowns at the end of 2019 disrupted traditional offline luxury experiences (Langer, 2020, as cited in Damini Goyal Gupta, 2022). In response, luxury brands began exploring new digital avenues to enhance consumer engagement, adapting their strategies to create compelling online experiences (Damini Goyal Gupta, 2022).

The shift toward a more self-centered era, where individual well-being takes precedence, has transformed luxury consumption from a means of displaying status and distinction to an experiential approach in which emotions play a central role. Several factors have contributed to this transition, driving the rise of experiential and emotional luxury. Experience now lies at the core of modern luxury marketing, extending beyond the traditional 4Ps (product, price, place, and promotion) of the marketing mix. Customer experience has become a key focus for industry professionals, often implemented through sensory marketing. However, reducing it to a sensory strategy alone limits its creative and strategic potential. Nonetheless, the nature of customer experience varies depending on the specific luxury sector.

Certain industries are inherently experiential, such as tourism, while others, like retail stores and outlets, are primarily functional. In the luxury sector, experiences can be categorized into two levels: high-experiential and moderate-experiential fields. To illustrate these distinctions, we can examine two key examples: tourism and hospitality (including hotels and restaurants) as representations of high-experiential luxury, and the retail sector as an example of a moderate-experiential setting (Batat, 2019).

1.7.1 HIGHLY LUXURY EXPERIENTIAL SETTINGS

Services are inherently experiential in the luxury tourism and hospitality sector, where we find high-end hotels and gourmet restaurants.

Unlike tangible goods, destinations and hotels are not merely consumed; instead, they offer immersive experiences that encompass various market players and external factors (such as VIP transportation, fine dining, and personalized services) that collectively shape the overall offering.

In gourmet restaurants, elements such as thematic storytelling, the WOW factor, expert craftsmanship, impeccable service, and social interactions must work in harmony to create a memorable and fulfilling dining experience. This experience blends both functional aspects (e.g., the quality of ingredients, the chef's creativity) and emotional elements (e.g., interactions with staff and fellow diners, the ambiance), ensuring a seamless fusion of excellence and sensory enjoyment (Batat, 2019).

1.7.2 MODERATE LUXURY EXPERIENTIAL SETTINGS

Moderate luxury experiential settings, such as the retail sector, offer a more transient customer experience compared to luxury hotels or restaurants, where guests immerse themselves for extended periods. In retail, the luxury experience is more moderate but can still be enhanced through various strategies. These include hyper-personalized services enabled by customer relationship management (CRM) systems and digital tools, a seamless and efficient customer journey, carefully curated product presentations, and immersive thematic experiences designed to elevate the shopping environment (Batat, 2019)

All in all, a luxury experience can be defined as the art of delivering social (Klaus, 2022, as cited in Damini Goyal Gupta, 2022), emotional (Palmer, 2010, as cited in Damini Goyal Gupta, 2022), and symbolic value (Klaus & Tarquini-Poli, 2022, as cited in Damini Goyal Gupta, 2022) to consumers by fostering a sense of comfort (Han & Kim, 2020, as cited in Damini Goyal Gupta, 2022), belonging (Schmitt, 1999, as cited in Damini Goyal Gupta, 2022), and overall well-being (Tynan et al., 2010; Verhoef et al., 2009, as cited in Damini Goyal Gupta, 2022). This is achieved through highly personalized (Klaus, 2022, as cited in Damini Goyal Gupta, 2022), distinctive (Fionda & Moore, 2009, as cited in Damini Goyal Gupta,

2022), and memorable experiences (Tynan et al., 2010, as cited in Damini Goyal Gupta, 2022) carefully crafted by luxury brands (Damini Goyal Gupta, 2022).

1.8 COUNTRY OF ORIGIN EFFECT

The Country of Origin (COO) effect significantly influences how consumers evaluate products. However, its conceptualizations vary. Some studies focus on how a product's manufacturing location affects perception (Gurhan-Canli & Maheswaran, 2000, as cited in Michael Chattalas, 2008), while others highlight consumer biases against imported goods as barriers to market entry (Wang & Lamb, 1983, as cited in Michael Chattalas, 2008). However, with globalized sourcing and production, identifying a product's COO has become increasingly complex, as many products now have dual or multinational origins.

Building on Zhang (1996, p. 51, as cited in Michael Chattalas, 2008), we define Country of Origin (COO) as "information regarding the country where a product is manufactured." This is typically represented and communicated through labels such as "Made in" followed by the country's name (Amine et al., 2005, as cited in Michael Chattalas, 2008) (Michael Chattalas, 2008).

Luxury brands maintain a global presence, being found in the world's most fashionable cities and exclusive retail areas. At the same time, they retain a strong national identity, with their Country of Origin (COO) reflected in various brand elements. The luxury industry has long associated specific product categories with certain countries, such as German cars, Italian fashion, French perfumes, and Swiss watches, reinforcing the link between heritage and craftsmanship.

In the international luxury market, COO serves as a key positioning factor, significantly shaping consumer perceptions of a brand. Research indicates that COO has a stronger impact on luxury goods than on necessity products (Krupka et al., 2014; Piron, 2000, as cited in Stoenescu Roxana-Denisa, 2016). This is partly because luxury goods are high-involvement and highly heterogeneous, meaning that their prestige and desirability are closely tied to their origin (D'Astous & Ahmed, 1992; Lampert & Jaffe, 1993, as cited in Stoenescu Roxana-Denisa, 2016).

Consumer perceptions of a luxury brand are influenced by social and cultural associations linked to its COO. These perceptions, shaped by cultural values and societal norms, activate

stereotypes and imagery that signal quality, exclusivity, and heritage (Stoenescu Roxana-Denisa, 2016).

From a cognitive perspective, COO conveys functional quality, craftsmanship, and tradition, appealing especially to traditionalist luxury consumers. For example, Germany is renowned for precision engineering in cars and industrial technology, while Swiss watches and American aircraft benefit from strong associations with their respective industries. Luxury perceptions can also be enhanced by exceptional materials sourced from a country or by a culture known for its commitment to excellence, such as Germany's reputation for precision and reliability (Stoenescu Roxana-Denisa, 2016).

On an emotional level, COO carries symbolic and aspirational value, reinforcing social status and prestige for consumers seeking self-enhancement. Certain COO associations, like French sophistication in perfumes or Italian elegance in fashion, resonate with consumers drawn to individualistic luxury and unique lifestyle experiences. Luxury products are powerful tools for self-expression, and brands from countries perceived as luxurious naturally transfer these associations to both the brand and its consumers (Munteanu & Pagalea, 2014, as cited in Stoenescu Roxana-Denisa, 2016).

Several factors influence the impact of Country of Origin (COO) on luxury product consumption. Some of these are common to general COO effects, such as cultural affinity, ethnocentrism, economic development, and brand origin familiarity. The strength of the COO effect can vary significantly depending on the cultural distance and affinity between the brand's country of origin and the market where it is sold (Stoenescu Roxana-Denisa, 2016).

Positive associations between a product category and its Country of Origin (COO) can create a halo effect (Kotler & Armstrong, 2010, as cited in Stoenescu Roxana-Denisa, 2016), where other products from the same category and country benefit from these favorable perceptions. The image of a country and its brands are interconnected, influencing each other in a holistic way (Keller, 2013, as cited in Stoenescu Roxana-Denisa, 2016).

For example, France is globally associated with class, sophistication, and refined taste, largely shaped by its renowned luxury brands. However, these country-related stereotypes tend to be category-specific and may not easily transfer to unrelated product categories (Keegan & Schlegelmilch, 2001, as cited in Stoenescu Roxana-Denisa, 2016). While France's image aligns well with luxury fashion and perfumes, it does not necessarily evoke the same prestige in luxury cars, as the country lacks strong technological associations.

That said, some researchers suggest that country equity can be both product category-specific and transferable between related categories (Thakor & Katsanis, 1997; Agarwal & Sikri, 1996, as cited in Stoenescu Roxana-Denisa, 2016). This means that positive COO associations may extend only to similar product categories within the same broad industry, such as different types of technology products (Stoenescu Roxana-Denisa, 2016). Perceptions of a luxury product improve when the brand image aligns with its Country of Origin (COO) (Haubl & Elrod, 1999, as cited in Stoenescu Roxana-Denisa, 2016). The more typical a product is for a given COO, the stronger the brand-COO coherence. Luxury brands are often seen as "the best the West has to offer" (Kapferer & Bastien, 2012, as cited in Stoenescu Roxana-Denisa, 2016), primarily associated with France, Italy, Germany, the U.K., the U.S., and Japan, depending on their strengths in specific luxury categories. This association limits the emergence of luxury brands from countries without strong COO connections to the luxury segment. Consumers tend to trust luxury goods from economically developed nations (Manrai et al., 1998, as cited in Stoenescu Roxana-Denisa, 2016), making it difficult for brands from developing countries to establish credibility in the luxury market. Paradoxically, COO is shaped by its most prestigious luxury brands, yet it simultaneously influences the positioning of new brands from the same country, making international expansion a challenge for emerging luxury brands (Stoenescu Roxana-Denisa, 2016).

1.9 GENDER SEGMENTATION

Luxury brand consumption serves as a means for individuals to express both their personal and social identities, aligning with the roles they aspire to embody (Bhat & Reddy, 1998; Vickers & Renand, 2003, as cited in Soundararaj Ajitha, 2019).

Gender plays a significant role in shaping these consumption patterns, as it influences life priorities and decision-making processes. Research suggests that men tend to prioritize goal achievement and respond more strongly to self-relevant information, while women balance both personal aspirations and social connections, placing greater emphasis on emotional and communal relationships (Meyers-Levy, 1988, as cited in Soundararaj Ajitha, 2019).

In a similar vein, scholars have noted that men often approach luxury purchases with a focus on functionality and utility, whereas women's buying decisions are more likely to be

driven by symbolic meaning and emotional significance (Dittmar, 1994, as cited in Soundararaj Ajitha, 2019). This distinction highlights how gender-based motivations shape engagement with luxury goods, reinforcing the idea that consumption is deeply tied to identity and self-expression (Soundararaj Ajitha, 2019).

Research on consumer behavior indicates that gender differences significantly shape purchasing patterns, as men and women tend to have distinct life priorities that influence their consumption choices (De Grazia & Furlough, 1996, as cited in Soundararaj Ajitha, 2019). Studies suggest that women exhibit a stronger awareness of fashion-related self-presentation compared to men, making them more responsive to trends and aesthetic appeal in their purchasing decisions (Fenigstein et al., 1975; Gould & Stern, 1989, as cited in Soundararaj Ajitha, 2019).

When it comes to luxury brand consumption, women often attribute greater symbolic meaning and material value to their purchases than men (Dittmar, 2005, as cited in Soundararaj Ajitha, 2019). Factors such as product quality, uniqueness, social prestige, and visual appeal tend to play a more decisive role in shaping female luxury consumption (Wiedmann et al., 2009, as cited in Soundararaj Ajitha, 2019). Additionally, women generally demonstrate a more positive attitude toward luxury brands than men, which may be attributed to the fact that many luxury product categories are specifically tailored to female consumers and often come with a higher price tag (Stokburger-Sauer & Teichmann, 2013, as cited in Soundararaj Ajitha, 2019).

However, some studies mention that men, despite being less influenced by social and aesthetic factors, may display a heightened interest in luxury brands as a means of self-expression and status enhancement (Kauppinen-Räsänen et al., 2018, as cited in Soundararaj Ajitha, 2019). This indicates that while women may be drawn to luxury goods for their symbolic and experiential value, men may engage with luxury brands as a tool for self-presentation and identity reinforcement (Soundararaj Ajitha, 2019).

Bain & Company (2012, as cited in Elyette Roux, 2016) highlights that men's luxury consumption is expanding at a faster rate (+14%) compared to women's (+8%). Despite women still accounting for the majority (60%) of the global luxury market, the historical gender disparity in luxury spending is gradually narrowing. This raises key questions about the distinct values that influence luxury consumption across genders. How do the

motivations behind luxury purchases differ between men and women, and what factors contribute to these variations? (Elyette Roux, 2016).

To shed lights on this matter, we use the SST: The Social Structural Theory of Gender. It proposes that gender differences in behavior, preferences, and social roles arise primarily from societal structures rather than innate biological factors. According to this theory, differences between men and women result from the way societies organize labor, power, and resources, leading to distinct social expectations and opportunities. Over time, these structural influences shape gender norms, reinforcing traditional roles while also allowing for change as societal structures evolve. Thus, according to SST, gender beliefs serve to justify and reinforce the status inequalities between men and women (Eagly & Wood, 1999, as cited in Elyette Roux, 2016).

From this viewpoint, SST provides a framework linking gender identity differences to social status. People tend to perceive greater uniformity within female (compared to male) and lower-status (compared to higher-status) groups. Additionally, men and individuals in high-status positions are less likely to engage in self-stereotyping, as they prioritize self-differentiation (Lorenzi-Cioldi, 2006, as cited in Elyette Roux, 2016). Consequently, men and women develop distinct self-concepts (Cross & Madson, 1997, as cited in Elyette Roux, 2016): men typically maintain a more independent sense of self, distinguishing themselves from others, whereas women adopt a more interdependent self-view, incorporating others into their self-perception. As a result, women are generally more attuned to external opinions (Deaux & Major, 1987, as cited in Elyette Roux, 2016) and place greater emphasis on their appearance to create a positive impression (Buss, 1989; Wang & Waller, 2006; Workman & Lee, 2011, as cited in Elyette Roux, 2016) (Elyette Roux, 2016).

Interpersonal values pertain to the advantages gained from showcasing products in social settings, particularly in relation to one's reference group (Sheth, Newman, & Gross, 1991; Bearden & Etzel, 1982, as cited in Elyette Roux, 2016). These values can be categorized into three key aspects: conspicuousness, social influence (notably conformity), and distinctiveness (Amaldoss & Jain, 2005, as cited in Elyette Roux, 2016). Given their high cost, luxury items embody exclusivity and serve as symbols of affluence (Vigneron & Johnson, 1999), often enhancing the social standing of those who purchase them (Goldsmith & Clark, 2012, as cited in Elyette Roux, 2016).

Luxury goods can be used as a means of conspicuous consumption, where individuals openly display their possessions to convey social status (Veblen, 1899, as cited in Elyette Roux, 2016). This type of consumption, aimed at reinforcing one's self-image (Dubois & Duquesne, 1993, as cited in Elyette Roux, 2016), manifests in two distinct ways. The first, known as the bandwagon effect, involves purchasing items that align with those owned by a desired social group, signaling a sense of belonging. The second, referred to as the snob effect, entails acquiring exclusive goods to stand apart from the majority (Leibenstein, 1950, as cited in Elyette Roux, 2016). Consequently, conspicuous consumption reflects either a desire for association with an aspirational group or a need for differentiation from the mainstream (Kastanakis & Balabanis, 2014, as cited in Elyette Roux, 2016).

Consumers who are highly influenced by social norms tend to engage in bandwagon consumption, aligning their choices with those of their reference groups (Lascu & Zinkhan, 1999; Kastanakis & Balabanis, 2012, 2014, as cited in Elyette Roux, 2016).

On the other hand, individuals who prioritize distinctiveness and differentiation from mainstream trends are more inclined toward snob consumption (Kastanakis & Balabanis, 2014, as cited in Elyette Roux, 2016). This behavior aligns with the notions of rarity (Phau & Prendergast, 2000, as cited in Elyette Roux, 2016) and exclusivity (Groth & McDaniel, 1993, as cited in Elyette Roux, 2016), both of which are key elements in luxury branding. Therefore, Gender is expected to have a predominant effect on luxury values that serve as a means of displaying gender to others, specifically interpersonal (outer-directed) values. On the other hand, personal (inner-directed) luxury values are less likely to be influenced by gender, as they do not primarily function as a tool for gender display (Elyette Roux, 2016).

2. EVOLVING PARADIGMS IN THE LUXURY INDUSTRY: INNOVATION, CONSUMER SHIFTS, AND THE FUTURE OF VALUE

2.1 SECTOR TRENDS AND FUTURE FORECAST

The study of luxury consumption has been ongoing for decades, yet as society evolves, so does the concept of luxury itself. This shift in perception challenges traditional notions of luxury (Bain, 2018, as cited in Kang, 2021). Many established luxury brands face difficulties adapting to the new cultural codes and value systems that now shape luxury consumption (Fraser, 2018, as cited in Kang, 2021). As the luxury consumer profile continues to change, brands grapple with distinguishing between traditional and modern luxury consumers (Fraser, 2018, as cited in Kang, 2021).

The evolution of luxury consumers raises important questions about the driving forces behind this shift. A significant factor in this transformation is the influence of younger generations, particularly Millennials (born between 1981 and 1996) and Gen Z (born after 1997) (Buckle, 2019, as cited in Kang, 2021). These consumers are reshaping the concept of luxury, with Millennials, already established in their careers, leading the change. According to research by GlobalWebIndex, individuals aged 25 to 44 make up 67% of frequent luxury buyers and contribute to 30% of global luxury sales (Buckle, 2019, as cited in Kang, 2021). As Gen Z begins to enter this market, their deeply held personal values are becoming a key force behind shifting purchasing behaviors, as they prioritize brands that reflect their ethical and social beliefs (Bain, 2018, as cited in Kang, 2021).

Given that younger generations represent an expanding share of the luxury sector, it is crucial for brands to understand both their fundamental values and evolving consumption preferences. However, these changes are not solely driven by youth culture; they also align with larger societal trends, including the rise of digital technology, the growing importance of the sharing and service economies, shifts in work structures, increased travel, and a more multicultural worldview (Eckhardt & Bardhi, 2020, as cited in Kang, 2021). Taken together, these factors signal a fundamental shift in the luxury landscape, marking the emergence of a new paradigm (Kang, 2021).

However, In many Western nations, the elderly population is expanding more rapidly than any other age group due to increased life expectancy and declining birth rates. By 2050, individuals aged 65 and older are projected to make up approximately 26% of the total

population in Western countries, 28% of the European Union's population, and nearly 20% of the U.S. population by 2030. A similar trend is occurring in Eastern countries, particularly in China, where demographic shifts have been significantly influenced by strict policies on birth rates and family size.

As the older population continues to grow worldwide, there is a clear need to better understand their preferences and behaviors, especially given their active and engaged lifestyles. Thus, In response to this, it is crucially important analyzing the role of luxury consumption among older consumers, addressing the need for deeper insights into their purchasing patterns and motivations (Cesare Amatulli, 2015).

2.2 GENERATIONS AND COHORTS

Generations are groups of individuals who belong to the same age cohort and have been influenced by the social, cultural, and historical events of a specific time period (McCrinkle & Wolfinger, 2009, as cited in Julia Pueschel, 2020). More specifically, generational cohorts represent consumer groups whose values and priorities are shaped during their formative years and often remain stable throughout their lives (Jackson et al., 2011, as cited in Julia Pueschel, 2020). These cohorts differ across countries due to variations in historical and cultural contexts. However, regardless of their origin, people within the same generation typically share common life stages, societal influences, and collective experiences (Wolburg & Pokrywczynski, 2001, as cited in Julia Pueschel, 2020). As a result, they develop distinctive values and priorities that reflect the era in which they grew up (Julia Pueschel, 2020).

A generational cohort consists of individuals who share similar experiences and develop common characteristics shaped by these experiences (Beldona et al., 2009, as cited in Jacqueline K. Eastman, 2012). According to Wolburg and Pokrywczynski (2001, as cited in Jacqueline K. Eastman, 2012), generational marketing research identifies three key factors that influence cohorts: life stage, prevailing social and economic conditions, and significant collective experiences. As a result, each cohort tends to adopt specific values and priorities that often remain consistent throughout their lives (Jackson et al., 2011, as cited in Jacqueline K. Eastman, 2012), leading to distinct perspectives and behaviors (Moore & Carpenter, 2008, as cited in Jacqueline K. Eastman, 2012). While generations typically span

20 to 25 years, the duration of a cohort can vary depending on the defining historical and cultural events (Schewe et al., 2000, as cited in Jacqueline K. Eastman, 2012) (Jacqueline K. Eastman, 2012).

When it comes to the size of various generational groups, estimates suggest there are around 76 million Baby Boomers, 46 million individuals in Generation X (Maples & Abney, 2006, as cited in Jacqueline K. Eastman, 2012), and approximately 70 million belonging to Generation Y (Hewlett et al., 2009, as cited in Jacqueline K. Eastman, 2012). Traditionally, Baby Boomers are considered those born between 1946 and 1964 (Norum, 2003; Schewe et al., 2000, as cited in Jacqueline K. Eastman, 2012), while Generation X includes those born from 1965 to 1976, and Generation Y encompasses individuals born between 1977 and 1987 (Norum, 2003, as cited in Jacqueline K. Eastman, 2012).

The Baby Boomer generation is often characterized by a strong sense of independence and a focus on self-improvement and personal achievement (Littrell et al., 2005; Parker & Chusmir, 1990, as cited in Jacqueline K. Eastman, 2012). They also place high value on financial stability and professional accomplishments (Jackson et al., 2011, as cited in Jacqueline K. Eastman, 2012). Known for their purchasing power and willingness to spend, Baby Boomers are challenging traditional notions of aging (Reisenwitz & Iyer, 2007, as cited in Jacqueline K. Eastman, 2012). Although some researchers argue that this generation could be divided into two distinct subgroups (Schewe et al., 2000, as cited in Jacqueline K. Eastman, 2012), others have found minimal differences between them (Reisenwitz & Iyer, 2007, as cited in Jacqueline K. Eastman, 2012). Therefore, this research considers Baby Boomers as a single, unified generational group.

Generation X is considered one of the most well-educated age groups, known for their strong grasp of technology and media. Despite this, they are often viewed as disillusioned, critical, and realistic in their outlook (Jackson et al., 2011; Littrell et al., 2005, as cited in Jacqueline K. Eastman, 2012). They came of age during times of economic instability (such as the recessions in the 1980s and 1990s) and faced social challenges like rising divorce rates and growing up as "latchkey kids," often spending time alone after school (Lyons et al., 2007; Schewe et al., 2000, as cited in Jacqueline K. Eastman, 2012).

Millennials, or Generation Y, are often identified as the first generation to grow up fully immersed in digital technology (Norum, 2003, as cited in Jacqueline K. Eastman, 2012). They are recognized for their savvy consumer behavior and are seen as thoughtful and

informed shoppers (Jackson et al., 2011; Wolburg & Pokrywczyński, 2001, as cited in Jacqueline K. Eastman, 2012). Much like the Baby Boomers, Millennials are socially aware and environmentally mindful, but they tend to be even more accepting of cultural diversity (Hewlett et al., 2009, as cited in Jacqueline K. Eastman, 2012). This generation is frequently described as having been both highly protected and heavily indulged, often struggling with delayed gratification (Tucker, 2006, as cited in Jacqueline K. Eastman, 2012). From a marketing perspective, Generation Y is considered to possess strong purchasing power (Martin & Turley, 2004; Wolburg & Pokrywczyński, 2001, as cited in Jacqueline K. Eastman, 2012). Social media plays a central role in their daily lives (Hewlett et al., 2009, as cited in Jacqueline K. Eastman, 2012). While they are driven by social factors, Millennials, particularly those in college, tend to be practical and focused when shopping, prioritizing goals over the influence of store atmospheres (Martin & Turley, 2004, as cited in Jacqueline K. Eastman, 2012). Nevertheless, as noted by Lachance et al. (2003, as cited in Jacqueline K. Eastman, 2012), brand prestige remains highly significant for many young consumers (Jacqueline K. Eastman, 2012).

Generation Z is often characterized by a return to more conservative values. They tend to favor tradition, exhibit a strong sense of responsibility and self-discipline, and place high importance on authenticity. This generation has grown up entirely within the digital era, never knowing a world without the Internet. As a result, they are the most digitally fluent, educated, and mobile consumers to date. They are deeply connected, socially aware, highly innovative, and constantly seeking new experiences and improvements. Their lives revolve around constant connectivity through devices like smartphones, tablets, and smart technologies. This cohort also tends to be open-minded and confident. Wood (2013, as cited in Costinel Dobre, 2021) identifies four primary concerns that shape the behavior of Generation Z consumers: a strong interest in emerging technologies, the desire for convenience, a focus on safety, and the occasional need to disengage from reality (Costinel Dobre, 2021).

2.3 THE IMPACT OF E-COMMERCE IN THE LUXURY SECTOR: EXCLUSIVITY AND RARITY?

Historically, luxury brand management has been rooted in centralized control and tight regulation of brand image. Emphasis was placed on maintaining exclusivity, which

made digital platforms like e-commerce and social media seem incompatible with luxury branding (Dubois and Paternault, 1995; Kapferer and Bastien, 2012, as cited in Berridge, 2018). Kapferer (2015, as cited in Berridge, 2018) argued that online, brand differentiation is diminished, making it difficult to distinguish luxury from mainstream. In contrast, the in-store environment was where the true distinction and uniqueness of luxury brands could be fully experienced. While digital tools offer valuable opportunities for marketing, they can challenge traditional luxury principles, where keeping a certain distance between the brand and its audience is key to preserving its mystique and exclusivity (Kapferer and Bastien, 2009, 2012, as cited in Berridge, 2018).

The retail landscape has been undergoing a steady transformation, largely driven by digital innovation and the emergence of omni-channel strategies that align with the purchasing preferences of younger consumers, particularly Millennials and Gen Z. Traditional physical retail spaces have given way to more dynamic, online-driven models.

Fashion retail, in particular, has adapted well to the digital shift. The continued growth of online platforms such as ASOS, Net-a-Porter, and Farfetch exemplifies how these new retail formats are outperforming conventional brick and mortar approaches (Berridge, 2018).

To support the shift from offline to online, brands must integrate both individual customer-focused and community-driven approaches, placing emotional engagement at the heart of their marketing efforts (Lemon and Verhoef, 2016, as cited in Sindy Liu, 2019). Turning physical locations into immersive, multisensory environments is key to triggering emotions, perceptions, and actions in response to brand interactions (Brakus et al., 2009, as cited in Sindy Liu, 2019). When a digital strategy is seamlessly aligned with the overall customer experience, luxury brands can effectively bridge the gap between the digital and physical worlds, creating a shared and imaginative brand environment. As Pine and Gilmore (1998, p. 99, as cited in Sindy Liu, 2019) point out, an experience is created when companies connect with consumers in a way that is both personal and unforgettable. Given the growing importance of digital channels in luxury communication and sales, new technologies have enhanced the possibilities for experiential marketing (Atwal and Williams, 2017, as cited in Sindy Liu, 2019), allowing brands to craft meaningful and memorable interactions across both online and offline touchpoints (Sindy Liu, 2019).

Even though the Internet has become increasingly important for luxury brand communication and distribution (Atwal and Williams, 2017, as cited in Sindy Liu, 2019), the digital space still presents challenges, particularly regarding how easily it can be accessed. Promoting luxury products online requires striking a careful balance between meeting growing global consumer demand and preserving the characteristics of brand's image, which is essential to maintaining a controlled supply-demand dynamic (Dubois and Paternault, 1995; Tynan et al., 2010, as cited in Sindy Liu, 2019). Additionally, the role of luxury brand communication goes beyond product promotion; it seeks to inspire aspiration and uphold the core values and identity of the brand (Dubois and Paternault, 1995; Dion and Arnould, 2011; Kapferer and Valette-Florence, 2018, as cited in Sindy Liu, 2019).

However, the inherently open and participatory nature of social media clashes with the conventional luxury model, which is built on controlled messaging and selective access. While aspects like social value and perceived prestige can attract broader audiences, it remains vital for luxury labels to uphold their elite status by curating limited digital offerings and personalized experiences for their most dedicated clientele (Hennigs et al., 2015; Kapferer and Valette-Florence, 2018, as cited in Sindy Liu, 2019). Because social platforms are primarily driven by consumers, brands must also accept a shift in control dynamics (Fournier and Avery, 2011, as cited in Sindy Liu, 2019).

Since interactions between consumers and brands on social media often take place in public and involve wider audiences, the perceived value of a brand can be diminished just as easily as it can be enhanced. For instance, when users share negative opinions or mock the brand, this can harm its image (Quach and Thaichon, 2017, as cited in Sindy Liu, 2019). More recently, research by Kluge and Fassnacht (2015, as cited in Sindy Liu, 2019) indicated that offering luxury products online does not necessarily diminish consumers' perception of exclusivity. Cristini et al. (2017, as cited in Sindy Liu, 2019) observed that luxury's traditional link to exclusivity (as discussed by Okonkwo, 2009; Dion and Arnould, 2011, as cited in Sindy Liu, 2019) appears to be fading, as luxury goods have become more accessible to a broader audience (Yeoman, 2011, as cited in Sindy Liu, 2019). This suggests that exceptional quality can exist without the need for exclusivity (Cristini et al., 2017, p. 105, as cited in Sindy Liu, 2019). Kapferer and Valette-Florence (2018, as cited in Sindy Liu, 2019) raised questions about whether the appeal of luxury still relies on notions of rarity and exclusiveness, or if this is primarily a concern in Western markets, with different dynamics possibly at play in

Asia. Notably, Ko et al. (2018, as cited in Sindy Liu, 2019) provided a recent definition of luxury brands that omits direct references to exclusivity or scarcity (Sindy Liu, 2019).

However, this transition poses notable challenges for luxury brands. Many high-end labels have approached digitalization with caution. Although they may partner with select online fashion platforms like Farfetch or Stylebop to distribute their products, very few have embraced broader e-commerce ecosystems (like Amazon or eBay).

Beyond image concerns, legal and reputational risks also contribute to this digital reluctance. The rise in online threats, ranging from counterfeit goods and imitation websites to domain theft, phishing scams, and fraudulent payments, poses serious risks to brand integrity and customer trust. These challenges make the leap into full digital integration a delicate balancing act for luxury fashion brands (Berridge, 2018)

2.3.1 LUXURY E-COMMERCE IN CHINA

In recent years, China's luxury sector has seen a surge in e-commerce initiatives, with brands increasingly experimenting through WeChat mini-programs, omnichannel strategies, direct-to-consumer models, and online retail platforms. Noteworthy examples of creative digital campaigns on WeChat include Montblanc's virtual reality museum and Michael Kors' interactive handbag customization experience (Farooqi, 2018, as cited in Sindy Liu, 2019). These developments highlight that dismissing digital channels as incompatible with luxury, especially within the Chinese context, is an oversimplification (Sindy Liu, 2019).

Due to strict Internet regulations that block access to most Western social platforms, WeChat has emerged as the primary digital ecosystem for Chinese consumers. Blending messaging, gaming, and social media features (Chen, 2018, as cited in Sindy Liu, 2019), WeChat offers a wide range of integrated services, from digital payments and appointment bookings to multimedia communication and social updates. Its multifunctionality makes it more than just a social network; it's an essential tool that shapes daily routines and interactions in both personal and professional spheres (Chen, 2018; Long, 2017; Curiosity China, 2018, as cited in Sindy Liu, 2019).

Additionally, the introduction of mini-programs, essentially third-party applications embedded within WeChat, has enabled brands to offer users enhanced services such as shopping options, digital vouchers, and loyalty rewards, all without requiring a separate app

download. Thanks to its wide-ranging features and seamless blend of online and offline experiences, WeChat has evolved into an all-in-one digital hub for everyday tasks in China (Chen, 2018, as cited in Sindy Liu, 2019). Most users open the app more than ten times a day, with many engaging with it even more frequently (Tencent Pinguin Research, 2016, as cited in Sindy Liu, 2019).

WeChat enables brands to establish direct, tailored communication with individual users (Chen, 2018, as cited in Sindy Liu, 2019), making it a powerful platform for luxury customer relationship management. Its wide range of features supports everything from immersive marketing campaigns to boutique reservations and integrated e-commerce experiences (Curiosity China, 2018, as cited in Sindy Liu, 2019). Connecting is simple: users can scan a WeChat QR code to link with someone, such as a luxury sales advisor, without needing to share additional personal information. This level of personalized interaction is especially valued by affluent consumers. In fact, LuxurySociety (2017, as cited in Sindy Liu, 2019) reports that 86% of wealthy Chinese consumers prioritize bespoke experiences when purchasing luxury items. Through one-on-one messaging, sales staff can assist clients wherever they are, providing product details, answering queries, and even sharing personalized offers and exclusive event invitations (Sindy Liu, 2019).

People are more inclined to engage with content shared by their friends on their feed, which helps counteract the typically low engagement rates of official brand messages on WeChat (Zheng, 2017, as cited in Sindy Liu, 2019). In China's luxury retail landscape, WeChat has become such an integral tool that some companies now provide employees with dedicated work phones. When those employees leave the company, they're required to return the device along with the contact list it holds (Zheng, 2018, as cited in Sindy Liu, 2019). As luxury retailers aim to elevate in-store experiences through personalized service and brand ambassadors (Berger, 2014, as cited in Sindy Liu, 2019), WeChat enables sales staff to seamlessly blend digital and physical retail interactions. This type of one-on-one social media-based customer relationship building is still rare in the West. However, it is beginning to gain traction outside of China; for instance, the US department store Neiman Marcus (2018) advertised for a "WeChat Sales Associate" position at one of its American locations. Some luxury brands have even installed CRM interfaces on in-store iPads linked to their WeChat accounts, where customers can, for example, register their birthdays (Zheng, 2017 as cited in Sindy Liu, 2019) (Sindy Liu, 2019).

2.3.2 COVID-19 EFFECT ON LUXURY CONSUMPTION

The COVID-19 pandemic brought about significant shifts in consumer behavior. As people began to isolate and limit face to face interactions to curb the virus's spread, everyday life and the global economy were deeply affected. Reduced income levels and waning consumer confidence led to a drop in discretionary spending. One of the more enduring changes has been the rapid growth in e-commerce adoption. Additionally, travel restrictions have continued to disrupt consumer spending related to tourism and services. Countries like the United States, Europe, Japan, and South Korea faced economic setbacks due to the sharp decline in international visitors, particularly from China (Jiali Xie, 2020).

The COVID-19 pandemic is reshaping the retail landscape, pushing retailers to adapt and develop new strategies in response to the evolving situation. Luxury brands, in particular, have introduced targeted measures to navigate the crisis. While some have paused production and delivery, others have managed to continue operating by adjusting their approaches. To uncover new opportunities amid the disruption, many luxury labels have also adopted innovative marketing strategies tailored to the unique challenges of the pandemic (Jiali Xie, 2020).

The expansion of e-commerce has emerged as a fortunate development for luxury brands during the COVID-19 crisis. The pandemic has triggered significant and potentially lasting shifts in consumer habits, particularly a rapid move toward online shopping (Singhal & Sneader, 2020, as cited in Jiali Xie, 2020). As more consumers opt to buy goods and services digitally, e-commerce has become an unavoidable evolution in the retail landscape (Kotler & Keller, 2006, as cited in Jiali Xie, 2020).

When it comes to luxury products, their appeal lies in distinctive attributes such as exceptional quality, premium pricing, an exclusive brand image, and a refined, enjoyable shopping experience (Keller, 2009, as cited in Jiali Xie, 2020). According to Okonkwo (2010, as cited in Jiali Xie, 2020), luxury products are defined by their exclusivity, creativity, and innovation. Despite this, many luxury fashion brands have been slow to embrace e-commerce, primarily for the reasons previously discussed.

One of the key challenges lies in the difficulty of translating the tactile and sensory elements of luxury goods into a digital environment (Okonkwo, 2009, as cited in Jiali Xie, 2020).

Nonetheless, progress has been made. Gucci, for example, was an early adopter, launching its own e-commerce platform as far back as 2002 (Sherman, 2020, as cited in Jiali Xie, 2020). Since 2010, the online luxury market has experienced significant growth (Bain & Company, 2020, as cited in Jiali Xie, 2020), demonstrating that luxury and e-commerce can indeed be a powerful combination. This shift has allowed luxury brands to cultivate a strong digital presence and accelerate their global reach (Moore & Doyle, 2010, as cited in Jiali Xie, 2020). Moreover, online platforms enhance accessibility, which plays a key role in consumer decisions around luxury purchases (Okonkwo, 2010, as cited in Jiali Xie, 2020). E-commerce offers a broader range of information and product options than traditional retail, while also enabling luxury companies to gather real-time customer feedback. In addition, social media channels have become a vital tool for fostering direct and engaging relationships with consumers. Altogether, digital platforms have become essential for promoting and amplifying the presence of luxury brands (Jiali Xie, 2020).

2.4 CUSTOMIZATION TREND

Over the last twenty years, luxury brands have increasingly embraced digital technologies to strengthen customer engagement and build closer relationships (Godey et al., 2016; Kim & Ko, 2012; Kong, Witmaier, & Ko, 2021; Lim et al., 2021; Wang et al., 2021, as cited in Dayeon Choi, 2022). Among the various digital strategies employed, product customization has garnered significant interest (Kalantari, Johnson, & Perera, 2021; Moreau et al., 2020, as cited in Dayeon Choi, 2022). This approach allows consumers to personalize professionally designed items by making selected design choices through online configuration tools (Dayeon Choi, 2022).

A prime example is Louis Vuitton, which offers a digitally optimized customization service. Through this platform, customers can personalize handbags by adding digital stickers and choosing from pre-set design templates. Uniquely, the customized item is then produced and sold exclusively to the individual who created it (Franke, Schreier, & Kaiser, 2010; Moreau et al., 2020, as cited in Dayeon Choi, 2022).

In today's landscape of "masstige" luxury (*see chapter 1, section 4*), a blend of mass appeal and prestige (Chandon, Laurent, & Valette-Florence, 2016; Kumagai & Nagasawa, 2021, as cited in Dayeon Choi, 2022), customization serves as a powerful marketing tool. It enables

brands to preserve an aura of exclusivity while also resonating with a broader audience (Yoo & Park, 2016, as cited in Dayeon Choi, 2022). As luxury customization becomes more widespread among top-tier luxury brands, it is beginning to attract growing interest within marketing research (e.g., Moreau et al., 2020; Yoo & Park, 2016, as cited in Dayeon Choi, 2022).

Recent researches in this emerging field have primarily explored the factors that drive consumers to purchase customized luxury products. For example, Yoo and Park (2016, as cited in Dayeon Choi, 2022) found that customization can enhance the perceived self-expressive, social, and creative value of a product, which in turn may boost consumer satisfaction and foster brand loyalty. However, the impact of customization is not always positive. Moreau et al. (2020) showed that while moderate levels of customization can fulfill consumers' need for self-expression and increase purchase intentions, excessive customization might undermine the product's symbolic or signaling value. As a result, there is a growing need for deeper insights into how customization strategies in the luxury sector shape consumer perceptions and behavior (Dayeon Choi, 2022).

Some researches contributed to the emerging literature on customization in luxury branding by uncovering a novel psychological outcome associated with the consumption of customized luxury products. Through experimental studies, comprising both scenario-based and real customization experiences, it has been demonstrated that consuming a customized (as opposed to non-customized) luxury item positively influences consumers' subjective well-being. This, in turn, fosters preferences and behaviors aligned with enhanced well-being, referred to as behavioral well-being (Hudders & Pandelaere, 2015; Rudd, Vohs, & Aaker, 2012, as cited in Dayeon Choi, 2022). The effect has been found to result from an increased sense of self-authenticity, a feeling that is often weakened when people buy luxury products (Goor et al., 2020, as cited in Dayeon Choi, 2022). In particular, customization seems to lessen the sense of disconnect or inauthenticity that consumers may feel when purchasing luxury items. As a result, they experience a stronger sense of well-being, which in turn encourages behaviors that support their overall happiness.

Furthermore, it is posited that the perception of self-authenticity plays a mediating role in the relationship between luxury customization and both subjective and behavioral well-being (Dayeon Choi, 2022).

A substantial body of interdisciplinary research has explored the link between income, consumption, and subjective well-being. Findings indicate that when income is directed toward meeting basic needs, there tends to be a positive relationship between consumption and subjective well-being (Ahuvia, 2008; Witt, 2010, as cited in Dayeon Choi, 2022). However, once these basic needs are satisfied, additional income and consumption contribute little to further improvements in well-being. In fact, several studies have reported a negative association between high levels of non-essential consumption and subjective well-being (Ahuvia, 2008; Dutt, 2008, as cited in Dayeon Choi, 2022). In this context, further consumption beyond necessity may even have detrimental effects on well-being (Howell & Howell, 2008, as cited in Dayeon Choi, 2022). Within this framework, luxury goods are often considered "unnecessities": products not required for daily living (Berry, 1994; Dahl, Honea & Manchanda, 2005; Piron, 2000, as cited in Dayeon Choi, 2022). Consequently, excessive luxury consumption may undermine life satisfaction, particularly due to its perceived link with wastefulness (Berry, 1994; Frank, 1999, as cited in Dayeon Choi, 2022). This line of reasoning supports the notion that luxury consumption can negatively impact subjective well-being (Ahuvia, 2008; Frank, 1999, as cited in Dayeon Choi, 2022).

Recent studies examining the role of self-(in)authenticity in luxury consumption have provided more direct evidence of a negative link between luxury consumption and well-being (Goor et al., 2020, as cited in Dayeon Choi, 2022). While earlier research highlighted the psychological and social advantages of luxury purchases, such as self-indulgence (Chevalier & Mazzalovo, 2008; Kapferer & Bastien, 2012, as cited in Dayeon Choi, 2022), feelings of pride (Bellezza & Keinan, 2014, as cited in Dayeon Choi, 2022), a sense of empowerment (Rucker & Galinsky, 2008, as cited in Dayeon Choi, 2022), and social recognition (McFerran & Argo, 2014, as cited in Dayeon Choi, 2022), more recent findings suggest that these benefits may come at a psychological cost. Specifically, luxury consumption has been shown to reduce consumers' sense of self-authenticity, as individuals may perceive luxury brands as an undeserved privilege (Goor et al., 2020, as cited in Dayeon Choi, 2022). Given the well-established connection between self-authenticity and subjective well-being (Cable et al., 2013; Erickson, 1995, as cited in Dayeon Choi, 2022), this reduction in perceived authenticity can, in turn, diminish overall well-being (Hudders & Pandelaere, 2012, 2015, as cited in Dayeon Choi, 2022) (Dayeon Choi, 2022).

2.5 SECOND HAND PRODUCTS

The transition toward a circular economy presents a significant opportunity for brands, with the potential to generate an additional \$4.5 trillion in economic value by 2030 and up to \$25 trillion by 2050 (Goldman Sachs, 2022, as cited in Mona Mrad, 2024). This model, centered on the principles of sharing, leasing, reusing, repairing, refurbishing, and recycling, seeks to extend the life cycle of products and materials (European Commission, 2023; Li et al., 2024, as cited in Mona Mrad, 2024). As markets evolve, the ability of industries and companies to remain flexible and responsive becomes increasingly vital for sustaining their relevance and competitive edge. In this context, rising consumer expectations have led to mounting pressure on luxury brands to take a leadership role in sustainability. In response, many of these companies have begun integrating circular economy practices into their strategies (Lim et al., 2023, as cited in Mona Mrad, 2024) (Mona Mrad, 2024).

Luxury goods, characterized by high prices, enduring appeal, rare materials, expert craftsmanship, and superior quality (Ko et al., 2019, as cited in Mona Mrad, 2024), are well positioned to benefit from strategies aimed at extending product lifespans and integrating sustainability with the traditional values of luxury. Within this framework, the circular economy has fostered the emergence of innovative business models, including product sharing (Christodoulides et al., 2021, as cited in Mona Mrad, 2024), second-hand markets (Turunen et al., 2020, as cited in Mona Mrad, 2024), and rental services (Pantano & Stylos, 2020, as cited in Mona Mrad, 2024), all of which contribute to broader consumer access to luxury offerings. Nevertheless, the ongoing democratization of luxury (Shukla et al., 2022, as cited in Mona Mrad, 2024) may potentially undermine the ability of these products to fulfill their traditional psychosocial roles (Mona Mrad, 2024).

The luxury sector presents a particularly favorable context for the natural growth of repair services. Owing to their distinctive design features, (often including artisanal craftsmanship and one-of-a-kind characteristics) high-end products are perceived as worthy of preservation or restoration when damaged (Wang, 2022, p. 790, as cited in Mona Mrad, 2024). Recognizing that repair services can play a key role in safeguarding heritage, reinforcing emotional connections with the past, and extending the longevity of luxury items,

both manufacturers and retailers in the luxury industry have increasingly begun to offer such services (Mona Mrad, 2024).

Repair services contribute not only to more responsible consumption practices but also serve as a concrete countermeasure to the culture of fast fashion, by extending the functional lifespan and utility of luxury goods and reinforcing their inherent durability (Sun et al., 2021, as cited in Mona Mrad, 2024). Beyond practical considerations, repair and alteration are often motivated by emotional attachment, stemming from the uniqueness and personal significance of high-end items, which are frequently associated with distinctive histories and heritage (Wang, 2022, as cited in Mona Mrad, 2024). Moreover, the growing appeal of so-called “pre-loved” luxury goods highlights their symbolic potential to create a connection between current and previous owners (Huang & Fishbach, 2021, as cited in Mona Mrad, 2024), offering the latter a rational incentive to invest in repair as a means of enhancing resale or rental value and extending product life within the circular economy (Mona Mrad, 2024).

2.5.1 REPAIR AS A CONSUMPTION PRACTICE

Waste reduction and enhanced sustainability in consumption are primarily achieved through two main approaches. The first involves redirecting consumer waste into functional systems via efficient recycling processes (Graham & Thrift, 2007, as cited in Mona Mrad, 2024). The second emphasizes minimizing waste generation by reducing consumption and extending the life of materials, an approach in which repair plays a particularly significant role (Cherrier & Türe, 2020; Godfrey et al., 2022, as cited in Mona Mrad, 2024) (Mona Mrad, 2024).

In recent years, repair has garnered increasing attention as a vital element in waste reduction and resource management strategies (Jaeger-Erben et al., 2021, as cited in Mona Mrad, 2024), being recognized for its largely untapped potential in advancing sustainability. Notably, the European Union’s policy framework on waste and the circular economy prioritizes the repair and reuse of goods over other practices such as recycling (European Commission, 2020, as cited in Mona Mrad, 2024).

Consumption practices inherently lead to the deterioration of products over time. In this context, repair processes serve as a means to preserve both the personal connection and

emotional attachment that consumers develop through their interactions with luxury goods, as well as the social image conveyed through such consumption (Graham & Thrift, 2007, as cited in Mona Mrad, 2024).

The act of repairing involves two key mechanisms: calibration and realignment. Calibration refers to consumers' intuitive adjustments to the gradual decline in a product's performance, while realignment becomes necessary when a breakdown disrupts habitual use, prompting consumers to deliberately restore the product to align with previously established consumption routines (Godfrey et al., 2022, as cited in Mona Mrad, 2024). This not only extends the product's functional life (Laitala et al., 2021, as cited in Mona Mrad, 2024) but also contributes to environmental sustainability, a core objective of the circular economy (Cooper, 2020, as cited in Mona Mrad, 2024). Moreover, repair supports the continuity of socially and individually constructed meanings, such as emotional bonds with luxury items, that are formed through ongoing use. Repair services may encompass a variety of interventions, including cleaning, maintenance, restoration, preservation, and customization, all of which enable consumers to adapt the utility of a product in response to, or in anticipation of, its eventual degradation (Qin et al., 2024; Godfrey et al., 2022, as cited in Mona Mrad, 2024) (Mona Mrad, 2024).

2.6 THE REVIVAL OF CRAFTSMANSHIP AND THE SLOW FASHION TENDENCY

A growing number of luxury brand designers are aligning around a renewed appreciation for traditional luxury values, such as timeless appeal, long-lasting quality, enduring style, and exceptional craftsmanship. These principles have historically formed the foundation of luxury design and production. Ideally, they should have remained central to the industry's practices; however, they were often overshadowed during a period marked by diversification and market expansion (Friedman, 2010; Gardetti & Torres, 2013; Kahn, 2009, as cited in Miguel Angel Gardetti, 2016).

However, in recent years, there has been a noticeable resurgence of craftsmanship, with a new generation of apprentices emerging across various luxury sectors, including watchmaking, bespoke tailoring, and traditional lace-making (Miguel Angel Gardetti, 2016). Some luxury houses have even begun to publicly highlight their artisanal techniques, thereby fostering greater awareness and appreciation for the expertise involved in producing

singular, handcrafted items (Halzack, 2014; Joy et al., 2012, as cited in Miguel Angel Gardetti, 2016). Within this context, artisanal production increasingly serves as a marker of genuine luxury, distinguishing it from mass-produced offerings, as consumers come to recognize and value the inherent quality and uniqueness of handmade goods (Halzack, 2014, as cited in Miguel Angel Gardetti, 2016).

By its very nature, artisanal production is a deliberate and labor-intensive process, requiring both time and refined skill. This intrinsic slowness aligns closely with the broader philosophy of the Slow Movement, as articulated by Honore (2004, as cited in Miguel Angel Gardetti, 2016) and Fletcher (2008, as cited in Miguel Angel Gardetti, 2016). Drawing inspiration from the Italian-born Slow Food movement, which emerged as a reaction against the rise of global fast food chains, these scholars advocate for a more mindful and meaningful pace of life. However, the concept of "slow" is not simply the antithesis of "fast"; rather, it represents a shift toward deeper engagement with one's surroundings, whether through social connection, cultural participation, or the enjoyment of everyday activities such as sharing a meal or maintaining work-life balance (Honore, 2004, as cited in Miguel Angel Gardetti, 2016).

In this framework, slowness becomes a mental orientation: one that favors reflection, calm, patience, and an emphasis on quality over quantity. Embracing slowness does not imply a nostalgic retreat into a pre-industrial past, but rather the pursuit of a more sustainable rhythm: an internal equilibrium that allows individuals to navigate the demands of modern life while remaining grounded and intentional (Fletcher, 2008; Honore, 2004, as cited in Miguel Angel Gardetti, 2016) (Miguel Angel Gardetti, 2016)

2.7 THE DIGITAL ERA

In the context of an increasingly digitalized world, the luxury sector is undergoing a profound transformation, largely driven by the adoption of Artificial Intelligence (AI) and advanced digital tools. This technological evolution presents a dual scenario for luxury brands, as it offers strategic opportunities while also introducing operational challenges. Brands are now tasked with integrating innovation without compromising their distinctive identities (Allam Hamdan, 2024).

Rather than serving as a mere technological enhancement, the incorporation of AI marks a pivotal shift in the strategic positioning of luxury brands. Recent studies highlight

how AI is reshaping consumer interaction and redefining traditional marketing frameworks. Nonetheless, this digital progression also raises critical issues, particularly regarding the preservation of brand exclusivity in an increasingly open digital environment, and the management of sensitive consumer data in light of growing privacy concerns.

Within this broader digital shift, another significant development is the emergence of the Metaverse, which further extends the boundaries of virtual engagement and brand innovation in the luxury industry (Allam Hamdan, 2024).

Dioniso et al. explain that the term Metaverse is a combination of the prefix meta, meaning "beyond", and the suffix verse, a shorthand for "universe." It denotes a computer-generated environment that exists beyond the physical world, distinct from metaphysical or spiritual interpretations of what lies beyond physical reality. Expanding on this definition, Mystakidis describes the Metaverse as a post-reality universe: a continuous, immersive, and multi-user digital space that integrates elements of physical existence with virtual experiences. It is essentially a network of interconnected, persistent environments designed to support social interaction and shared virtual experiences (Allam Hamdan, 2024).

Importantly, the Metaverse is increasingly recognized as a disruptive technological domain. Its rise is reshaping the luxury sector by broadening brand exposure, increasing sales potential, and altering global market dynamics. For luxury brands, this evolving digital landscape offers new ways to engage consumers and redefine the boundaries of exclusivity. According to recent projections concerning the global Metaverse market between 2022 and 2030, the industry was valued at approximately 65.5 billion U.S. dollars in 2022. This figure was expected to grow to 82 billion U.S. dollars by 2023, with estimates forecasting a dramatic surge to nearly 936.6 billion U.S. dollars by 2030. Frequently referred to as the next phase of the internet era, the Metaverse is envisioned as a convergence space where physical and digital realities coexist and interact seamlessly.

As Kim explains, the Metaverse can be understood as an expansive domain of augmented reality (AR), encompassing various forms of computer-mediated environments. Johnson et al. suggest that one of the most promising advantages offered by the Metaverse lies in its potential to significantly enhance consumer involvement and strengthen brand loyalty, particularly within the luxury segment. By harnessing the immersive and interactive features of this virtual space, luxury brands are able to engage a wider and more diverse audience, including those who lack access to physical retail locations. This expansion is

facilitated through initiatives such as virtual showrooms, digital product unveilings, and fully immersive branded experiences that replicate or even surpass traditional in-store interactions. Thus, The Metaverse has attracted substantial investment from gaming corporations, technology conglomerates, and venture capital firms, primarily due to its perceived potential as the next frontier in the evolution of the gaming industry. These stakeholders view the Metaverse not only as a platform for entertainment but also as a transformative digital ecosystem capable of redefining user interaction and immersive experiences in gaming and beyond (Allam Hamdan, 2024).

2.7.1 ARTIFICIAL INTELLIGENCE AND AUGMENTED REALITY

Among these advanced digital technologies, artificial intelligence (AI), defined as the simulation of human cognitive processes by machines, is reshaping design and production methodologies (Nozawa et al., 2022, as cited in Allam Hamdan, 2024). The integration of AI is becoming increasingly central across different sectors, especially in operational and strategic management. AI technologies are being employed to reduce costs, maximise profitability, and simplify purchasing processes, all of which contribute to elevated levels of customer satisfaction. Moreover, marketing departments are progressively implementing a variety of technological tools aimed at improving business efficiency and delivering more gratifying consumer experiences (Allam Hamdan, 2024).

Data analytics, for example, understood as the examination of raw data to extract strategic insights, is increasingly employed to enhance operational efficiency, personalize customer engagement, to assess consumer preferences, customize its product offerings accordingly and maintain a competitive advantage in an ever-evolving market landscape (Yang and Yen, 2019, as cited in Nermain Al-Issa, 2024). Collectively, these technologies are transforming every stage of the luxury value chain, from product conception and manufacturing to marketing, distribution, and customer service (Al-Hyari, Al-Smadi, and Weshah, 2023; Global Data, 2023, as cited in Nermain Al-Issa, 2024) (Nermain Al-Issa, 2024).

Luxury fashion brands are emerging as leaders in the adoption of technological innovation, particularly through the use of artificial intelligence to enhance both operational and consumer-facing strategies. AI-powered algorithms are increasingly employed to generate personalized product recommendations and to optimize inventory management

systems (Rahman et al., 2023, as cited in Nermain Al-Issa, 2024). For instance, LVMH leverages AI-driven demand forecasting tools to ensure optimal inventory levels, thereby reducing the risk of stock shortages and enhancing supply chain efficiency (Global Data, 2023, as cited in Nermain Al-Issa, 2024) (Nermain Al-Issa, 2024).

Beyond the fashion sector, luxury automotive brands such as BMW are also embracing AI technologies. These innovations are integrated into the vehicle design process to develop cutting-edge aesthetics and to refine user experiences behind the wheel (Xu and Mehta, 2022, as cited in Allam Hamdan, 2024).

AR refers to the superimposition of digital content onto the physical world, enriching real-life experiences with additional layers of information. One practical application of AR involves the use of mobile phone cameras to instantly translate written text, such as signs or menus, from one language into another, illustrating how digital enhancements can meaningfully interact with the physical environment (Allam Hamdan, 2024).

Augmented Reality and Virtual Reality (VR) are redefining how luxury products are presented and experienced. They have become increasingly vital for luxury brands, offering immersive three-dimensional experiences that seamlessly blend the physical and digital worlds, thereby enriching the overall customer journey (Nawres et al., 2024; Soman, Sidana, & Goel, 2023, as cited in Nermain Al-Issa, 2024). High-end retailers are leveraging AR-based virtual try-on tools to help customers visualize products in real-life environments before making a purchase decision (Rejeti et al., 2023; Soman, Sidana, & Goel, 2023, as cited in Nermain Al-Issa, 2024). For example, Gucci has introduced AR-powered try-on features that let users experiment with different products virtually (Caroline, 2022, as cited in Nermain Al-Issa, 2024). In the luxury automotive space, brands like Mercedes-Benz use AR to provide virtual test drives, allowing potential buyers to explore vehicle features and functionalities in a simulated setting (Marr, 2023, as cited in Nermain Al-Issa, 2024) (Nermain Al-Issa, 2024).

Augmented Reality is increasingly leveraged to foster consumer interaction with brand-specific elements, such as branded content (Kumar et al., 2024, as cited in Arya, 2024). Thanks to its immersive nature (Rauschnabel et al., 2022, as cited in Arya, 2024), AR is often integrated into other digital platforms, particularly social media, where it enables real-time engagement between users and brands (Hollebeek et al., 2024, as cited in Arya, 2024). This immediacy enhances the perceived social presence of a brand, meaning consumers feel as though the brand is present in their environment, rather than distanced by a screen (Short

et al., 1976, as cited in Arya, 2024). Such presence can strengthen consumers' attitudes toward the brand and deepen their emotional connection with it (Sinha & Srivastava, 2022, as cited in Arya, 2024). According to social presence theory¹, when consumers perceive a brand as warm and competent, they are more likely to feel its presence as real and trustworthy (Arya, 2024).

Warmth, reflects consumers' perceptions of intimacy, friendliness, closeness, or a sense of belonging fostered by a brand, often conveyed through its AR-driven content (Hollebeek et al., 2021, as cited in Arya, 2024). In contrast, competence refers to the brand's perceived ability to fulfill or surpass customer expectations, demonstrated through its expertise, skills, dependability, and overall performance (Thomson et al., 2005; Astvansh et al., 2024; Portal et al., 2019, as cited in Arya, 2024). Social media platforms serve as powerful tools for enhancing both perceived brand warmth and competence (Surira et al., 2024, as cited in Arya, 2024) (Arya, 2024).

2.7.2 NFT (NON FUNGIBLE TOKENS)

In addition to technologies that have been in use for some time, such as digital avatars and multiplayer online games, recent technological advancements now enable the purchase of various token-based, non-fungible digital products (NFTs), thus introducing a new form of commerce.

Non-Fungible Tokens (NFTs) can encompass a wide range of digital assets, including artworks, images, music tracks, videos, video games, virtual personas, digital fashion items, and branded content from luxury companies. These items are exchanged within decentralized online marketplaces, often referred to as Metaverses. These platforms function as open-access virtual environments where users can acquire, display, and utilize NFTs as part of their digital identity and experience (Allam Hamdan, 2024).

Historically, digital goods have been assigned a lower perceived value compared to their physical counterparts. This disparity is largely attributed to the limited emotional and psychological attachment consumers tend to form with intangible assets, which traditionally lack the tactile and sensorial dimensions of physical products.

¹ *Social presence theory examines how communication platforms, such as social networking sites, convey social cues that foster users' perceptions of platform warmth and competence (Van Doorn et al., 2017; Hollebeek et al., 2021).*

The market for NFTs of this kind is predominantly composed of collectors and consumers seeking unique and rare digital items. A particularly significant application of NFTs lies in the development of digital skins for avatars within video games. In this context, fashion and luxury play a crucial role, as virtual apparel constitutes an integral part of gaming culture. Dressing avatars becomes a form of personal expression in the digital realm, mirroring the importance of physical fashion in real-life identity.

The cultural value attributed to avatar customization is reflected in notable commercial successes. For instance, in March 2021, the sale of 600 NFT sneakers during a seven-minute auction generated approximately 3 million U.S. dollars in revenue, demonstrating the substantial market demand and emotional investment associated with digital fashion assets. Recent findings by Colicev demonstrate how brands can strategically integrate NFTs across the three key phases of the marketing funnel: pre-purchase, purchase and post-purchase. This approach allows companies to engage and influence consumers throughout their decision-making journey.

According to Mar, the adoption of NFTs by luxury brands offers a wide range of benefits. First, consumers interacting with luxury NFTs in the Metaverse may eventually transition into buyers of physical luxury goods. Second, this strategy enables brands to attract a younger, digitally native demographic that may not traditionally engage with physical luxury products. Third, the Metaverse serves as a dynamic space for experimenting with and testing new designs before their physical realisation. Fourth, NFTs support more sustainable business models by reducing the environmental impact of production and distribution processes. Fifth, they introduce innovative sources of revenue, allowing brands to expand their economic potential.

Sixth, designs from previous collections can be reimaged as digital NFT assets, reinforcing and preserving brand heritage in a contemporary format. Seventh, the inherently digital nature of NFTs allows for exceptionally high profit margins, given the ease of replication and reduced distribution costs compared to physical items. Eighth, NFTs ensure continued revenue generation through royalty systems, as virtual items continue to circulate on secondary markets over time (Allam Hamdan, 2024).

This kind of economy, such as Sandbox is driven by user-generated cryptocurrencies and NFT virtual assets, fostering collaborations with global brands to offer unique and immersive experiences to its players. Within the Sandbox marketplace, users can

purchase and integrate NFTs into their virtual reality environments. Similarly, Epic Games' highly popular product, Fortnite, functions not only as a virtual reality game but also as a platform for events. The game's Metaverse features have been leveraged by artists worldwide to host live performances, reflecting the increasing cultural relevance and appeal of the Metaverse as the game's popularity continues to rise (Allam Hamdan, 2024).

3 HIGH NET WORTH INDIVIDUALS AND THE EVOLUTION OF THE CHINESE LUXURY MARKET

Despite the dynamic expansion of the luxury goods industry over the past decade, there are signs of stagnation in the personal luxury sector, while luxury car sales continue to rise, driven primarily by Chinese consumers. Several factors contribute to this slowdown. First, a decline in tourism in Europe due to security concerns has impacted sales. In France, Italy, and Spain, 70%–80% of luxury personal goods purchases are made by foreign visitors, while in the UK and Switzerland, this share is around 50%–55%. Additionally, approximately 66% of Russian luxury purchases and over 40% of Chinese luxury purchases occur abroad (Michał Młody, 2020).

Second, falling oil and gas prices have reduced demand from affluent consumers in Russia and the Middle East. Third, the Chinese government has implemented policies to encourage domestic consumption and curb luxury shopping abroad (Solca et al., 2016, as cited in Młody, 2020).

Lastly, there is a noticeable shift among high-net-worth consumers towards less mainstream, more traditional, bespoke luxury that emphasizes exclusivity and experience over mass appeal. Many are moving away from prominent logos and embracing "slow luxury" a more understated, heritage-driven, and personalized approach to luxury consumption (Wealth, 2015; Beverly Hills Conference and Visitors Bureau, 2016, as cited in Młody, 2020) (Michał Młody, 2020).

3.1 HIGH NET WORTH INDIVIDUALS

High-net-worth individuals (HNWIs), commonly referred to as the wealthy, represent only 0.7 percent of the global adult population. A high-net-worth individual (HNWI) is typically defined as someone who possesses at least \$1 million in liquid financial assets. These assets generally include items such as stocks, mutual funds, certificates of deposit, cash holdings, and balances in checking or savings accounts. In contrast, non-liquid assets, such as a primary residence, valuable collectibles, or long-lasting consumer goods, are generally not considered when determining HNWI status. Due to the significant financial resources they control, high-net-worth households often require specialized services from financial advisors and wealth management professionals. These services typically include

portfolio management, tax planning, estate and trust structuring, and privileged access to investment vehicles such as hedge funds and private equity (Advisor, 2022).

Individuals or households with greater levels of liquid assets tend to be particularly attractive to wealth managers, as advisory fees are often calculated as a percentage of assets under management. For this reason, banks and investment firms frequently establish minimum asset thresholds that grant HNWI access to tailored, high-touch financial services.

High-net-worth individuals are susceptible to behavioral biases and judgment errors in their decision-making processes. Their behavior and outlook toward the future cannot be reduced to a single, immutable psychological characteristic. Inherited wealth may play a role for some, but most HNWI have not simply won a genetic lottery that endowed them with the perfectly rational, utility-maximizing, and emotionless disposition often associated with the theoretical model of *Homo economicus*. While numerous case studies highlight self-made entrepreneurs and investors who have achieved exceptional success by capitalizing on others' irrational behaviors and market inefficiencies, HNWI themselves are subject to similar cognitive distortions. They do not form a homogenous group of fully rational agents, as posited by traditional economic theory.

The growth of high-net-worth individuals shows no signs of slowing, particularly in the United States, where asset accumulation continues to rise. According to Capgemini's *World Wealth Report 2024*, the five countries with the highest total number of HNWI are the United States, China, India, Japan, and France. The U.S. leads globally, hosting approximately 22 million millionaires (accounting for 38% of the global HNWI population) followed by Mainland China with over 6 million, and the United Kingdom with 3 million, as reported in UBS's *Global Wealth Report 2024*.

Financial experts attribute the high concentration of millionaires in the United States to a favorable environment for entrepreneurship and relatively easy access to investment tools. Individuals can invest in financial markets through online brokerage platforms, while tax-advantaged savings vehicles such as IRAs and 401(k) plans further support long-term wealth accumulation. (Advisor, 2022)

Beyond economic influence, this group exerts considerable control over political and institutional power. As Piketty (2014, p. 277) points out, the top wealth percentile occupies a dominant position within any society, shaping both its economic and political frameworks.

Similarly, Deaton (2013, p. 212) notes that the substantial growth in top-tier incomes can reinforce itself through political mechanisms enabled by financial influence.

3.2 ULTRA HIGH NET WORTH INDIVIDUALS

Ultra-high-net-worth (UHNW) investors represent the wealthiest 1 percent of households, a highly exclusive segment often celebrated, and at times criticized, in the media. Unlike high-net-worth individuals more broadly, each UHNW investor possesses a net worth of at least \$25 million. The United States is home to the largest number of these households worldwide, with approximately 177,000 identified (Federal Reserve Board, 2013; Wealth-X, 2015, as cited in Marston, 2016).

The majority of UHNW individuals have accumulated their wealth independently, most commonly as entrepreneurs, business owners, top corporate executives, or consultants. In fact, 76 percent of their wealth is self-made, while only 13 percent have relied solely on inheritance (Wealth-X and UBS, 2014; Marston, 2016).

The demographic composition of the top 1 percent is overwhelmingly white and non-Hispanic, a pattern that shifts only slightly across generations. Among mature UHNW investors, 96 percent fall into this category, while 94.5 percent of UHNW baby boomers share the same characteristics (Federal Reserve Board, 2013, as cited in Marston, 2016).

The UHNW landscape also remains male-dominated, with men representing 87 percent of this elite group. Women, though accounting for only 13 percent, still form a significant cohort: the number of female UHNW individuals in the U.S. alone exceeds the total number of UHNW investors in all of India. Moreover, American UHNW women hold greater average wealth than their male counterparts, with an average net worth of \$160 million compared to \$132 million for men (Marston, 2016).

Despite their visibility, UHNW investors comprise only a very small fraction of the population, and their presence diminishes further when analyzed by generation. Millennials, for instance, make up a minimal share of this group, despite high-profile figures such as Mark Zuckerberg.

Wealth, moreover, does not eliminate financial insecurity. A 2015 report by SEI and Scorpio Partnership found that, although U.S. UHNW individuals expected an average portfolio growth of 15.8 percent in the following year, 59 percent nonetheless cited running out of

money or being unable to maintain their lifestyle as their greatest concern (SEI and Scorpio Partnership, 2015, as cited in Marston, 2016).

The mature generation continues to represent a noteworthy portion of UHNW investors, despite their declining numbers. Born before 1946, they came of age during the Great Depression and World War II: formative experiences that shaped their frugality and strong preference for financial security. Their wealth accumulation was marked by discipline and the ability to benefit from post-war economic expansion (Marston, 2016).

This generation often adhered to traditional gender roles, with men typically serving as breadwinners and women managing households. Loyalty to employers was highly valued, with expectations of lifelong employment and secure retirement through company pensions. Generally conservative, patriotic, and conformist, mature UHNW individuals tend to appreciate simplicity and possess a strong sense of civic duty. Many continue to seek usefulness later in life, though they remain particularly anxious about financial depletion, largely due to concerns over market volatility and potential long-term care or medical expenses.

Baby boomers, born between 1946 and 1964, represent one of the most influential generational cohorts, with a population of 76 million. This group is often divided into two segments: the “leading edge” (1948–1955), associated with the cultural and social changes of the 1960s, and the “trailing edge” (1956–1964), which is numerically larger (Marston, 2016).

These two groups differ subtly in outlook. Older boomers are generally more idealistic, while younger boomers tend to be pragmatic, skeptical, and less trusting of financial advisors. Consequently, advisors must adopt a more customized approach when working with younger boomers, acknowledging their unique expectations.

Across both subgroups, boomers value personal freedom and self-expression, favoring open dialogue over hierarchical authority. They are more receptive to advisors who engage with them rather than dictate to them (Marston, 2016).

Shaped by the upheavals of the 1960s and 70s, older boomers in particular tend to display strong social awareness. They uphold values such as inclusivity, gender equality, environmental stewardship, and personal liberty as core to their American identity (Fidelity and Guaranty Life, 2013, as cited in Marston, 2016).

Boomers also reject conventional views of aging, preferring to see themselves as active, forward-looking adults with meaningful lives ahead. Looking toward the future, many emphasize securing their family's financial well-being. While the wealth transfer from the mature generation to boomers continues, an even larger intergenerational shift is underway, as boomers themselves begin to pass assets to their heirs. This unprecedented wealth transfer is expected to span the next 30 to 40 years (Marston, 2016).

Financially, boomers' approach to advising resembles that of their parents more than that of their children. Like the mature generation, they often sustain long-standing relationships with trusted advisors and are generally comfortable with traditional, advisor-led models. This contrasts with Gen X and Gen Y investors, who prefer more autonomous or technology-driven approaches (Accenture, 2015, as cited in Marston, 2016). Nearly half of UHNW individuals intend to continue working with their parents' financial advisors, underscoring the need for advisors to adapt to the expectations of younger generations (Leonhart, 2014, as cited in Marston, 2016).

Boomers also stand out as the most philanthropic generation globally, representing over 53 percent of the UHNW philanthropist population (Wealth-X and Arton Capital, 2014, as cited in Marston, 2016).

Generation X, born between 1965 and 1979, accounts for roughly 21,061 UHNW households (Federal Reserve Board, 2013, as cited in Marston, 2016). Raised amid less economic and family stability than baby boomers, many Gen Xers grew up in dual-income or divorced households. Often referred to as "latchkey kids," they developed independence and resourcefulness, though they were stereotyped as slackers. Their cautious outlook reflects skepticism more than apathy (Marston, 2016).

The optimism of the 1960s gave way in their formative years to a backdrop of scandal, inflation, global tensions, and recession during the 1970s and 80s. As a result, Gen X emerged more skeptical, cautious, and pragmatic. They also became the first generation to fully embrace digital technology, fostering self-directed learning and independence.

This blend of digital fluency and self-reliance has nurtured strong entrepreneurial drive. Although smaller in number than matures and boomers, Gen X UHNW households hold the highest average total assets, at about \$42.7 million. This is largely attributable to the fact that 81 percent are self-employed or engaged in partnerships, with much of their wealth tied to business holdings (Marston, 2016).

Gen X UHNW individuals are also the most likely to increase spending in the near term, signaling their enthusiasm as consumers (SEI and Scorpio Partnership, 2015, as cited in Marston, 2016). At the same time, they often channel wealth toward socially responsible or impact-driven causes (Vanguard, 2014, as cited in Marston, 2016).

In investing, Gen X exhibits clear differences from earlier generations. They prioritize transparency and autonomy, frequently engaging in financial discussions within peer networks and via social media. Unlike matures and boomers, they show little attachment to conventional institutions or advisory models (Accenture, 2015, as cited in Marston, 2016). While they are generally less anxious about losing wealth, their financial comfort depends significantly on how their wealth was accumulated, especially for entrepreneurs.

Millennials, or Generation Y, born between 1980 and 2000, are still emerging within the UHNW space. Their limited representation is primarily due to their young age, though the prominence of figures such as Mark Zuckerberg highlights their potential.

Also known as “echo boomers” due to their boomer parentage, millennials outnumber the previous generation and are positioned to inherit unprecedented wealth as the intergenerational transfer unfolds. This positions them for rising economic influence (Marston, 2016).

Millennials are defined by their technological fluency, optimism, and, at times, a sense of entitlement. While raised in an era of economic and digital growth, they also came of age during the Great Recession, blending confidence with caution in their financial outlook.

They demonstrate strong social and environmental awareness, along with deep integration into social media networks. Their reliance on peer influence often leads them to follow trends rather than conducting extensive due diligence, making network effects especially powerful: earning the trust of a few UHNW millennials can ripple across their wider circles.

For advisors, engaging millennials early, especially by involving them in their parents’ financial planning, represents a critical opportunity to build relationships with this high-potential next generation (Marston, 2016).

3.3 PSYCHOLOGY TRAITS, BEHAVIORS OF HNWI

High-net-worth individuals (HNWIs) are constantly confronted with a wide array of choices across various aspects of their lives. These decisions range from the consumption

and allocation of private and public wealth in their roles as stakeholders and policy influencers, to matters concerning family dynamics and social impact as both private individuals and global citizens. The selection of options in the pursuit of goals such as financial prosperity, personal well-being, and overall life satisfaction is shaped by a combination of internal motivations, familial expectations and constraints, peer dynamics, and the broader socio-cultural and institutional context. Financial investment represents only one element within the broader portfolio of a well-lived life, and its significance tends to fluctuate according to the life stage of the individual.

Investors are influenced by psychological biases and conscious emotions throughout the decision-making process. Psychological research shows that decision-making often triggers both physiological and emotional stress responses. For instance, Mann, Janis, and Chaplin (1969) recorded a significant increase in heart rate when individuals were faced with choosing between two alternatives, both associated with negative outcomes. Later, Janis and Mann (1977) concluded that the intensity of this stress is directly related to the anticipated magnitude of loss. This stress response plays a key role in what behavioral economists identify as loss aversion: the human tendency to give greater weight to potential losses than to equivalent gains.

Financial markets are far more intricate than controlled experiments, and investor behavior rarely aligns with theoretical models. In reality, investors do not face simple binary choices with known risks. Instead, they often stray from their long-term financial goals, particularly in response to market volatility. Emotional reactions to market highs and lows can lead to suboptimal decisions, such as hoarding cash during downturns or becoming excessively confident and active during bull markets. This behavior frequently results in the classic mistake of buying at peak prices and selling during slumps.

Although many investors are familiar with foundational principles, like Warren Buffett's advice to "be fearful when others are greedy and greedy only when others are fearful," few are capable of following it without guidance. As Buffett observed during the 2008 financial crisis, market behavior remains highly irrational in times of fear or greed, despite the increased visibility and coverage of financial markets.

This irrationality is largely due to the emotional and cognitive limitations inherent in human decision-making. Emotions, unconscious biases, and stress responses interfere with rational financial planning. As a result, standard risk-return models fail to capture the emotional toll

of investing. Empirical data indicates that this emotional drag can cost the average investor approximately 3 percent annually in lost returns, amounting to two-thirds of potential market returns over a 30-year span (Barclays 2015; Chhabra 2015).

The cost of stress in investing extends beyond financial losses: it also impacts time, productivity, and overall quality of life. Recent developments in behavioral finance question the traditional belief that investors are primarily driven by the pursuit of optimal risk-adjusted returns. Instead, research suggests that investors aim to maximize returns relative to the level of stress and emotional discomfort they are willing to tolerate. According to Barclays (2015), focusing on “anxiety-adjusted” returns (those that balance financial performance with emotional well-being) can lead to better outcomes for investors.

Unlike the rational and emotionless Homo economicus of classical economic theory, real investors, especially high-net-worth individuals, tend to delegate stressful aspects of decision-making. This strategy, referred to as "emotional inoculation," involves outsourcing investment decisions that are most likely to trigger anxiety. It is for this reason that some of the most effective wealth managers liken their role to that of psychologists, helping clients manage not only their portfolios but also the emotional challenges associated with wealth.

3.3.1 HNWI BIAS

Traditional financial theory often assumes that all investors make rational decisions based on equal access to information. In reality, however, human behavior tells a different story. Emotions, cognitive shortcuts, and psychological biases frequently influence how people make financial choices. This is where behavioral finance comes in: by studying these real-world tendencies, relationship managers can better understand their clients and guide them toward more informed, stable investment strategies with stronger long-term outcomes (Services, 2024).

Artificial intelligence is playing an increasingly important role in this process. By reducing reliance on subjective judgment, AI enables wealth management firms to make decisions that are more consistent and less affected by emotional or cognitive distortions. Researches shows that over 65% of high-net-worth individuals acknowledge that their investment decisions are shaped by personal biases, especially during major life events such as marriage, divorce, or retirement. External stressors like geopolitical tension or market

volatility can further heighten emotional responses, often triggering impulsive moves that conflict with long-term financial goals. Throughout history, these behavioral tendencies have contributed to everything from speculative bubbles to sudden market crashes. Understanding their root causes is essential for building more resilient investment strategies. An illustrative example is provided by the case of Game Stop during the pandemic. The COVID-19 pandemic severely impacted the U.S. video game retailer GameStop, forcing the closure of over 460 stores in 2020. Sensing an opportunity, several hedge funds began short selling the stock, anticipating continued decline. However, the situation took an unexpected turn when members of the Reddit forum *WallStreetBets* rallied together to buy shares en masse (Services, 2024).

Driven by a mix of psychological biases, such as fear of missing out (regret aversion), the tendency to seek information that confirms existing beliefs (confirmation bias), and a desire to take action regardless of outcome (activity bias), retail investors sent the stock soaring. The coordinated buying pressure triggered a short squeeze, inflicting massive losses on institutional short sellers and sparking widespread debate about market fairness and regulation. At its peak in January 2021, GameStop's share price skyrocketed to \$483, a staggering leap from just \$2.57 in April 2020, an increase of more than 1,600%.

The dramatic rise and subsequent decline of Bitcoin in 2021 offers another compelling illustration of how psychological biases can influence investor behavior. A particularly salient bias was 'anchoring', wherein individuals based their expectations for future performance on Bitcoin's prior price trends, often without adequately considering broader market fundamentals. 'Overconfidence' also played a key role, with many investors overestimating their knowledge and predictive capabilities, leading them to assume Bitcoin's upward trajectory would persist indefinitely (Services, 2024).

As market sentiment shifted, these cognitive distortions contributed to a sharp correction, ultimately resulting in a significant sell-off. Beyond these examples, a range of other behavioral biases, such as mental accounting, recency bias, and familiarity bias, can also distort investment decisions. These biases vary in prevalence and expression, often emerging in social contexts and influencing memory, belief systems, and judgment.

High-net-worth individuals increasingly acknowledge the impact of such biases on their financial decision-making. According to survey data, 79% believe that guidance from relationship managers (RMs) can assist in managing biases that they may not be consciously

aware of. In this context, it becomes crucial for RMs to not only understand the behavioral forces that affect asset pricing but also to identify and address the specific heuristics and psychological patterns influencing their clients.

Behavioral finance extends well beyond conventional financial analysis, offering valuable insights into an individual's risk tolerance, emotional response to stress, investment engagement, and decision-making approach. When armed with this understanding, relationship managers are better positioned to support clients, reduce anxiety during periods of market volatility, and help them remain aligned with long-term financial goals (Services, 2024).

3.4 THE PREFERRED ASSET ALLOCATIONS OF THE WEALTHY AND ULTRA-WEALTHY

When building an investment portfolio, it all starts with a few fundamental components known as asset classes. These typically include equities, which are shares in companies; fixed income, such as bonds issued by corporations or governments; cash or short-term deposits; and real estate, either through direct ownership or via real estate investment trusts (REITs). Another category that's becoming increasingly popular is alternative investments. This is a broad and diverse group that can include things like hedge funds, structured products, foreign currencies, commodities, and private equity. A portfolio usually consists of a mix of some or all of these asset classes, with the exact balance depending on the investor's goals, risk tolerance, and market outlook. It's worth noting that alternatives are still more commonly found in the portfolios of high-net-worth individuals. These investors often show a strong awareness of economic trends and tend to adjust their investment strategies based on how they anticipate markets will evolve (Co. & Capgemini, 2008).

In early 2024, high-net-worth individuals appear to be shifting their focus from simply preserving wealth to actively pursuing growth. A January survey involving more than 3,000 HNWI's across 25 countries revealed a notable change in asset allocation strategies, with growth-oriented investments taking priority. This transition has been influenced by two main factors: continued efforts by governments to curb inflation and manage interest rates, despite discussions about potential rate cuts, and a broader shift in how HNWI's view opportunities in high-growth assets, even in the face of ongoing market fluctuations.

Compared to January 2023, when cash holdings peaked at 34% of portfolios due to widespread uncertainty, recent data show a return to more typical levels, with cash now making up about 25% of HNWI portfolios. This reduction suggests that investors are becoming more confident and are redirecting funds toward investments that offer stronger growth potential. For instance, allocations to growth-focused assets rose to 20% in 2023, marking a five-point increase over the previous year. Meanwhile, fixed-income investments presented challenges in 2023. Despite high interest rates, persistent inflation reduced the real returns on these assets, making them less appealing. However, by the end of the year, inflation began to ease, improving the real yield of fixed income and renewing interest among HNWIs. Looking ahead, many expect inflation to decline further in 2024 while interest rates remain elevated, creating a more favorable environment for fixed-income investments. (Services, 2024)

High-net-worth individuals are showing a renewed appetite for alternative investments. In fact, nearly half of the relationship managers surveyed across ten global markets reported that their clients are shifting toward growth-oriented assets in 2024: an increase from the previous year, when fewer than one-third expressed similar intentions. Alternatives have long appealed to those seeking higher risk-adjusted returns, and 2023 saw growing interest in areas like private equity and digital assets. When it comes to private equity, interest has been particularly strong despite concerns over high interest rates and the possibility of a recession in the West. Wealthy investors remained optimistic throughout 2023, with two-thirds indicating plans to allocate more to private equity in 2024. Their motivations lie in the potential for higher long-term returns and the benefits of portfolio diversification (Services, 2024).

Supporting this trend is the significant amount of capital yet to be deployed in private markets, commonly referred to as "dry powder." As of October 2023, this figure had reached an estimated USD 4 trillion, according to BlackRock's 2024 Private Markets Outlook. If market conditions continue to improve, this substantial reserve is likely to fuel a notable increase in private equity activity in the months ahead.

Interest in digital assets, particularly cryptocurrencies, is on the rise among high-net-worth individuals. According to our research, half of the relationship managers surveyed observed a noticeable uptick in both client enthusiasm and investment activity in this space.

Wealth management firms are responding accordingly. The global survey of industry executives revealed that more than 77% of firms have either maintained or expanded their allocations to digital assets. This shift is supported by a clear increase in market activity: in 2023, investment inflows into digital asset products were 2.7 times higher than the previous year, signaling growing confidence and momentum in this emerging asset class. The cryptocurrency market experienced a strong surge in 2023, with Bitcoin leading the rally by posting gains of over 150%. A major milestone followed in January 2024, when the U.S. Securities and Exchange Commission (SEC) approved the inclusion of cryptocurrencies in exchange-traded funds (ETFs). This regulatory shift opened the door for broader investor participation in digital assets. Major financial institutions, such as Bank of America, Wells Fargo, and Morgan Stanley, began offering Bitcoin ETFs, while BlackRock's entry into the space further intensified interest, particularly among high-net-worth investors (Services, 2024).

After a challenging year in 2022, hedge funds made a strong comeback in 2023. The top 20 performers collectively generated around USD 67 billion in returns: approximately three times more than the previous year. The rebound was fueled by more stable interest rates and a reduction in market volatility, creating a more favorable environment for fund performance.

In contrast, the commodities sector faced significant headwinds throughout 2023. Persistent concerns about global economic slowdown, elevated interest rates, and weaker-than-expected economic activity in China weighed heavily on the market. Oversupply issues led to sharp declines in energy prices, with natural gas prices dropping nearly 44%, marking the worst performance for the commodity in over a decade. Base metals were similarly affected, with metals like aluminum, nickel, and lead falling in value; nickel alone saw a price decline of more than 40% over the year (Services, 2024).

3.4.1 EMOTIONAL ASSETS INVESTMENTS

Investments in so called emotional assets such as wine, art, and rare books tend to generate modest financial returns, yet they serve as effective tools for portfolio diversification due to their weak correlation with traditional assets like stocks and bonds. Interestingly, there is also evidence that some investors intentionally choose assets like

antique timepieces, maps, and stamps despite their lower returns, valuing the personal satisfaction and emotional fulfillment they provide. This suggests that the non monetary, experiential benefits of owning such items play a significant role in investment decisions (R. A. J. Campbell, 2009).

Among the various luxury investment sectors, the wine and art markets stand out as the most mature and sophisticated. Today, investors have access to several dedicated funds, the most prominent being The Fine Art Fund, established in London in 2003. Since then, other entities such as Artestate, Société Générale Asset Management, and more recently, the Art Trading Fund, have raised sufficient capital to offer indirect access to the art investment space. A trend is emerging toward highly specialized funds that concentrate on particular niches, such as Indian or Chinese art, or specific segments like contemporary works. While most of these funds actively trade their holdings to exploit market opportunities, Artestate follows a different model, opting to hold a select portfolio of artworks for the full term of its closed-end structure. It also lowers the barrier to entry with a minimum investment of €2,500, in contrast to many funds targeting high-net-worth individuals. These art funds often apply trading strategies similar to those used in private equity or hedge funds, aiming to profit from inefficiencies and the low liquidity that characterizes the art market. By doing so, they may achieve higher returns, particularly in an environment where transactional immediacy is rare and pricing asymmetries can be strategically leveraged (R. A. J. Campbell, 2009).

3.5 GROWTH OF THE CHINESE ECONOMY DURING THE YEARS AND ITS IMPACT ON THE LUXURY SECTOR

During the period encompassing China's first Five-Year Plan (1953–1957), the country experienced robust GDP growth, largely driven by gains in total factor productivity (TFP). TFP alone appears to account for approximately three-quarters of the overall expansion in measured GDP (Rawski, 2008).

China experienced notable total factor productivity growth during its First Five-Year Plan, despite implementing major political and structural changes, such as the collectivization of agriculture (1955–1956) and the near complete nationalization of industry. These potentially disruptive policies were partially offset by a surge in capital formation,

which had increased substantially from pre 1949 levels, when investment activity had likely been insufficient to even compensate for capital depreciation. Much of the observed productivity improvement during this period can be attributed to the country's gradual recovery from the prolonged economic dislocation caused by the Second Sino-Japanese War (1937–1945) and the concluding years of the Chinese Civil War (1945–1949), which culminated in the establishment of Communist rule (Rawski, 2008).

Post-conflict recovery often triggers a rapid increase in productivity, primarily through the reactivation of capital and labor resources that had been rendered inactive due to wartime disruption. In such settings, even relatively straightforward initiatives, such as restoring electrical infrastructure or reestablishing transportation networks, can yield substantial gains in output. In the Chinese context, one notable contributing factor was the new government's prompt reestablishment of monetary stability after a decade of hyperinflation. This stabilization played a key role in reviving agricultural production and trade, particularly in commercially significant crops like cotton (Perkins, 1966, as cited in Rawski, 2008).

However, from 1958 through the onset of market-oriented reforms in December 1978, China's economic growth decelerated significantly. Using year 2000 constant prices, the average annual GDP growth rate fell to 2.41% during the 1957–1965 period, before improving to 4.87% between 1965 and 1978. Across the entire two-decade span, this yields an average growth rate of 3.92%: notably lower than the official figure of 5.4%, which is based primarily on 1957 prices.

Maintaining an average annual growth rate exceeding 5 percent between 1957 and 1978 would have been extraordinary given the severe disruptions China faced during this period. The era opened with the Great Leap Forward (1958–1960), a campaign that resulted in widespread industrial disorganization and a dramatic collapse in agricultural production. The consequences were devastating, culminating in a famine between 1959 and 1961 that led, directly or indirectly, to tens of millions of excess deaths.

These domestic challenges were further exacerbated by the withdrawal of Soviet technical support in 1960. In addition, China's rejection of foreign direct investment, ideological resistance from the political left to external technologies, and a U.S.-led trade embargo effectively isolated the country from the global economy. As a result, China was largely cut off from access to advanced foreign technologies and expertise. While limited policy shifts

occurred in the early 1970s, substantial economic isolation persisted until after Mao Zedong's death in 1976 (Rawski, 2008).

Finally, the Great Proletarian Cultural Revolution, which formally spanned from 1966 to 1976, introduced a prolonged period of political upheaval that significantly hindered economic governance. The most acute disruption occurred between 1967 and 1968, when institutional paralysis reached its peak. Despite its intensity, however, the economic dislocation caused by the Cultural Revolution, though considerable, was notably less severe than the devastation experienced during the Great Leap Forward.

In light of the extensive and severe challenges China faced between 1958 and 1978, it is striking that the economy achieved any growth at all during this period. The key factor underlying this growth was a sustained and substantial increase in capital accumulation, which effectively supplanted productivity improvements as the primary engine of GDP expansion. Specifically, the share of gross investment in GDP (measured at current prices) rose markedly, from 17.5% in 1957 to 29.5% by 1978.

The economic gains registered between 1957 and 1978 offered limited improvements in the well-being of China's population. Despite the severe famine of 1959–1961, population growth during this period averaged 1.9% annually. When growth attributable to capital formation is excluded, estimates show that real per capita consumption increased by just slightly over 2% per year, calculated in constant 2000 prices. However, much of this increase was concentrated in urban centers or absorbed by rising government expenditures. These results align with previous studies, such as those by Lardy (1984) and Bramall (1989), which conclude that the rural population, constituting the majority of the country, saw little to no material improvement in living standards throughout the two decades leading up to the onset of economic reforms (Rawski, 2008).

3.5.1 CHINESE ECONOMY'S GROWTH PATTERNS

Although productivity remains the primary engine of sustained GDP growth, maintaining the high growth rates observed over the past 25 years will also depend on the continued expansion of China's fixed capital stock, at a pace close to the approximately 9% annual growth rate seen since the onset of economic reforms. This is due to the fact that

long-term productivity improvements typically require significant capital investment to support the adoption and diffusion of new technologies.

Conversely, within a market-based economy, it is unlikely that high levels of investment can be sustained in the absence of strong productivity growth, as the latter generates the profitable opportunities necessary to incentivize continued capital allocation. In China's case, however, the prominent role played by the state in directing investment decisions complicates the typical relationship between capital formation and productivity gains. Given China's historical pattern of inefficient investment allocation, a reduction in the proportion of resources dedicated to fixed capital formation could, paradoxically, enhance overall productivity by improving project selection and execution, thereby fostering higher TFP growth (Rawski, 2008).

While China has become an increasingly attractive destination for foreign direct investment, the majority of annual additions to its capital stock continue to originate from domestic investment. These domestic investments are predominantly financed by domestic savings. Provided that favorable investment opportunities persist, it is the volume of domestic savings over the next two decades that will play a decisive role in shaping the pace of capital formation and, consequently, the rate of capital stock growth.

China's savings are derived from three main sources: household savings, which constitute slightly more than half of the national total; enterprise savings, accounting for approximately one-third; and government savings, which have contributed around 15% of total savings since the 1990s (Yu, 2005, as cited in Rawski, 2008). Among these, household savings are the only category that lends itself reliably to systematic analysis and forward-looking projections (Rawski, 2008).

Throughout the reform era, Chinese households have maintained persistently high savings rates. Recent data indicate that both urban and rural households allocate approximately 25% of their disposable income to savings, with total household savings accounting for roughly one-sixth of national GDP (Kuijs, 2006, as cited in Rawski, 2008). Several factors explain this behavior, although not all of them are expected to persist with equal strength in the coming years. One such driver is the desire to accumulate funds for high-cost durable goods, including automobiles, particularly among a growing segment of the population. The privatization of urban housing has further incentivized household savings. While these motivations are likely to continue, their influence may diminish as financial institutions

increasingly offer access to consumer credit through mortgages, car loans, and other lending instruments. Moreover, given the government's ongoing efforts to stimulate domestic consumption in response to weak aggregate demand, regulatory barriers to credit expansion are unlikely to be reintroduced.

Nevertheless, the predominant motivation behind high household savings in China remains precautionary: to finance retirement and meet the rising costs of health care and education. These concerns were largely absent under the centrally planned economy. In the pre-reform era, urban workers anticipated secure pensions provided by their work units, while rural residents relied on collective savings and family support. Access to essential services such as education and medical care was primarily governed by non-market mechanisms. The introduction of market reforms altered this landscape significantly. Mass layoffs and the privatization of state-owned enterprises introduced uncertainty into pension systems, while the dissolution of rural collectives eliminated communal safety nets. As a result, the ability to pay became increasingly central to accessing both education and medical services.

Subsequent research has demonstrated that Chinese household savings behavior now conforms to the life cycle hypothesis commonly applied in market economies. This model posits an inverse relationship between savings and dependency: individuals save during their prime working years to support dependent children and to finance retirement, while the young and the elderly consume more than they earn (Rawski, 2008).

Given that the Chinese government does not possess the fiscal capacity to provide comprehensive pension or health coverage to the majority of its population (a situation unlikely to change significantly in the near term) households must continue to rely primarily on their own resources. This reinforces the relevance of the life cycle model in understanding future savings patterns.

Population projections further support this outlook. Population can be divided into two segments: working-age individuals (16–65) and dependents. One immediate observation is China's exceptionally low dependency ratio, largely the result of past demographic policies. The one-child policy initiated in the 1970s substantially reduced the number of young dependents, while the aging cohort from the 1950s baby boom has only recently begun to enter retirement. Although projections indicate that the share of elderly dependents will rise significantly in the future (Howe & Jackson, 2004, as cited in Rawski, 2008), the overall

dependency ratio is expected to decline until around 2015, regardless of whether students are included in the dependent population.

After 2015, the dependency ratio is projected to increase by approximately three percentage points per decade, but will not surpass the historically low levels observed between 1990 and 2005 until after 2025. Based on these demographic dynamics, the life cycle model suggests that household savings in China will likely remain elevated through at least the mid-2020s (Rawski, 2008).

Building on this trend, since 2013, both urban and rural households in China have experienced a marked increase in disposable income. Notably, the income disparity between these two groups has gradually diminished, with the urban-to-rural disposable income ratio decreasing from 2.81 in 2013 to 2.45 in 2022. Alongside this convergence, income inequality, as measured by the Gini coefficient, has shown signs of improvement (Brühl, 2024).

Despite the rapid expansion of the affluent middle class and the positive correlation between income and consumption propensity (Lina et al., 2023; Yang et al., 2023, as cited in Brüh, 2024), household consumption remains a relatively modest component of China's GDP. In fact, the household consumption-to-GDP ratio declined from 46.9% in 2000 to 38.4% in 2021, with the particularly low level in 2021 likely influenced by the COVID-19 pandemic. Compared to economies such as the United States and Germany, China places significantly less reliance on domestic consumption as a driver of growth. Although the national savings rate has declined slightly (from approximately 50% in 2008 to 47% in 2022), it continues to exceed that of regions like the European Union, where the rate is around 26.5%. This suggests that a substantial portion of savings in China is directed toward domestic and international investment rather than immediate consumption (Brühl, 2024).

Several factors may explain China's relatively low household consumption levels. These include the persistently low absolute income among a significant portion of the population, limited confidence in the social security system, and the high costs associated with housing and healthcare (Lina et al., 2023; Yang et al., 2023, as cited in Brüh, 2024). To foster domestic consumption as a robust engine of economic growth, sustained GDP expansion must be accompanied by comprehensive reforms in social welfare and taxation systems. Concurrently, China has witnessed a notable rise in its urbanisation rate (from 54.5% in 2013 to 65.2% in 2022). This trend reflects national efforts to relocate more citizens to urban centres in order to satisfy the increasing demand for skilled labour in industrial and

service-oriented sectors. Greater urbanisation also contributes to narrowing the persistent income disparity between urban and rural populations and plays a critical role in boosting domestic consumption (Brühl, 2024).

3.6 LUXURY CHINESE CONSUMERS

Industry analysts estimate that the number of potential luxury consumers in Mainland China could reach as high as 100 million. This demographic is primarily composed of entrepreneurs and young professionals employed by multinational corporations, with the majority residing in major urban centers along the eastern seaboard, including Shanghai, Beijing, Dalian, and Shenzhen.

There has been a shift in cultural perspective toward luxury consumption in China. In contrast to past attitudes, when overt displays of wealth were socially discouraged, contemporary Chinese consumers, especially younger generations, now openly embrace luxury as a marker of social status (Lu, 2008).

While it is often asserted that Chinese consumers, similar to their counterparts across Asia, have a strong affinity for branded goods, it would be an oversimplification to suggest that all Chinese luxury buyers engage in overtly ostentatious consumption. In fact, several more understated luxury brands, such as Hermès, Longchamp, and Lancel, have achieved considerable success in the Chinese market. In contrast, some brands known for their more conspicuous styling, such as Fendi, Loewe, Givenchy, and Kenzo, have encountered challenges in gaining traction.

This suggests that visibility and status signaling are not the sole factors driving luxury consumption in China. Consumer behavior in this segment is more nuanced and cannot be reduced to mere aspirations of social elevation or class distinction, as is frequently portrayed in popular media narratives (Lu, 2008).

To better contextualize the behavioral dynamics of Chinese luxury consumers, it is essential to refer to the segmentation model proposed by Lu (2008), which remains one of the most comprehensive and influential studies in this area. His research combines qualitative and quantitative methods to explore the underlying psychographic dimensions that differentiate consumers within the Chinese elite. This framework is particularly relevant for the present analysis, as it offers valuable insight into how psychological factors (beyond mere

demographics) shape luxury consumption patterns in a rapidly evolving socio-economic environment.

Following the findings of the qualitative phase, three central psychographic dimensions were identified: how consumers process information, the values they attach to consumption, and the symbolic meaning they assign to luxury products. These variables were used to segment the Chinese luxury consumer market into four distinct groups: Lovers, Intellectuals, Followers, and Laggards. The segmentation was based on a sample of 351 individuals. Subsequently, the study explored variations in purchasing behavior across these segments, particularly focusing on innovativeness, brand loyalty, and post-purchase guilt. In addition, it examined how the previously identified psychographic traits directly influenced post-purchase reactions.

Respondents were drawn from all major mainland economic hubs, including the northern region (primarily Beijing), the eastern corridor (with a concentration in Shanghai), the southern provinces (notably Guangdong), and western and central areas (such as Chengdu). A small proportion also represented regions outside the mainland, including Hong Kong, Macao, Taiwan, and overseas Chinese communities. This geographic spread was intended to reflect both the economic weight of each region and the distribution of luxury consumption across the country (Lu, 2008).

Demographically, the sample was highly aligned with the elite target group. Over 90% of respondents were between 21 and 35 years old, corresponding closely with the prime age range for luxury consumption in China. In terms of income, around 90% reported monthly earnings above 5,000 RMB, which was approximately five times higher than the national urban average at the time, suggesting early financial independence and the capacity to afford luxury goods. Moreover, 5.5% of the sample reported earning in excess of 15,000 RMB per month (Lu, 2008).

Regarding educational attainment, the majority held university degrees: 65.1% had completed undergraduate studies, 22.5% held a master's degree, and 1% had earned a doctorate. A small portion of respondents had either a high school diploma or completed professional and technical training programs. Professionally, more than 93% of participants were employed in white-collar occupations, including clerical, managerial, and executive roles such as CEOs. The sample encompassed individuals from a broad spectrum of industries, including advertising, marketing, public relations, finance, insurance, real estate,

information technology, telecommunications, retail, and consumer goods. It also included respondents from creative fields such as the arts and independent professional services, ensuring diversity in both economic background and consumer perspective.

Market segmentation can be effectively conducted using both demographic and psychographic variables. While demographic criteria focus on measurable traits such as age, income, and education, psychographic segmentation categorizes consumers based on deeper psychological attributes, including lifestyle, personality, and core values. The contrasting value orientations and differing patterns of information processing identified in our research support the application of a psychographic framework. This approach proves particularly useful in analyzing the Chinese elite consumer segment, where attitudes and behaviors toward luxury consumption exhibit notable internal variation (Lu, 2008).

As the analysis has demonstrated, Chinese luxury consumers often navigate a set of conflicting value systems. On one side lies the emerging ideology centered around individualism, characterized by modernity, material wealth, and the pursuit of personal success. This stands in contrast to the traditional collectivist values rooted in Chinese culture, which emphasize frugality, economic restraint, and humility. Similarly, there exists a tension between impulsive, experience-driven consumption and more analytical, rational decision-making. Finally, consumers are also influenced by the dichotomy between the desire for socially visible, status-oriented purchases and a more functional, individual-centered approach to luxury consumption (Lu, 2008).

Psychographic segmentation, closely associated with lifestyle analysis, categorizes consumers based on psychological attributes such as attitudes, personality traits, lifestyle choices, and personal values. Unlike demographic segmentation, which assumes homogeneity within groups defined by age, income, or education, psychographic analysis recognizes that individuals within the same demographic category may exhibit markedly different behavioral patterns and motivations. As a result, this form of applied consumer research has become a valuable marketing tool, allowing firms to identify distinct consumer segments that are more likely to respond to tailored marketing strategies. Because psychographic data offer a multidimensional and nuanced view of consumer behavior, they provide marketers with rich, actionable insights that support more sophisticated and targeted decision-making (Lu, 2008).

Previous qualitative research has shown that the Chinese elite, defined demographically as urban residents with high levels of education, elevated professional status, and substantial incomes, constitute a socially and economically distinct group. However, within this group, deeper psychological differences emerge that are not captured by demographic indicators alone.

Through a series of in-depth interviews, three key dimensions were identified as the basis for segmenting luxury consumers in this elite market. The first is the 'consumer process', a dimension related to personality and defined by a continuum between impulsive and analytical behavior. The second involves 'consumer values', including modernity, success and wealth, frugality and modesty, as well as the cultural tension between collectivism/interdependence and individualism/personal freedom. The third dimension concerns the 'cultural meaning attributed to luxury goods' within the specific context of Chinese society (Lu, 2008).

By analyzing these dimensions, four distinct psychographic profiles of Chinese luxury consumers were established: Luxury Lovers, Luxury Followers, Luxury Intellectuals, and Luxury Laggards. Each segment reflects a unique configuration of attitudes, motivations, and behaviors toward luxury consumption.

The segment identified as Luxury Lovers is characterized by consumers who possess a clear understanding of the luxury brands and products they desire. These individuals not only have a strong affinity for luxury but also embrace the visibility and status associated with conspicuous consumption. In terms of consumer values, they exhibit a marked preference for social display and tend to be rational decision-makers rather than impulsive buyers.

Demographically, this segment is concentrated primarily in the age ranges of 26 to 30 and 31 to 35 years. Geographically, respondents from Guangzhou represent the highest proportion of Luxury Lovers (22.5%), followed by those in Beijing (15.6%), Shanghai (13.0%), and Chengdu (3.3%). Income levels within this group fall predominantly within the upper brackets, specifically between RMB 10,000–14,999 and RMB 15,000–19,999 per month, suggesting significant disposable income (Lu, 2008).

Occupationally, the segment is highly diverse, encompassing office staff, managers, and senior executives, indicating that professional role is not a defining feature of this group.

In contrast, education appears to be a more consistent variable, as all members of this segment possess either a bachelor's or a master's degree.

The segment referred to as Luxury Followers comprises individuals whose preferences in luxury consumption are primarily shaped by external influences such as media exposure, brand messaging, and prevailing social trends, rather than by personal experience or intrinsic understanding of luxury products and labels. This group is notably characterized by three defining psychographic traits: a strong orientation toward collectivism, a high level of conspicuousness, and a markedly impulsive approach to consumption.

In terms of income distribution, this segment does not display significant variation, as representation is relatively uniform across income levels. Occupationally, Luxury Followers are concentrated in lower to mid-tier professional roles, with office clerks comprising the majority at 52%, followed by managers at 30%. Only a small portion (approximately 10%) occupy senior executive positions such as senior managers or CEOs.

Educational attainment is relatively high within this group, with 70% holding bachelor's degrees and an additional 20% possessing a master's degree, indicating that despite their tendency to follow trends, they are generally well-educated consumers.

The Luxury Intellectuals segment consists of consumers who demonstrate a personal and independent understanding of luxury, consciously distancing themselves from popular trends and favoring understated, timeless designs. Their consumption behavior is marked by a high degree of individualism, a low level of conspicuousness, and a rational, deliberative approach to purchasing decisions (Lu, 2008).

Their profile aligns closely with a functional and pragmatic perspective on luxury. Findings from the qualitative phase of the study suggest that while these individuals are predominantly individualistic, they still exhibit a moderate reliance on close social networks, particularly family and friends. The quantitative data, especially the modern individualist index, further reinforced their orientation toward autonomy and self-direction in consumption choices (Lu, 2008).

Professionally, Luxury Intellectuals span a broad spectrum, ranging from office clerks to top-level executives, including CEOs. Their educational backgrounds also show considerable diversity, indicating that this segment cannot be strictly defined by

occupational or academic criteria, but rather by their distinct mindset and approach to luxury consumption.

The Luxury Laggards segment encompasses consumers who, despite having the financial means to purchase luxury goods, exhibit minimal interest in luxury branding and remain largely unaffected by advertising efforts.

Psychographically, this group displays heterogeneity in terms of individualism but tends to adopt a functional and opportunistic approach to consumption. They are price-conscious and tend to make purchasing decisions impulsively, seeking value or convenience rather than symbolic meaning or prestige.

Although laggards are present across all income brackets, the majority fall within the middle-income range. Professionally, they are predominantly employed in clerical roles, accounting for 60% of the segment, with managers representing another 30%. Most hold at least a bachelor's degree, indicating a relatively high level of educational attainment despite their indifferent attitude toward luxury.

With respect to individualism, this group shows a dispersed pattern similar to that of the Luxury Lovers. While Lovers tend to lean slightly toward collectivism (negative individualism values), Laggards display a slight positive orientation, suggesting more independent behavior, though not strongly polarized.

The dimensions of conspicuousness and impulsiveness clearly differentiate Luxury Laggards and Luxury Lovers from the other two segments. Qualitative findings reinforce these distinctions: Lovers approach consumption analytically and with deliberate intent, whereas Laggards demonstrate a predominantly impulsive decision-making style, prioritizing immediate gratification over long-term evaluation. (Lu, 2008)

4 MARKET STRATEGIES AND FINANCIAL PERFORMANCE IN THE LUXURY SECTOR

The primary objective of financial management within a company is to maximize its overall value. For publicly traded firms, this involves enhancing the market price of their shares, thereby improving shareholder wealth (Salvatore, 2005, as cited in Nazarova, Golovina, Volosatova, & Yarusova, 2022). Since investors base their expectations on future dividends and income from shares on the company's actual value or its capacity to generate cash flows, fluctuations in market value are seen as a key metric for assessing corporate performance from a shareholder's perspective. (Nazarova, Golovina, Volosatova, & Yarusova, 2022).

Many researchers consider market capitalization to be a reliable indicator of a company's performance (Chander & Aggarwal, 2008; Singhania, 2008; Kenneth, 2009; Kohansal et al., 2013; Omodero, 2019, as cited in Nazarova, Golovina, Volosatova, & Yarusova, 2022). This metric is derived by multiplying the market price of a company's shares by the total number of shares in circulation. As a result, a rise in either the share price or the number of outstanding shares leads to an increase in the company's market capitalization. Assuming the number of shares remains stable (except in cases of stock splits or buybacks) the firm's value is primarily driven by fluctuations in its share price (Rajhans & Kaur, 2013, as cited in Nazarova, Golovina, Volosatova, & Yarusova, 2022).

Evaluating financial performance is essential for making informed decisions in both corporate finance and investment contexts. It offers valuable information to various stakeholders, such as investors, lenders, regulators, and company leaders, regarding a business's profitability, operational efficiency, financial stability, and overall fiscal condition. By analyzing and comparing financial results over time or against industry competitors, organizations can better assess the impact of their strategies and optimize how they allocate resources.

Traditionally, organizations have assessed financial performance using key indicators drawn from financial statements, such as return on equity (ROE), return on assets (ROA), net profit margin, and earnings per share (EPS). These measures are commonly used because they are standardized, straightforward to calculate, and based on transparent, regulated

data. Among them, financial ratio analysis stands out for providing a clear and comparable overview of a company's operations, financial risk, and efficiency in utilizing capital.

Yet, in today's fast-paced and highly competitive business landscape, depending solely on traditional financial metrics can provide an incomplete picture of a company's performance. These conventional indicators often overlook critical intangible elements, such as a firm's ability to innovate, its environmental footprint, relationships with stakeholders, and the strength of its brand. All of which play a key role in ensuring long-term sustainability and success.

In addition, the growing trend of global investment diversification and cross-border financial integration has heightened the demand for more comprehensive and flexible methods of assessing performance. Modern financial evaluations must now consider factors like market volatility, investor sentiment, and non-financial metrics, especially in dynamic sectors such as technology, services, and impact-driven investments. As a result, companies and analysts are increasingly adopting a holistic approach that blends conventional financial measures with alternative indicators to capture a more complete picture of enterprise value (Nazarova, Golovina, Volosatova, & Yarusova, 2022).

4.1 TRADITIONAL PERFORMANCE METRICS

4.1.1 NET INCOME AND EPS

Net income, often referred to as the "bottom line," is a fundamental measure in corporate financial reporting. It is determined by deducting all expenses, including operating costs, taxes, interest, and depreciation from total revenue. This figure reflects a company's profitability and serves as a key metric for investors and stakeholders when evaluating financial performance.

Earnings per share (EPS) is derived by dividing net income by the total number of outstanding common shares, offering a per-share measure of profitability that supports comparisons across companies and aids in equity valuation. It plays a central role in calculating price-to-earnings (P/E) ratios and has a strong impact on stock prices, particularly in markets that prioritize earnings results. However, net income can be influenced by non-operational factors, like unusual gains or losses, which may introduce volatility unrelated to

the company's core operations. This highlights the importance of using additional metrics that help isolate consistent earnings from irregular events (Okeke, 2020).

4.1.2 RETURN ON EQUITY AND ROI

Return on Equity (ROE) is a fundamental indicator used to assess how effectively a company generates profit from the capital provided by its shareholders. It is calculated by dividing net income by the average shareholder equity, offering insights into both financial performance and managerial efficiency. A strong ROE typically reflects the firm's ability to deliver solid returns relative to the equity invested: an especially valuable signal in capital-intensive industries.

Return on Investment (ROI) is a versatile metric that generally evaluates the efficiency of an investment by comparing its net gain to the initial cost. It provides valuable insight into the performance of specific projects or assets and is commonly applied in capital budgeting and strategic planning. By highlighting where returns are most favorable, ROI helps organizations make informed decisions about resource allocation.

Although ROE and ROI provide valuable strategic insights, their readings can be affected by factors such as financial leverage, accounting practices, and the time frame considered. As a result, interpreting these metrics accurately often requires a contextual understanding to avoid drawing misleading conclusions about a company's true performance (Okeke, 2020).

4.1.3 EBITDA

EBITDA is a widely used financial measure that assesses a company's core operating profitability, excluding the effects of financing choices, taxation, and accounting treatments. Often viewed as a stand-in for operating cash flow, it serves as a key tool in comparative company analysis, private equity assessments, and valuation models.

The standard formula for EBITDA is:

EBITDA = Net Income + Interest + Taxes + Depreciation + Amortization

Alternatively, it can also be calculated directly from the income statement as:

EBITDA = Operating Income (EBIT) + Depreciation + Amortization

The two approaches differ based on whether the calculation starts from net income or operating income. In either case, the objective is the same: to exclude expenses that do not pertain to the company's underlying operational performance. This includes financing expenses (such as interest), government-imposed charges (like taxes), and non-cash accounting items (such as depreciation and amortization).

EBITDA is particularly useful for companies in capital-intensive industries or those undergoing significant restructuring. For example, a manufacturing company with substantial fixed assets may report low net income due to heavy depreciation expenses, yet still show robust EBITDA, highlighting strong operational performance. Likewise, early-stage firms with high amortization charges on intangible assets can reveal underlying business potential when evaluated using EBITDA.

While EBITDA is not defined under Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS), it has gained widespread acceptance as a performance benchmark in the financial industry, so long as it is applied transparently and consistently (Okeke, 2020).

4.1.3.1 ADJUSTED EBITDA AND PRO FORMA EBITDA

Although EBITDA is a widely used standardized metric, analysts frequently adjust it to account for non-recurring or unusual items. These adjustments may include legal settlements, restructuring costs, asset impairments, or disruptions caused by extraordinary events such as a pandemic. The purpose is to arrive at a "normalized EBITDA" that better represents the company's ongoing earning capacity. For instance, if a firm reports \$10 million in EBITDA but includes \$2 million in one-time legal expenses, the adjusted, normalized EBITDA would be \$12 million. This refined figure is commonly used in valuations, debt assessments, and performance comparisons to provide a clearer view of financial health (Okeke, 2020).

Pro forma EBITDA is also widely used in forward-looking financial projections, particularly during M&A due diligence or in preparation for an IPO. This version includes expected synergies, cost reductions, or structural changes anticipated after a transaction. While such estimates can be useful, they must be carefully evaluated to ensure they are based on credible, realistic assumptions. Sector-specific adjustments are common as well,

for example, in retail, seasonal variations may distort EBITDA, prompting analysts to make quarterly normalizations. In the energy sector, fluctuations in commodity prices often lead to EBITDA smoothing across reporting periods. These adjustments enhance comparability and help decision-makers concentrate on core operational performance rather than short-term financial distortions.

Ultimately, although EBITDA streamlines performance analysis by excluding structural factors, it should be complemented by other financial metrics and contextual insights. Adjusted and normalized versions of EBITDA significantly enhance its usefulness, particularly when benchmarking performance, guiding capital allocation decisions, and supporting strategic planning across varied business contexts (Okeke, 2020).

4.2 LIMITATIONS OF CONVENTIONAL METRICS

4.2.1 EFFECTS OF ACCOUNTING PRACTICES ON CAPITAL STRUCTURE

Traditional financial indicators often rely on accounting rules that don't always reflect a firm's true economic performance. Metrics like net income and return on equity (ROE) are based on accrual accounting, which allows for the timing of revenues and expenses to be influenced by managerial judgment or specific accounting frameworks. While such practices are typically within legal bounds, they can compromise the consistency and usefulness of financial ratios for comparison across firms or periods.

Capital structure choices can significantly influence commonly used financial metrics. For example, a firm with high leverage might display an inflated return on equity (ROE) simply because its equity base is smaller, even if its actual profitability remains modest. This phenomenon, often referred to as "equity shrinkage," can create a misleading impression of economic performance. Moreover, while interest expenses from debt reduce net income, thereby impacting earnings per share (EPS) and return on investment (ROI), they may simultaneously enhance after-tax cash flows, further complicating the interpretation of financial results.

In addition, accounting adjustments like provisions, amortization, and asset revaluations can alter reported earnings without impacting actual cash flows. These non-cash items often obscure the operational performance of a business, leading many analysts to question

whether traditional financial metrics truly reflect underlying fundamentals, particularly in capital-intensive or asset-light sectors (Okeke, 2020).

4.2.2 DISTORTIVE EFFECTS OF TAXATION AND DEPRECIATION

Tax policies differ widely across countries and over time, making it difficult to compare net income among multinational companies. Shifts in tax laws, the use of deferred tax assets, or the application of tax credits can lead to fluctuations in reported earnings that are unrelated to the company's actual business performance. As a result, indicators such as earnings per share and net profit margin may experience significant volatility driven solely by tax-related factors.

Depreciation practices add another layer of complexity to financial analysis. Methods like straight-line and accelerated depreciation produce significantly different expense patterns over time, directly impacting net income and return on investment. These effects are particularly evident in asset-heavy sectors, such as manufacturing and utilities, where depreciation represents a major portion of overall costs and can materially distort performance metrics.

As companies allocate more resources to intangible assets such as software and R&D, often subject to inconsistent capitalization, the limitations of traditional depreciation rules become more apparent. These methods frequently fall short in reflecting the true economic consumption of such assets. This gap between book depreciation and economic reality undermines the reliability of performance indicators based on standard accounting figures. Given these shortcomings, there is an increasing call for normalized metrics that correct for structural and policy-driven distortions, while preserving transparency and analytical usefulness (Okeke, 2020).

4.3 ALTERNATIVE METRICS

In recent years, there has been a notable shift within the financial sector toward the use of alternative performance metrics: non-traditional tools that complement or challenge standard financial analyses. Examples include Economic Value Added (EVA), Market Value Added (MVA), sustainability indices, and Environmental, Social, and Governance (ESG) ratings. These measures offer a broader perspective on corporate performance that goes

beyond basic accounting figures. This evolution has been fueled by growing calls for greater transparency, responsible investing, and strategic oversight. Alternative indicators help investors gauge a company's capacity for long-term value creation and financial resilience. EVA, for example, incorporates the cost of capital to present a more nuanced picture of profitability than conventional net income. Likewise, ESG metrics assess how a company manages its social and environmental responsibilities, an area of rising importance in institutional investment strategies.

These alternative metrics have become increasingly relevant in industries where intangible assets, innovation, and sustainability are key drivers of competitive edge. Technology companies, startups, and socially responsible businesses often implement tailored performance dashboards that capture both quantitative data and qualitative insights. This trend reflects a broader shift in financial evaluation frameworks, one that prioritizes flexibility, stakeholder relevance, and measurable real-world impact as essential components in achieving long-term financial success (Okeke, 2020).

4.3.1 REDEFINING METRICS THROUGH AI AND TECHNOLOGICAL INNOVATION

Technology is reshaping the way performance metrics are generated, understood, and utilized. Artificial Intelligence (AI) and machine learning, in particular, are driving the emergence of predictive financial analytics, such as "Predictive EBITDA," which estimates future operational earnings by leveraging real-time data, behavioral patterns, and macroeconomic indicators.

Unlike traditional static forecasts, predictive EBITDA leverages AI-driven insights drawn from sources such as customer churn analysis, production efficiency metrics, sales pipeline data, and industry sentiment. These models continuously refine their projections, enabling companies and investors to anticipate performance shifts with greater accuracy. This approach is particularly valuable in highly volatile industries like retail, logistics, and energy, where external factors can heavily impact financial results (Okeke, 2020).

AI is also playing a key role in incorporating sustainability data into financial models. Using tools such as natural language processing (NLP), image recognition, and satellite imagery analysis, companies can quantify ESG factors and link them to financial performance metrics. For example, AI can evaluate the relationship between energy efficiency

improvements and EBITDA margins, or analyze how workforce diversity impacts productivity ratios.

Moreover, blockchain and cloud-based reporting platforms are improving transparency and auditability of financial data, enabling adjusted and predictive metrics to be tracked, verified, and interpreted across various stakeholder groups. These technologies are set to form the foundation of next-generation financial dashboards, delivering real-time, interactive analytics aligned with the needs of diverse users.

As performance measurement continues to evolve, companies that adopt technological advancements and align with ESG principles will be better equipped to meet investor demands and maintain long-term valuation benefits in the increasingly data-driven landscape of capital markets (Okeke, 2020).

4.4 VALUATION METHODS

4.4.1 EQUITY VALUATION

A fundamental premise in valuing publicly traded stocks is that their market price may not always align with their intrinsic value. Intrinsic value refers to the worth of an asset based on a thorough and informed understanding of its underlying investment attributes. For any given investor, this value reflects a personal assessment of what the asset is truly worth. If market prices consistently represented intrinsic values, valuation would be as simple as observing current prices. This notion forms the basis of classical efficient market theory, which posits that market prices are the best available estimate of an asset's actual value.

The Grossman-Stiglitz paradox challenges the idea that market prices fully reflect intrinsic value. If prices perfectly captured all available information, investors would have no incentive to spend time or resources on independent analysis. Yet without such analysis, accurate pricing wouldn't be possible. Their 1980 framework argues that investors only seek information if they expect a reward above what the market price offers. Moreover, later studies note that in cases where intrinsic value is hard to determine, such as with common stocks, and trading costs are present, the gap between price and value can widen further.

Analysts typically approach market prices with both respect and caution, aiming to identify instances where price deviates from intrinsic value. They assume that, over time, prices may

align with true value, though efficiency varies across markets. For active managers, valuation plays a key role in pursuing excess risk-adjusted returns (known as alpha) by spotting perceived mispricings, where market price differs from their own value estimates. When the market price deviates from a manager's estimate of intrinsic value, it is considered a perceived mispricing, that is, a discrepancy between the asset's market value and its estimated true worth (Jerald E. Pinto, 2010).

This concept can be clarified by an expression that highlights two potential sources of perceived mispricing:

$$V_E - P = (V - P) + (V_E - V)$$

Where:

V_E = estimated value

P = market price

V = intrinsic value

The expression shows that the gap between an estimated value and the current market price consists of two elements. The first is the actual mispricing, the difference between the true (but unobservable) intrinsic value V and the market price P, which can contribute to abnormal returns. The second is the estimation error, the deviation between the analyst's valuation and the asset's true intrinsic value.

Accurately estimating intrinsic value requires combining reliable forecasts with a suitable valuation model. The success of active investment strategies depends on forming expectations that differ from the market consensus and being right. However, equity valuation is inherently uncertain, as no model can fully capture all risks. Even with solid analysis, market conditions may delay or prevent the realization of mispricing opportunities. For this reason, investors often look for catalysts: specific events that could trigger a market reassessment of a company's value (Jerald E. Pinto, 2010).

4.4.2 GOING CONCERN AND LIQUIDATION VALUE

A company's value can vary significantly depending on whether it is assumed to continue operating or to be immediately liquidated. The going-concern assumption

presumes that the business will maintain its operations for the foreseeable future, continuing to produce goods and services, utilize its assets efficiently, and access appropriate financing. Under this assumption, the company's going-concern value reflects its worth as an ongoing entity, and this is the basis for most valuation models.

However, for companies facing severe financial distress, this assumption may not be suitable. In such cases, the alternative is the liquidation value, which represents the value of the firm's assets if sold individually. Often, the going-concern value exceeds the liquidation value, since operating assets together and applying managerial expertise typically generate additional value. Furthermore, liquidation value can vary depending on how quickly the assets must be sold. For instance, inventory sold under time pressure would likely yield less than if sold gradually in an organized manner, hence the relevance of terms like orderly liquidation value (Jerald E. Pinto, 2010).

4.4.3 FAIR MARKET AND INVESTMENT VALUE

When analyzing publicly traded companies, intrinsic value is typically the most relevant valuation concept. However, in other situations, different definitions may apply. For instance, in a buy-sell agreement between owners of a private company, where fairness to both parties is essential, the focus is usually on fair market value. This refers to the price at which an asset would be exchanged between a willing buyer and seller, with neither under pressure to transact and both having full knowledge of relevant facts. Fair market value is commonly used in tax-related valuations.

In financial reporting, especially for purposes such as impairment testing, accounting standards often refer to fair value, which is closely related but not exactly the same as fair market value. Generally, when investors trust that management is acting in shareholders' best interests, market prices are expected to reflect fair market value over time. Additionally, some assets may hold more value for a specific buyer due to potential synergies or strategic benefits. This is known as investment value, which reflects an asset's worth to a particular investor based on their expectations and strategic objectives (Jerald E. Pinto, 2010).

4.5 RETURN CONCEPTS

4.5.1 REQUIRED RATE OF RETURN

The required rate of return, or simply required return, is the minimum return an investor expects to earn from an asset over a given period, considering the asset's level of risk. It reflects the opportunity cost of capital, the best alternative return available from investments with similar risk. As such, it serves as a benchmark for determining whether an investment offers adequate compensation for its risk. If the expected return exceeds the required return, the asset may be seen as undervalued, since it offers a higher than fair return. Conversely, if the expected return is lower, the asset may appear overvalued.

From the issuer's perspective, the required return on common equity and debt is referred to as the cost of equity and cost of debt, respectively. When a company seeks to raise new capital, it must offer returns that are attractive compared to those of other investments with similar risk profiles. As such, the required return reflects the marginal cost to the issuer of obtaining additional financing through that specific type of security (Jerald E. Pinto, 2010).

4.5.2 CAPITAL ASSETS PRICING MODEL (CAPM)

The Capital Asset Pricing Model (CAPM) is a framework for estimating the required rate of return on an asset under equilibrium conditions (where supply equals demand) assuming certain market conditions are met. Key assumptions include investor risk aversion and decision-making based on the expected return and variance of their overall portfolio. The model's central insight is that an asset's risk should be assessed based on its contribution to the portfolio's overall systematic risk, the portion of risk that cannot be eliminated through diversification. Due to its economic foundation and relative objectivity, CAPM has become a widely adopted tool for estimating required returns in valuation practices.

$$CAPM = E(R_i) = R_F + \beta_i[E(R_M) - R_F]$$

The Capital Asset Pricing Model explains that the expected return on an asset is equal to the risk-free rate plus a risk premium that compensates for the asset's exposure to market risk. This is expressed with the formula $E(R_i) = R_f + \beta_i \times [E(R_m) - R_f]$, where the expected return on

the asset depends on the risk-free rate, the asset's beta (which measures its sensitivity to market movements), and the expected excess return of the market over the risk-free rate, known as the equity risk premium. While in theory the market portfolio should include all risky assets weighted by their market value, in practice analysts typically use a broad stock index as a stand-in for the market and apply an estimated equity risk premium to simplify the calculation (Jerald E. Pinto, 2010).

4.5.3 WEIGHTED AVERAGE COST OF CAPITAL (WACC)

The overall return required by all capital providers of a company is commonly referred to as the cost of capital. This is typically calculated as the after-tax weighted average cost of capital (WACC), a blend of the required returns for each source of capital, weighted by their relative proportions. In equity valuation, the cost of capital is particularly relevant when using a total firm value approach within a present value framework. The WACC is used to discount the expected future cash flows available to both debt and equity holders, yielding an estimate of the firm's total value. By subtracting the market value of debt from this total, the residual provides an estimate of the company's equity value. Notably, in many tax systems, interest expenses on debt are tax-deductible, while returns to equity holders, such as dividends, are not.

$$WACC = \frac{MVD}{MVD + MVCE} r_d (1 - TAX RATE) + \frac{MVCE}{MVD + MVCE} r$$

In this context, MVD and MVCE represent the market values of a company's debt and common equity, not their book (accounting) values. To find how much of the company's capital comes from debt or equity, each is divided by the total market value of the firm (MVD + MVCE). These proportions are then used as weights in the WACC (Weighted Average Cost of Capital) formula.

The WACC is calculated by multiplying the weight of debt and the weight of equity by their respective required rates of return, adjusted for current market conditions. The cost of debt is adjusted for taxes, since interest payments are tax-deductible. This is done by multiplying the pre-tax cost of debt (r_d) by $(1 - \text{tax rate})$.

On the other hand, returns to equity (like dividends) are not tax-deductible, so the cost of equity remains the same before and after taxes.

Finally, when adjusting for taxes, it's better to use the marginal tax rate (the rate applied to the next dollar of income) instead of the effective tax rate (taxes paid divided by income), because the effective rate can be distorted by unusual or one-time items. The marginal rate gives a more realistic view of future financing costs (Jerald E. Pinto, 2010).

4.6 FREE CASH FLOW

Discounted cash flow (DCF) valuation determines the intrinsic value of a security by calculating the present value of its expected future cash flows. When applied specifically to dividends, this approach is known as the dividend discount model (DDM). However, DCF analysis can also be extended to estimate a company's value by focusing on free cash flow to the firm (FCFF) or free cash flow to equity (FCFE). While dividends represent the actual cash distributed to shareholders, free cash flows reflect the amount potentially available for such distribution (Jerald E. Pinto, 2010).

Unlike dividends, FCFF and FCFE are not directly observable in financial statements. Analysts must derive them by processing and interpreting financial data, which demands both technical skill and a solid understanding of accounting, company operations, capital structure, and industry dynamics. Predicting future free cash flows is also a complex task, but one that can yield valuable insights when approached thoughtfully. In fact, many analysts find free cash flow models more practical and informative than traditional dividend-based models, as they provide a more comprehensive and economically grounded framework for valuing companies (Jerald E. Pinto, 2010).

Analysts often prefer to use free cash flow, either FCFF or FCFE, as the basis for valuation when certain conditions apply. This approach is particularly useful when a company does not pay dividends, making dividend-based models inapplicable. It is also appropriate when the firm does pay dividends, but the payout is inconsistent with its actual ability to distribute cash, indicating a disconnect between dividend policy and underlying profitability.

Additionally, free cash flow becomes especially relevant when it tracks the company's profitability over a time horizon the analyst feels confident forecasting. Lastly, when an investor adopts a control perspective, meaning they either have or expect to have significant

influence over the company's financial decisions, free cash flows offer a more realistic measure of value. In such cases, the investor may alter the dividend policy or redirect cash flows to activities like debt repayment following an acquisition.

Free cash flow to the firm (FCFF) represents the cash available to all providers of capital such as equity holders, bondholders, and occasionally preferred shareholders, after the company has covered its operating expenses, paid taxes, and made the necessary investments in working capital and fixed assets. In essence, FCFF is calculated by subtracting capital expenditures from the company's operating cash flow. The specific formula used to determine FCFF may vary depending on the type and detail of financial data available to the analyst (Jerald E. Pinto, 2010).

Free cash flow to equity (FCFE) refers to the cash that remains available to a company's common shareholders after the firm has met all operating expenses, paid interest and principal on debt, and made necessary investments in working capital and fixed assets. It can be calculated as cash flow from operations minus capital expenditures and net payments to debt holders (i.e., subtracting debt repayments and adding any new debt issuance). To effectively estimate and project FCFE, analysts must understand how it relates to other financial measures such as net income, cash flow from operations (CFO), and EBITDA. While CFO appears on the statement of cash flows, it should not be confused with free cash flow. However, both net income and CFO serve as useful starting points for calculating free cash flow when appropriately adjusted. Understanding these relationships is crucial for building reliable forecasts and assessing a company's ability to generate value for shareholders. The key advantage of using FCFF and FCFE lies in their direct compatibility with discounted cash flow (DCF) models for valuing the entire firm or just its equity. Unlike other cash flow or earnings metrics such as cash flow from operations (CFO), net income, EBIT, or EBITDA, FCFF and FCFE fully reflect the actual cash available to investors after accounting for all necessary expenses and reinvestments (Jerald E. Pinto, 2010).

Other measures can be misleading in this context. For instance, EBIT and EBITDA are pre-tax figures, whereas investors are ultimately concerned with after-tax cash flows. These metrics also overlook differences in capital structure, such as interest expenses and preferred dividends, and fail to consider the financing role of debt. Furthermore, they do not reflect the reinvestment required in fixed assets and working capital to sustain or grow the company's long-term value. As a result, while EBIT and EBITDA may offer useful insights into

operational performance, they are less reliable for estimating the true economic value of a business.

Valuing a company using free cash flow is more complex than using dividends because it requires the analyst to forecast and combine cash flows from operating, investing, and financing activities. Since Free Cash Flow to the Firm represents the after-tax cash flow available to all capital providers, the total firm value is calculated by discounting FCFF using the Weighted Average Cost of Capital. To determine the value of equity, the estimated value of the firm's debt is subtracted from the firm's total value.

Alternatively, equity value can be calculated directly by using Free Cash Flow to Equity, which reflects the cash flows available specifically to common shareholders. In this case, FCFE is discounted using the required rate of return on equity, as it is the relevant risk-adjusted rate for those particular cash flows (Jerald E. Pinto, 2010).

The two main approaches for valuing equity using free cash flow should, in theory, produce the same result if they rely on consistent assumptions. However, analysts often choose one over the other depending on the company's specific characteristics. For instance, if a company has a stable capital structure, using FCFE is typically more straightforward and efficient for valuing equity. On the other hand, the FCFF method is often preferred in two specific scenarios:

1. When the company is highly leveraged and FCFE is negative: In such cases, it may be more practical to value the firm using FCFF. The analyst would discount FCFF at the WACC to calculate the total firm value (including non-operating assets, if applicable) and then subtract the market value of the company's debt to determine the value of its equity.
2. When the company's capital structure is expected to change: first, historical FCFF growth rates may better reflect the company's fundamentals, as FCFE can be distorted by fluctuating borrowing levels. Second, in forward-looking models, the required return on equity may vary significantly with changes in leverage, while WACC tends to remain more stable, making it more appropriate as a discount rate when the capital structure is not constant.

Specialized discounted cash flow (DCF) methods can also be applied to support equity valuation in cases where a company's capital structure is expected to undergo significant

changes. These approaches help account for the impact of evolving debt and equity proportions on cash flows and discount rates, ensuring more accurate and realistic valuation results (Jerald E. Pinto, 2010).

4.7 VALUATION THROUGH MARKET MULTIPLES: PRICE AND ENTERPRISE VALUE APPROACHES

Among the most commonly used valuation techniques are price multiples and enterprise value (EV) multiples. Price multiples express a company's share price relative to a specific financial metric on a per-share basis, such as earnings, book value, or cash flow. Enterprise value multiples, on the other hand, compare the total market value of a company's capital (equity and debt combined) to a financial performance measure that reflects the business as a whole, such as EBIT, revenue, or operating cash flow.

The rationale behind price multiples lies in the idea that investors assess whether a stock is undervalued or overvalued by comparing its price to the economic benefit it provides per share. Similarly, EV multiples allow investors to evaluate the worth of an entire business in relation to its ability to generate income or sales. Both sets of metrics offer the advantage of being straightforward to compute, interpret, and communicate, providing a concise summary of the relationship between a company's market value and its underlying fundamentals.

Multiples are typically considered valuation indicators used to assess individual securities. Another category of valuation tools employed in investment analysis is momentum indicators. These indicators generally track how a stock's price or a fundamental metric, such as earnings, behaves over time, either in comparison to its historical values or its expected future values.

The underlying rationale for momentum indicators is their potential to reveal trends that may signal future returns within a given time horizon. Unlike traditional valuation multiples, which focus on the relationship between price and fundamental value, momentum indicators aim to identify promising investment opportunities based on patterns and trajectories. As such, they serve as a complementary approach to multiples by offering a different perspective in the evaluation of securities (Jerald E. Pinto, 2010).

4.7.1 COMPARABLE METHOD

The method of comparables is a commonly used approach to estimate the value of a company by comparing it to other similar companies. These similar businesses, often called “comps” or “comparable companies”, serve as benchmarks. For instance, if we know how much investors are paying for each unit of earnings in a comparable company (using a metric like the price-to-earnings ratio, or P/E), we can apply that same ratio to estimate the value of the company we’re interested in.

For example, let’s suppose a comparable company has a P/E ratio of 20. This means investors are willing to pay €20 for every €1 of earnings. If our target company has earnings of €2 per share, applying that same ratio suggests the company’s share might be worth €40. We then compare this estimated value to the actual market price to judge whether the stock is fairly priced, undervalued, or overvalued.

The key idea is that a stock’s price doesn’t mean much on its own, but it must be viewed in the context of what you're getting for that price. Ratios like P/E help standardize this comparison, letting investors evaluate how much they're paying for a company’s profits, assets, or cash flow.

So, if two companies are similar in risk and expected growth, but one has a P/E of 25 and the other only 20, it might suggest the second company is cheaper or undervalued, offering more value for each euro spent (Jerald E. Pinto, 2010).

The term "relative" is important in this context. When we say that a stock is undervalued, we often mean that it appears cheap compared to other similar stocks or a group of companies. This kind of judgment is made relative to those benchmarks. As a result, an analyst might expect the stock to perform better than its peers.

However, there's a risk. If the other stocks being used for comparison aren't themselves priced correctly by the market, then the stock we’re analyzing might not actually be a bargain: it might already be fairly valued, or even overpriced. So, comparisons are useful, but only if the reference points are reliable (Jerald E. Pinto, 2010).

The method of comparables can also be used with enterprise value (EV) multiples, which look at the total market value of a company, not just its stock, but including its debt too. In this case, we compare the company’s total value to figures like EBITDA (earnings before

interest, taxes, depreciation, and amortization), which represent the company's core operating performance before financial or accounting factors.

For example, by multiplying the typical EV/EBITDA ratio of similar companies by a company's own EBITDA, we can estimate how much the company might be worth in total. If the company's current valuation is much lower than this estimate, it might be undervalued; if it's higher, it might be overpriced.

To make these comparisons, analysts often use a benchmark such as the average multiple used by similar companies in the same industry. This approach is based on a basic economic idea: similar things should sell for similar prices (known as the "law of one price").

This method is one of the most common ways professionals assess whether a company seems cheap or expensive compared to others. While often considered a form of relative valuation, these multiples can also be tied back to more detailed, fundamental financial analysis (Jerald E. Pinto, 2010).

4.7.2 FORECASTED FUNDAMENTALS METHOD

The method based on forecasted fundamentals uses valuation multiples that are linked to a company's expected future performance: things like profitability, growth potential, or financial stability. Since these fundamentals influence future cash flows, we can connect them to valuation through models like discounted cash flow (DCF).

In simple terms, DCF models estimate what a company is really worth today by looking at the cash it's expected to generate in the future. Even though valuation multiples such as price-to-earnings (P/E) or EV/EBITDA focus on a single financial figure, they actually reflect the entire stream of expected future cash flows.

By expressing these multiples in terms of company fundamentals, analysts can better understand why one stock might be priced higher than another. The differences often come down to different expectations about things like how fast the company will grow or how profitable it will be.

This idea can be better understood by starting with the present value of a company's expected future cash flows and then comparing that value to a projected financial metric. For instance, if a discounted cash flow (DCF) analysis suggests a UK stock is worth £10.20,

and analysts expect the company to earn £1.20 per share in the coming year, the forward price-to-earnings (P/E) ratio would be $£10.20 \div £1.20 = 8.5$.

This kind of calculation, linking a valuation figure to a price multiple, can be applied to any type of multiple, whether it's P/E, EV/EBITDA, or another, and works with both DCF and residual income models. It's a way to see if a company's market valuation aligns with expected performance (Jerald E. Pinto, 2010).

4.7.3 PRICE TO EARNINGS (P/E)

The price-to-earnings (P/E) ratio is widely used in valuation due to several compelling reasons. First and foremost, a company's ability to generate earnings is a primary driver of its investment value, and earnings per share (EPS), which forms the denominator of the P/E ratio, is often the central focus of financial analysts. In fact, a 2007 survey of CFA Institute members ranked the P/E ratio as the most commonly used price multiple in market-based valuations.

Its broad recognition and widespread use among investors further enhance its appeal, making it a familiar and easily interpretable metric. Moreover, empirical studies suggest that differences in P/E ratios across stocks may be linked to variations in their long-term average returns, highlighting the ratio's potential relevance in assessing future performance.

However, the P/E ratio is not without its limitations. These largely stem from the nature of EPS itself. In cases where earnings are zero, negative, or extremely low relative to the stock price, the P/E ratio becomes less meaningful or even unusable. Additionally, distinguishing between recurring earnings, those that truly reflect a company's ongoing financial health, and temporary or nonrecurring components can be challenging in practice.

Another critical concern is the influence of accounting choices and estimates. Corporate managers often have discretion in how financial information is reported, selecting among various acceptable accounting methods. These decisions can significantly affect reported EPS, potentially distorting the true economic performance of a company and reducing the comparability of P/E ratios across different firms.

When calculating the price-to-earnings ratio, the stock price, used as the numerator, is typically taken as the current market price of the company's common shares. This figure is

usually clear and easily accessible for publicly traded firms. However, choosing the correct value for earnings per share, which forms the denominator, is less straightforward and requires deeper consideration.

Two main aspects must be addressed to ensure the P/E ratio is meaningful and comparable across different companies. The first involves the timeframe over which earnings are measured. Depending on whether historical, current, or projected earnings are used, different versions of the P/E ratio can be calculated, each offering unique insights. The second consideration is the potential need to adjust reported accounting earnings. Since companies may use different accounting practices or make varying assumptions in financial reporting, analysts often refine the EPS figure to improve comparability. These adjustments aim to eliminate distortions and provide a more accurate reflection of a firm's recurring earnings power, making cross-company comparisons more reliable.

4.7.3.1 TRAILING P/E AND FORWARD P/E

There are two common variations of the price-to-earnings ratio that reflect different perspectives on a company's earnings performance: the trailing P/E and the forward P/E.

The trailing P/E, often referred to as the current P/E, is calculated by dividing the stock's current market price by the earnings per share from the most recent four quarters. This version is also known as the trailing twelve months (TTM) P/E because it relies on historical data. It is typically the default P/E figure presented in financial profiles and databases, offering a backward-looking view based on actual reported earnings.

On the other hand, the forward P/E, also known as the leading or prospective P/E, is based on future earnings expectations. It is calculated by dividing the current stock price by the projected earnings for the upcoming year. While this version provides a forward-looking perspective and is useful for anticipating a company's growth potential, its accuracy depends heavily on the quality and reliability of earnings forecasts. Moreover, there are variations in how "next year" is defined: some sources may use estimates for the next calendar year, while others might base the figure on the next four quarters, which can lead to differences in reported values.

When using the P/E ratio as a valuation tool, it's crucial for analysts to maintain consistency in how the ratio is defined and applied. Using different definitions of P/E across companies or time periods can lead to misleading comparisons. This is because differences in how the ratio is calculated can introduce systematic, rather than random, variations. For example, in companies with growing earnings, the forward P/E is usually lower than the trailing P/E since the expected future earnings are higher, thus increasing the denominator.

Because valuation is inherently forward-looking, analysts often prioritize the forward P/E when reliable earnings forecasts are available. In the case of large publicly traded companies, forecasts can either be generated by the analyst or sourced from consensus estimates in commercial databases. However, when a company's earnings are difficult to predict, due to volatile business conditions or limited guidance, a trailing P/E or an alternative valuation method may be more appropriate.

There are also instances when the traditional trailing P/E is simply not relevant. Significant events such as major acquisitions, divestitures, or changes in financial leverage can alter a company's risk profile or operational structure to the point where past earnings no longer reflect its future potential. In such cases, relying on a trailing P/E would not provide a useful basis for valuation, and the forward P/E becomes the more logical choice.

Both the trailing and forward P/E ratios typically rely on a single year's earnings, but this can be problematic if the EPS figure is negative, unusually volatile, or not representative of the company's normal earning capacity. In these situations, analysts may choose to calculate a normalized P/E, which uses a longer-term average or adjusted EPS to better reflect a company's sustainable earnings power. Since normalized EPS is often derived from historical performance, the discussion of normalized P/Es usually falls under the broader analysis of trailing P/E calculations (Jerald E. Pinto, 2010).

4.8 RESIDUAL INCOME

Residual income models have gained significant traction in both professional investing and academic research as effective tools for valuing equity. At their core, these models define residual income as the net income that remains after accounting for the opportunity cost of equity capital. Essentially, the return that shareholders could have earned elsewhere at comparable risk.

The main strength of residual income models lies in their ability to address a key limitation of traditional accounting methods. In conventional income statements, while the cost of debt is reflected through interest expenses, there is no corresponding charge for the cost of equity. As a result, a company may report a profit without necessarily creating value for its shareholders. Residual income models correct for this by subtracting a notional equity charge from net income, thereby offering a clearer picture of whether a company is truly generating value beyond its full cost of capital.

In essence, residual income represents the earnings that exceed the required return on equity, making it a more comprehensive measure of economic performance. This approach ensures that both debt and equity costs are fully considered in assessing value creation. Recently, the concept has received renewed interest and is often referred to by alternative names such as economic profit, abnormal earnings, or economic value added (EVA), all of which reflect the same core idea: measuring the income left over after fully compensating all capital providers.

Traditional financial statements, especially the income statement, are designed to show the earnings available to a company's owners after accounting for expenses, including interest on debt. This means they do factor in the cost of debt capital through interest expense. However, they do not reflect any explicit cost for equity capital, such as dividends or other measures of shareholders' opportunity costs. In effect, traditional accounting leaves it up to investors to judge whether the reported net income adequately compensates them for the risk of their investment.

In contrast, the residual income approach incorporates a more complete financial perspective by explicitly subtracting the cost of equity capital from net income. This cost of equity, often referred to as the required rate of return or marginal cost of equity, represents the return investors expect for taking on the risk of owning the company's shares. It's considered a marginal cost because it reflects the expense of raising additional equity, whether that equity is sourced internally through retained earnings or externally by issuing new shares.

By incorporating this cost directly into the valuation model, residual income provides a more accurate and economically grounded assessment of whether a company is truly creating value for its shareholders. If a company's earnings exceed both debt and equity costs, it is

adding value; if not, even reported profits may mask a failure to meet investors' expectations (Jerald E. Pinto, 2010).

A company that earns profits exceeding the cost of its capital is effectively generating positive residual income, indicating it is adding value for its shareholders. On the other hand, if its earnings fall short of covering capital costs, the resulting negative residual income suggests value is being eroded. Therefore, assuming other factors remain constant, a higher level of residual income typically correlates with a higher company valuation, while lower or negative residual income tends to align with a reduced valuation.

To demonstrate how residual income impacts equity valuation, consider a hypothetical company whose shares are initially trading at book value. Suppose the total book equity amounts to €1 million, with 100,000 shares outstanding. This implies a book value per share and an initial market price of €10.

The company reports earnings per share (EPS) of €0.91, with earnings expected to remain constant indefinitely. Additionally, assume that the company distributes all net income as dividends. However, since the firm is not generating returns that meet its cost of equity, it is, in effect, destroying value each year. Specifically, the annual value destruction amounts to €29,000, or €0.29 per share. When this loss is capitalized using a 12% cost of equity, the present value of the perpetual value destruction equals €2.42 per share ($€0.29 \div 0.12$). Consequently, the intrinsic value of the share would be expected to decline to €7.58 ($€10 - €2.42$).

Another way to interpret this relationship is through the lens of the earnings yield, defined as earnings divided by price (E/P). For a company with no growth, the E/P ratio approximates the investor's expected return. When the share price adjusts such that the E/P equals the cost of equity (in this case, 12%) the stock is fairly priced relative to its required return. With an EPS of €0.91, the corresponding fair share price would be approximately €7.58 ($€0.91 \div 0.12$). At this valuation level, the total market capitalization of the company's equity would be around €758,000, implying a price-to-book ratio (P/B) of 0.758. This outcome illustrates a key principle: companies with negative residual income tend to trade at a discount to book value.

In contrast, firms generating positive residual income typically see their shares trade at a premium to book value. Therefore, all else being equal, higher residual income is associated with higher equity valuations and higher P/B ratios.

Residual income models have been widely employed in the valuation of both individual equities and entire market indices. Additionally, these models have been proposed as tools for evaluating goodwill impairment: an accounting adjustment that reduces the value of intangible assets, such as goodwill, typically arising from business acquisitions. In this context, residual income provides a useful lens for assessing whether the value implied by intangible assets remains justified from a value creation perspective (Jerald E. Pinto, 2010).

4.8.1 EVA (ECONOMIC VALUE ADDED)

One notable example of a commercial application of the residual income concept is Economic Value Added (EVA). EVA is a trademarked financial performance measure developed to assess whether a company is creating value beyond its cost of capital. Specifically, EVA is calculated as follows:

$$EVA = NOPAT - (C\% \times TC)$$

Where:

NOPAT is the company's net operating profit after taxes, C % is the cost of capital and TC is total capital.

Economic Value Added (EVA), while grounded in solid economic theory, requires a series of adjustments to traditional accounting figures in order to more accurately reflect a company's true financial performance and value creation. These adjustments are necessary because standard accounting often includes conventions and treatments that can obscure the economic reality of a firm's operations.

One of the key modifications involves the treatment of research and development (R&D) expenses. Rather than being expensed entirely in the year they occur, R&D expenditures are capitalized and amortized over time. This reflects their nature as long-term investments that contribute to future profitability. Consequently, R&D costs are added back to earnings when calculating net operating profit after taxes (NOPAT).

Similarly, in the case of strategic investments, particularly those that are not expected to yield immediate returns, the EVA framework may delay the application of a capital charge until those investments begin to generate economic benefits. This ensures

that short-term performance is not unfairly penalized for decisions aimed at long-term value creation.

Goodwill also receives special treatment. Unlike in standard accounting, where goodwill may be amortized over time, the EVA approach typically capitalizes goodwill without amortizing it. Amortization expenses are added back when calculating NOPAT, and any accumulated amortization is also restored to the capital base. This adjustment is intended to preserve the economic meaning of goodwill unless there is a clear impairment.

Deferred taxes are another area of adjustment. Since EVA focuses on economic performance from a cash flow perspective, only actual cash taxes paid are treated as expenses. Deferred tax items, which represent timing differences rather than real cash outflows, are excluded from the analysis.

Inventory accounting, particularly when the LIFO (Last-In, First-Out) method is used, also requires adjustment. The LIFO reserve (the difference between inventory valued under LIFO and under FIFO) is added back to invested capital to reflect a more consistent valuation. Moreover, any increase in the LIFO reserve is added to earnings in the NOPAT calculation.

Finally, operating leases are reclassified as capital leases under the EVA framework. This means that lease obligations are treated as long-term financing and incorporated into the capital base, while the lease payments are adjusted to reflect interest and depreciation components. Additionally, any nonrecurring or exceptional items are removed to ensure that EVA focuses solely on sustainable, core operating performance.

Through these adjustments, EVA provides a clearer, more accurate picture of whether a company is truly generating value above its cost of capital, offering a more meaningful basis for both internal performance assessment and external valuation (Jerald E. Pinto, 2010).

4.9 CHAPTER SUMMARY

Valuation represents a central pillar of strategic financial analysis and is essential for assessing whether a firm is creating value for its shareholders. This chapter has outlined the main frameworks used in company valuation, including discounted cash flow (DCF) models, market-based multiples such as the price-to-earnings ratio (P/E) and enterprise value to EBITDA (EV/EBITDA), as well as residual income approaches, notably the Economic Value Added (EVA) model.

These methodologies are unified by the underlying principle that a company's value is intrinsically linked to its ability to generate returns exceeding the cost of capital. However, the effective application of these tools requires more than technical knowledge; it demands a nuanced understanding of the firm's specific characteristics and the sector in which it operates. In other words, valuation is a context-dependent process, and its accuracy relies on the correct alignment between the selected methodology and the company's economic and strategic profile.

5. A THEORETICAL BASIS FOR FERRARI'S CASE ANALYSIS

Ferrari offers a particularly compelling case study. Although it operates within the automotive industry, its business model diverges significantly from that of mass-market car manufacturers. Ferrari's strategy is built on limited production volumes, high operating margins, strong pricing power, and an exceptional level of brand equity: elements more commonly associated with luxury goods firms than traditional carmakers. These features have direct implications for valuation, particularly with regard to the selection and interpretation of financial metrics.

Given the company's relatively stable and predictable cash flows, supported by high customer loyalty and controlled supply, the DCF model emerges as a particularly appropriate tool for capturing Ferrari's intrinsic value. At the same time, the use of market multiples such as P/E or EV/EBITDA requires a highly selective approach in identifying comparable companies, due to Ferrari's unique positioning and financial profile. Similarly, residual income models like EVA may offer additional insights by explicitly incorporating the cost of equity capital, an aspect particularly relevant for firms that aim to generate value beyond accounting profits.

In conclusion, this chapter has established the theoretical foundation necessary to conduct a rigorous and context-aware valuation of Ferrari. The objective of the subsequent analysis will be to apply these frameworks in an integrated manner, assessing whether Ferrari is effectively creating value for its shareholders and whether the company's current market valuation reflects its fundamental worth.

5.1 FERRARI OVERVIEW

Ferrari stands among the most prestigious luxury brands worldwide, distinguished by its dedication to the design, engineering, production, and sale of some of the most iconic high-performance sports cars ever created. The marque is universally recognized as a symbol of luxury, exclusivity, innovation, uncompromising sporting performance, and the timeless heritage of Italian design and engineering. (N.V., Annual Report 2024, 2025)

The name Ferrari, together with its storied history and the image embodied in its automobiles, is inextricably linked to Scuderia Ferrari, the most accomplished team in the history of Formula1. Since the inception of the Championship in 1950, Scuderia Ferrari has

achieved 224 Grand Prix victories, 16 Constructors' World Championships, and 15 Drivers' World Championships, most recently securing the Constructors' crown in 2008.

This legacy of excellence, innovation, and distinctive style extends far beyond the automotive world, forming the very foundation of the Ferrari brand and image. All Ferrari cars are conceived, engineered, and crafted in Maranello, Italy and are distributed across more than 60 international markets through a network of 182 authorized dealers, operating 204 points of sale.

A deliberate low-volume production strategy is pursued in order to safeguard Ferrari's enduring reputation for exclusivity and rarity among its clients. Production volumes and delivery lead times are carefully managed and continuously monitored to preserve this distinctive positioning in the market (N.V., Annual Report 2024, 2025).

The Group's regional markets are structured into four areas: EMEA (comprising Europe, the Middle East, India, and Africa), the Americas, Greater China, and the Rest of APAC (the Asia-Pacific region excluding Greater China). In 2014, these regions accounted for 45 percent, 34 percent, nine percent, and 12 percent of unit shipments, respectively. In 2024, these regions represented respectively 45.1 percent, 29.1 percent, 8.4 percent and 17,4 percent of unit shipments.

In recent years, a greater proportion of shipments has been directed to the Middle East and Greater China, and to a lesser extent to the Americas, while a relatively smaller proportion has been allocated to Europe. This allocation reflects evolving patterns of demand and forms part of Ferrari's broader strategy to manage waiting lists while ensuring the exclusivity of its products.

Within the realm of luxury goods, the target market for Ferrari is defined as the segment of luxury performance automobiles powered by engines exceeding 500 horsepower and retailing at prices above €180,000 (Italian market price, VAT included), referred to as the Luxury Performance Car Industry. This market is closely correlated with the broader luxury sector, being particularly sensitive to global macroeconomic conditions and the discretionary nature of consumer expenditure. Emotional factors such as economic confidence, expectations of future income, and the social acceptability of luxury consumption also significantly influence demand (N.V., Annual Report 2024, 2025).

Following the global recession of 2008–2009, the Luxury Performance Car Industry demonstrated resilience, supported by wealth creation in Asia and the Americas and by an

expanding appetite for Western luxury brands among newly affluent consumers. This evolution, coupled with demographic changes and a younger clientele increasingly attracted to luxury performance automobiles, contributed to rising demand and the entry of new competitors, reinforcing overall market expansion.

After surpassing pre-pandemic volumes in 2022, the industry continued to grow in 2023, with a modest deceleration in 2024. Ferrari, however, exceeded its 2019 pre-pandemic shipment levels already in 2021, benefitting from decisive actions to mitigate the impact of COVID-19 and safeguard production capacity (N.V., Annual Report 2024, 2025).

In 2023, Ferrari began deliveries of the Purosangue, the marque's first four-door, four-wheel-drive, four-seater model, a milestone that broadened the company's competitive arena. Consequently, the reference industry has been expanded to encompass high-riding four-door luxury performance cars exceeding 500 horsepower and €180,000 in retail value, defined as the Enlarged Luxury Performance Car Industry. This enlarged sector continued its upward trajectory through 2023 and 2024, with demand strongly driven by the cadence of new product launches, factors capable of stimulating sales even amid challenging macroeconomic environments.

In recent years, heightened demand for personalization and digital connectivity has further shaped consumer expectations, compelling industry players to introduce bespoke solutions adapted to regional preferences. The Enlarged Luxury Performance Car Industry has thus remained dynamic despite adverse global developments, including supply chain disruptions, inflationary pressures, geopolitical conflicts, and the economic slowdown in Greater China. Competitors largely navigated these challenges through strategic adjustments in pricing, supply chain management, and renewed product portfolios.

Finally, environmental concerns are exerting a profound influence, with increasingly stringent emission regulations fostering a gradual but irreversible shift toward hybrid and electric powertrains. While current limitations, such as cost and charging infrastructure, temper demand for full-electric models, advances in battery technology are expected to sustain growth in the segment. Success will depend upon the capacity to integrate electrification seamlessly with the hallmark driving experience of high-performance luxury vehicles (N.V., Annual Report 2024, 2025).

5.2 FERRARI POLICIES

5.2.1 ENVIRONMENTAL SUSTAINABILITY

Ferrari's objective is to continuously enhance its environmental awareness in order to define and implement targeted programs and actions. The company strongly believes that access to a clean and uncontaminated environment should not be considered a privilege, but rather a fundamental human right. In this respect, efforts are focused on minimizing the negative impacts of its activities on natural resources and the global environment, with a firm commitment to protecting the environment for present and future generations.

Environmental protection is regarded as a decisive factor within Ferrari's overall business approach. The company is committed to the constant improvement of its environmental performance and to full compliance with all applicable laws and regulations (N.V, 2024).

Ferrari is committed to reducing greenhouse gas emissions across the entire lifecycle of its products. This objective is pursued through action plans designed to lower both direct and indirect emissions, with science-based targets guiding the process and progress being monitored transparently. Energy consumption is being reduced by optimizing processes and adopting the most advanced technologies available, with particular focus on innovative solutions, renewable and alternative energy sources, and low-emission fuels. At the same time, the company is carrying forward its electrification strategy, together with other technological innovations, in line with regulatory requirements and with a view to a low-emission future (N.V, 2024).

The responsible use of water is another priority, with efforts directed toward the adoption of processes and systems that require less water, favoring internal recirculation and the reuse of wastewater. In addition, Ferrari promotes the reuse of production scrap in line with the principles of the circular economy, working to reduce the overall volume of waste and to maximize recovery. Emissions into the atmosphere and into wastewater systems are closely monitored to ensure that their impact is minimized. Beyond these actions, the company is also engaged in protecting biodiversity in the areas influenced by its production activities (N.V, 2024).

5.2.2 WATER MANAGEMENT

Ferrari fully acknowledges the importance of responsible water management, both within its facilities and across production processes. Although the Maranello and Modena plants are not located in areas classified as high or extremely high overall water risk, a range of initiatives has been introduced to reduce water consumption in manufacturing activities and to raise employee awareness of the critical value of water resources (N.V, 2024).

Water management is addressed through various frameworks and policies. These include the company's Environmental Practice, which integrates water management into operations and processes, the Integrated Quality, Safety and Environment Policy, as well as compliance with ISO 14001 certification standards for the Maranello and Modena facilities. In 2024, the ISO 14001 certification was reviewed with a specific audit focused on water management. In addition, the annual water balance report is submitted to the local water service operator and to ARPAE (Regional Agency for Prevention, Environment and Energy of Emilia-Romagna), as required by applicable regulations (N.V, 2024).

At a general level, all water used is sourced from municipal supplies and wells. To date, no natural water bodies are directly impacted by withdrawals. All wastewater from the plants is continuously monitored and conveyed into the public sewage system, rather than discharged directly into water bodies. Where reuse is not possible, wastewater is treated in accordance with Legislative Decree 152/06 and all other applicable laws and regulations before being released into the sewage system. In particular, water used in certain industrial processes, such as washing solutions or paint rinsing, undergoes treatment in an industrial water treatment facility, where it is subjected to the required chemical, physical, and biological processes prior to discharge (N.V, 2024).

Since 2020, the Maranello plant has been recovering condensate water from air conditioning systems in all new buildings. This water, together with rainwater, is collected in a dedicated tank for subsequent reuse in toilets and irrigation. Furthermore, the new e-building, inaugurated in 2024, has been equipped with infrastructure designed to reuse both condensate and rainwater for the same purposes.

In line with initiatives introduced in 2023, additional water meters have been integrated into the energy monitoring software at the Maranello plant. This system enhancement enables

more precise mapping of water consumption and supports the identification of further opportunities to improve water efficiency (N.V, 2024).

In November 2024, the “Zero Liquid Discharge” project became fully operational at the Maranello plant. The initiative is designed to reintegrate water from production activities (including painting, foundry operations, and mechanical washing) back into the production process. The system intercepts wastewater before it enters the sewage network, treating approximately 60% of it through reverse osmosis. Subsequent treatments ensure that the reused water complies with the required standards for reintroduction into the production cycle. Dedicated meters have been installed to monitor the system’s performance, tracking both water recovery and wastewater discharge. This initiative is expected to reduce annual water consumption at the Maranello plant by more than 3%, thereby lowering the overall demand for freshwater intake (N.V, 2024).

The Mugello Circuit is self-sufficient in terms of water resources. Water is sourced from wells owned by the facility and drawn from the aquifer. Following use, the water is stored in tanks and treated by an external company to allow for reuse. Activities at Mugello have not impacted the overall availability of water in the aquifer.

Water consumption is calculated as the difference between withdrawals and discharges, with the majority occurring at the Maranello manufacturing facility. In 2024, total water consumption amounted to 313.3 megaliters (ML), none of which originated from water-stressed areas (N.V, 2024).

5.2.3 BIODIVERSITY

Ferrari is committed to safeguarding local biodiversity in areas that could potentially be affected by its production activities, in line with its broader Environmental Practice. In 2024, a proximity analysis was carried out to assess the presence of protected natural areas within a 10-kilometre radius of company sites. This analysis was conducted using the database provided by ISPRA (Istituto Superiore per la Protezione e la Ricerca Ambientale), together with the lists of ZIC (Sites of Community Importance), ZPS (Special Protection Areas) and ZSC (Special Areas of Conservation) available on the website of the Italian Ministry of the Environment and Energy Security (MASE) (N.V, 2024).

The results confirmed that the facilities are not located in or near areas classified as sensitive for biodiversity conservation. The assessment followed the criteria established under Directive 2009/147/EC on the conservation of wild birds, Council Directive 92/43/EEC on the conservation of natural habitats and wild fauna and flora, and the national list of protected areas recognized under Italian law.

To the best of current knowledge, neither the manufacturing plants nor the racing circuits have a significant environmental impact on these protected areas. Nonetheless, Ferrari continues to monitor the surrounding environment. For instance, the Mugello racing circuit, located in an area of high natural and landscape value, was developed with particular attention to environmental protection. The main grandstand was built using eco-active materials designed to have zero impact on the surrounding area, helping to reduce pollutants and bacteria (N.V, 2024).

In addition to greenhouse gases, Ferrari's air emissions primarily consist of volatile organic compounds (VOCs) generated during vehicle manufacturing, mainly at the Maranello and Modena plants. Furthermore, emissions of nitrogen oxides (NOx), sulfur oxides (SOx), and dust are subject to continuous monitoring (N.V, 2024).

5.2.4 TAX STRATEGY

The Ferrari Tax Strategy, which draws inspiration from the Code of Conduct, (formally approved by the Board of Directors of Ferrari N.V. the "Company" or "Ferrari") applies to Ferrari and all its subsidiaries, collectively referred to as the "Ferrari Group." Oversight of compliance with the Tax Strategy rests with the Audit Committee, which ensures that the Company's practices remain consistent with its stated commitments.

Ferrari's tax approach is rooted in the principles of the Code of Conduct and is guided by a set of values that shape how tax responsibilities are managed (N.V., Annual Report 2024, 2025).

Integrity is central: the Group seeks to uphold the highest standards in tax accounting and compliance, paying the correct amount of tax in each jurisdiction according to local laws. The Company is equally committed to aligning taxation with the place where value is created, ensuring that taxes are paid fairly, in the right location and at the right time. Internal

controls are designed to guarantee accuracy and reliability in the recording and reporting of transactions, which form the basis for tax reporting.

Ferrari maintains a zero tolerance approach to misconduct. To safeguard its global reputation, the Group fully complies with tax laws and regulations, implements preventive measures, and enforces its Tax Strategy rigorously to ensure that ethics and integrity are never compromised.

In pursuit of sustainable and lasting growth, Ferrari considers taxes a vital contribution to the economies in which it operates, while also protecting its long-term reputation. Tax planning activities are legitimate, carefully designed to comply with both the letter and the spirit of the law, and make use of incentives available under relevant legislation.

The Organization also prioritizes constructive engagement with Tax Authorities, maintaining relationships founded on transparency, honesty, and integrity. In its dealings with authorities, Ferrari provides access to accurate and complete information on all relevant circumstances to enable fair and informed assessments (N.V., Annual Report 2024, 2025).

When it comes to tax disclosure, the Firm aims to report the most appropriate level of information in both financial and non-financial documents. While transparency is essential, disclosure is balanced against the need to safeguard sensitive information that, if released, could create commercial, legal, or reputational risks for the Group.

The Ferrari Tax Strategy translates these values into concrete principles that shape daily tax management. The Company ensures full compliance with applicable laws by meeting its tax obligations fairly, accurately, and on time. A sustainable approach is applied, where taxes are recognized as a contribution to economic and social development, while still delivering strong and lasting returns to shareholders (N.V., Annual Report 2024, 2025)

Ferrari maintains a conservative approach to tax risk management, avoiding aggressive tax positions and ensuring robust compliance controls are in place to prevent breaches or abuses of tax regulations. Finally, the Company fosters a strong tax culture, ensuring that employees across all functions are familiar with the guiding principles of the Tax Strategy through training and awareness initiatives.

These principles are reflected in Ferrari's day-to-day practices. The Company seeks to minimize tax uncertainty by conducting thorough assessments where legislation may be ambiguous, adopting reasonable interpretations supported by external experts where

needed. In many cases, advance rulings or pricing agreements are requested to secure clarity and predictability.

In situations of disagreement, Ferrari undertakes careful risk assessments before deciding whether to pursue compromise solutions, litigation, or other dispute resolution procedures. Even in cases of conflict, the Company defends its tax positions with professionalism and technical rigor (N.V., Annual Report 2024, 2025).

A cooperative relationship with Tax Authorities is actively encouraged, with key entities of the Group progressively adhering to cooperative compliance regimes. Enquiries and audits are handled transparently by the Tax Department, and transfer pricing documentation is prepared in line with OECD standards to further strengthen trust.

Ferrari ensures that related-party transactions comply with the arm's length principle, as outlined in the OECD Model Tax Convention and OECD Transfer Pricing Guidelines. The Group explicitly rejects aggressive tax planning and does not exploit tax havens for the sole purpose of reducing its tax burden. The jurisdictions in which it operates always reflect genuine economic substance and value creation (N.V., Annual Report 2024, 2025).

Robust internal controls underpin this approach. The Firm is progressively implementing a Tax Control Framework (TCF), aligned with OECD guidelines and national regulations, to systematically identify, measure, and mitigate tax risks. Clear roles and responsibilities are established, consistent with the principles of segregation of duties and escalation procedures. Each year, the Board of Directors receives a report, via the Audit Committee, on the performance of the Tax Control Framework and any corrective actions taken (N.V., Annual Report 2024, 2025).

5.2.5 STAKEHOLDERS MANAGEMENT

The Ferrari Group recognizes the essential role of clear and effective communication in fostering both internal and external relationships and in ensuring the highest corporate standards. Creating a corporate environment in which communication is fast, open, and two-way is considered a fundamental factor in sustaining long-term success.

In line with this principle and with the Group's strategic objectives, Ferrari considers the development of effective communication and collaboration with its internal and external stakeholders to be a key element in the generation and sharing of value, while also seeking

to reconcile their respective interests and expectations (N.V., Stakeholder's Engagement Practice, 2023).

Ferrari is committed to engaging with fairness and integrity, promoting positive relationships based on mutual trust with all those who impact or are impacted by its activities. The Company's approach to stakeholder engagement is therefore aimed at ensuring honest, transparent, and effective communication and consultation, supported by ongoing dialogue.

Firmly believing that a multi-stakeholder approach, strengthened by strong commitment, is a cornerstone of sustainable and lasting growth, Ferrari seeks to balance as equitably as possible the interests and expectations of all parties interacting with the Company.

To reinforce this commitment, Ferrari has adopted the Stakeholder Engagement Practice, inspired by the values and principles set out in the Code of Conduct, which provides guidance on the appropriate methods and activities for engaging with the Company's diverse stakeholders (N.V., Stakeholder's Engagement Practice, 2023).

The Group believes that effective stakeholder engagement should be structured through a process that begins with the clear definition of the purpose and the material topics to be addressed. This is followed by the identification of the relevant stakeholders and the determination of the appropriate levels and methods of engagement. Finally, the process is completed with the analysis of the results and their communication to stakeholders.

For stakeholder engagement to be effective, Ferrari considers it essential to begin with a clear definition of the purpose and objectives underlying the activity for which the organization intends to engage with its stakeholders. Engagement must be coherent and aligned both with Ferrari's overall strategy and with the specific objectives of the initiative being undertaken.

Once the purpose has been established, it becomes possible to define the scope of the consultation process and, as a result, to identify the material topics that will form the focus of dialogue. While many of these topics will naturally emerge from the objectives themselves, it is also recognized that certain issues, which may not initially appear strategically significant, should nonetheless be identified and addressed as part of a comprehensive engagement process (N.V., Stakeholder's Engagement Practice, 2023).

The design of an effective stakeholder engagement process requires, as a second step, a clear understanding of who Ferrari's stakeholders are and of how and why they interact with the organization. Based on the purpose and material topics previously identified, Ferrari carries out a careful mapping of the stakeholder categories with which it interacts in the course of its activities. Particular attention is given to those stakeholders who may influence the achievement of strategic objectives, as well as to those who may be significantly affected by the Company's actions.

According to the Stakeholder Engagement Standard (SES), stakeholders are defined as "individuals, groups of individuals or organizations that have an impact on and/or may be impacted by the activities, products or services offered by the organization, and by the outcomes achieved on the issues addressed through engagement activities." In line with this principle, and in compliance with privacy regulations, Ferrari identifies and profiles its stakeholders on the basis of a number of factors, including the existing relationship with the organization, the degree of dependence on it, the level of influence exercised, the willingness and capacity to engage, expectations regarding the engagement, stakeholder type (such as shareholders, investors, civil society, regulators, customers, and others), expertise on issues linked to the purpose and objectives of the engagement, cultural context, geographic scale of activity, legitimacy and representativeness, as well as relationships with other interested parties (N.V., Stakeholder's Engagement Practice, 2023).

Taking these considerations into account, Ferrari's main stakeholder categories include: enthusiasts and brand lovers, clients, business partners and licensees, government bodies, regulatory authorities and sporting institutions, employees and trade unions, sponsors, communities and universities, media and influencers, suppliers, the financial community and shareholders, and dealers (N.V., Stakeholder's Engagement Practice, 2023).

Once the objectives of engagement, the material topics, and the relevant stakeholders have been identified, it becomes essential to carefully determine the levels and methods of stakeholder involvement. This ensures that the engagement process not only serves its intended purpose but also responds effectively to the needs and expectations of the stakeholders themselves.

The choice of engagement levels and methods may vary depending on several factors, including the degree of interactivity required, the depth of communication to be established,

the underlying objectives of the engagement, and the nature of the relationship with the stakeholder.

Similarly, the channels and tools through which Ferrari interacts with its stakeholders may differ according to the desired or required level of engagement, the type of relationship established, the specific area of interest under discussion, and the strategic objectives of the dialogue to be pursued (N.V., Stakeholder’s Engagement Practice, 2023).

The final stage of the engagement process consists of the analysis of results, which represents a fundamental component of stakeholder involvement. In this regard, Ferrari assesses the effectiveness of the activities undertaken, ensuring that the outcomes are properly documented and communicated both within and, where appropriate, outside the organization. This process also serves to address the key issues and points of attention raised during interactions with stakeholders.

On the basis of the findings, the Company considers it essential to develop action plans aimed at the continuous improvement of corporate performance in relation to the stakeholders’ most relevant expectations and priorities.

With regard to the engagement of the Board of Directors and/or its members, the Chairperson ensures that the Board is promptly informed, at the next available meeting, of the key developments and significant content arising from stakeholder engagement activities (N.V., Stakeholder’s Engagement Practice, 2023).

5.2.5.1 STAKEHOLDERS STRUCTURE

As of March 3, 2025, Ferrari’s share capital amounted to €2,573 thousand, represented by 193,923,499 common shares and 63,349,112 special voting shares, each with a nominal value of €0.01. On the same date, the Company held 15,785,877 common shares and 6,682,906 special voting shares in treasury (N.V., Annual Report 2024, 2025).

Table 1. Common shares (2025)

AS OF MARCH 3, 2025	NO.COMMON SHARES
NO. COMMON SHARES ISSUED	193,923,499
NO. COMMON SHARES HELD IN TREASURY	15,785,877
NO. OUTSTANDING COMMON SHARES	178,137,622

(N.V., Annual Report 2024, 2025)

Table 2. Special voting shares (2025)

AS OF MARCH 3, 2025	NO. SPECIAL VOTING SHARE
NO. SPECIAL VOTING SHARES ISSUED	63,349,112
NO. SPECIAL VOTING SHARES HELD IN TREASURY	6,682,906
NO. OUTSTANDING SPECIAL VOTING SHARES	56,666,206

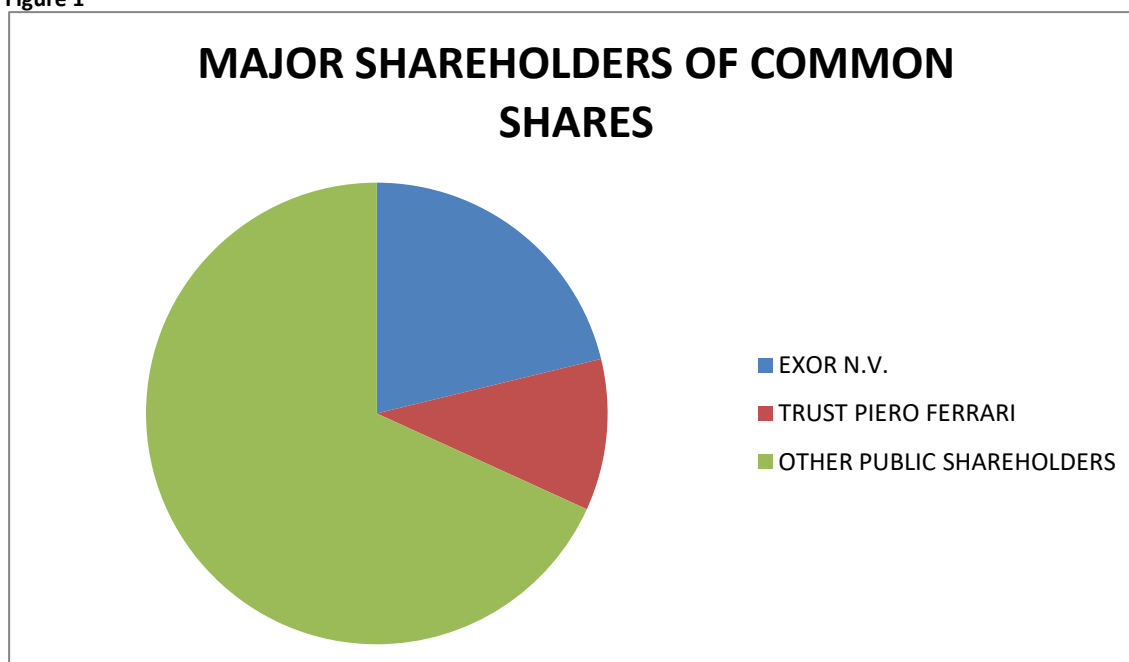
(N.V., Annual Report 2024, 2025)

Table 3. Major shareholders common shares (2025)

SHAREHOLDER ⁽¹⁾ - AS OF MARCH 3, 2025	% OF OUTSTANDING COMMON SHARES
EXOR N.V. ⁽²⁾⁽³⁾	21.20%
TRUST PIERO FERRARI ⁽²⁾⁽³⁾	10.61%
OTHER PUBLIC SHAREHOLDERS	68.19%
TOTAL OUTSTANDING COMMON SHARES	100.00%

(N.V., Annual Report 2024, 2025)

Figure 1



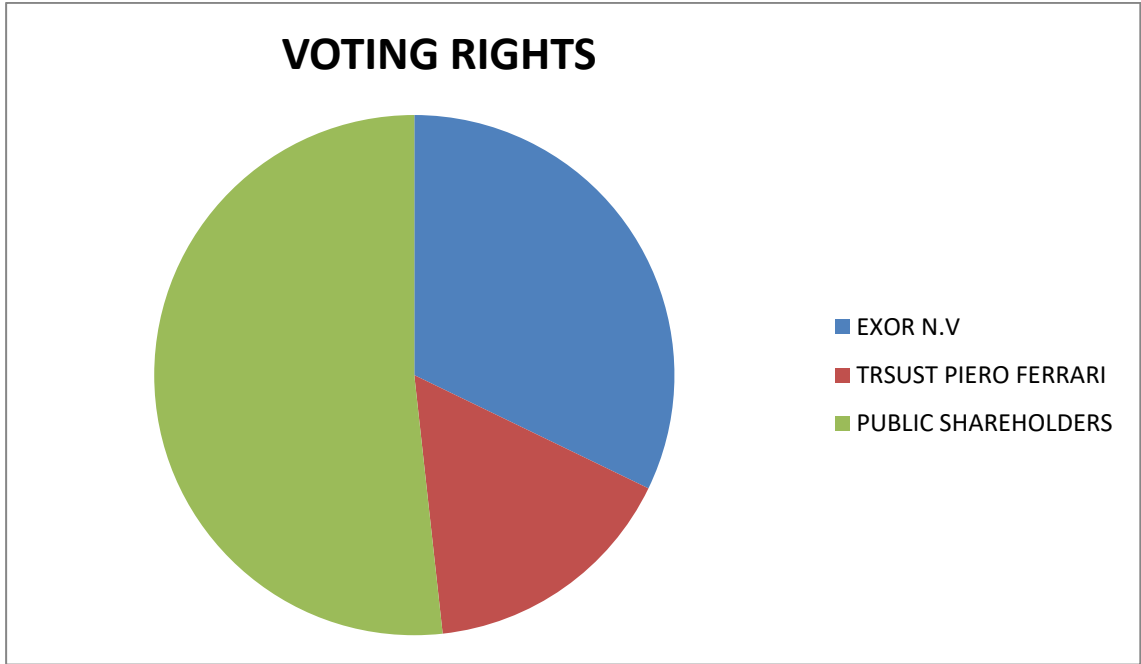
(N.V., Annual Report 2024, 2025)

Table 4. Voting rights (2025)

SHAREHOLDER ⁽⁴⁾ - AS OF MARCH 3, 2025	% OF VOTING RIGHTS
EXOR N.V. ⁽²⁾⁽³⁾	32.17%
TRUST PIERO FERRARI ⁽²⁾⁽³⁾	16.09%
PUBLIC SHAREHOLDERS	51.74%
TOTAL OUTSTANDING COMMON SHARES	100.00%

(N.V., Annual Report 2024, 2025)

Figure 2



(N.V., Annual Report 2024, 2025)

⁽¹⁾ The percentages of share capital set out in this table are calculated as the ratio of the aggregate number of outstanding common shares beneficially owned by the shareholder to the total number of outstanding common shares (net of treasury shares) of Ferrari. These percentages may slightly differ from the percentages of share capital and voting rights included in the public register held by the AFM of all notifications made pursuant to the disclosure obligations under chapter 5.3 of the Dutch Act on financial supervision (Wet op

het financieel toezicht; the “AFS”), inter alia, because any shares held in treasury by Ferrari are included in the relevant denominators for purposes of the AFS disclosure obligations. Although such treasury shares cannot be regarded to be part of Ferrari’s “outstanding share capital” and therefore have not been taken into consideration for the calculations of the percentages of share capital and voting rights set out in this table (N.V., Annual Report 2024, 2025).

⁽²⁾ Each of Exor and Trust Piero Ferrari participate in the loyalty voting program of Ferrari. As of March 3, 2025, Exor owned 37,768,613 special voting shares and Trust Piero Ferrari owned 18,892,160 special voting shares. Therefore, as discussed above in this section, the voting power of Exor and Trust Piero Ferrari in Ferrari is higher than the percentage of common shares beneficially held as presented in this table.

⁽³⁾ Exor N.V. and Mr. Piero Ferrari informed Ferrari that they have entered into a shareholder agreement, recently amended to reflect adherence by Trust Piero Ferrari, summarized under “Major Shareholders - Shareholders’ Agreement” contained in the 2024 Annual Report and Form 20-F (N.V., Annual Report 2024, 2025).

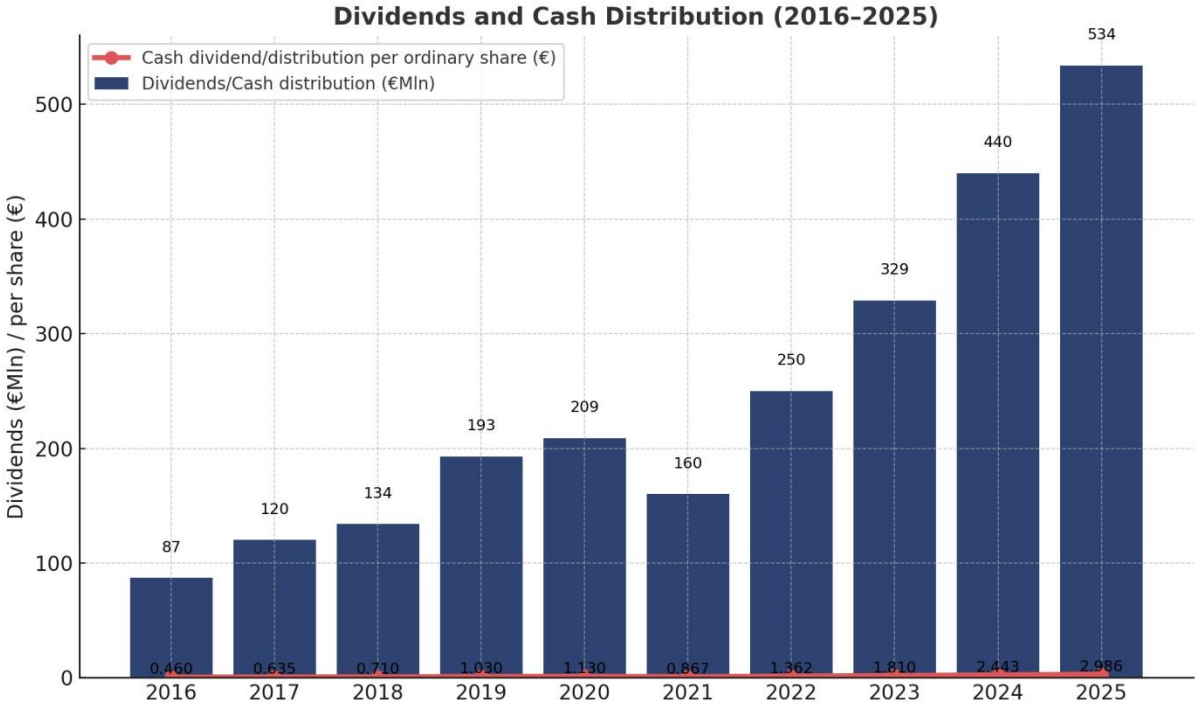
5.2.5.2 DIVIDENDS

Ferrari returns capital to common shareholders through a sustainable dividend policy that aims to provide adequate returns while supporting long-term growth and preserving credit strength to secure access to external funding. The company targets the distribution of 35% of annual net profit as dividends in the coming years. The actual payout, however, depends on earnings, liquidity, existing commitments, strategic objectives, and other factors deemed relevant by the Board of Directors. Adjustments may also be applied for income or expenses that are significant in nature but expected to occur only occasionally. (N.V., Annual Report 2024, 2025). Ferrari’s dividend policy may be revised in the future in response to statutory requirements, market conditions, strategic initiatives, capital needs, or other relevant factors. All issued and outstanding common shares rank equally and are entitled to participate in any profit distribution or other payments declared on such shares. Under the Articles of Association, holders of special voting shares are entitled to a minimum dividend, which is allocated to a dedicated special dividend reserve. Any distribution from, or release

of, this reserve requires a prior proposal from the Board of Directors and subsequent approval by the meeting of special voting shareholders. Ferrari currently has no intention of proposing any distribution from the special dividend reserve (N.V., Annual Report 2024, 2025).

The company is permitted to distribute profits to shareholders and other entitled parties only if its shareholders' equity exceeds the combined amount of the paid-up and called-up share capital and the statutory reserves required under Dutch law. No profit distribution may be made on shares that Ferrari holds in its own share capital (N.V., Annual Report 2024, 2025).

Figure 3. Ferrari Dividend (2025)



(N.V., Annual Report 2024, 2025)

5.3 FINANCIAL OVERVIEW

The following analyses are based on data from (N.V., Annual Report 2024, 2025) unless otherwise specified. All calculations and insights are the author's elaboration.

5.3.1 EBITDA

EBITDA is defined as net profit before income tax expense, net financial income/expenses, and depreciation and amortization.

EBITDA = Operating Income (EBIT) + Depreciation + Amortization

Adjusted EBITDA refers to EBITDA further adjusted for specific income or expenses that are significant, expected to occur infrequently, and considered by management as not representative of the company’s ongoing operational activities.

For the year ended December 31st

Table 5. EBITDA (2024)

	2024
	(€million)
OPERATING INCOME (EBIT)	1,888
AMORTIZATION AND DEPRECIATION	667
EBITDA	2,555
ADJUSTMENTS	
ADJUSTED EBITDA	2,555

(N.V., Annual Report 2024, 2025)

$$EBITDA\ MARGIN = \frac{EBITDA}{NET\ REVENUES} \times 100 = \frac{2,555}{6,676} \times 100 = 38.3\%$$

It means that for every €100 in revenue, Ferrari generates about €38 in operating profit before depreciation, amortization, taxes, and interest.

Ferrari delivered a double-digit increase in EBITDA in 2024, showing its ability to scale revenues while maintaining efficiency. The operating structure is lean, and the high contribution from customization and limited-edition models reinforces Ferrari’s pricing power and strategic positioning.

The EBITDA margin remained above 38%, slightly higher than 2023 and well above 2022. Such sustained margins are unusual in the automotive sector, where most players operate in the 10–15% range, underscoring Ferrari’s luxury business model rather than mass-market car manufacturing.

A specific highlight is the €386 million contribution from product mix and personalization, which shows that Ferrari’s strategy of exclusivity and customer tailoring generates significant incremental value. Unlike volume-driven competitors, Ferrari relies on scarcity, customization, and brand prestige to support profitability.

Management guidance points to at least €2,680 million EBITDA in 2025, with margins expected to remain around 38.3%. This signals confidence in sustained demand, continued product appeal, and resilience against macroeconomic headwinds.

5.3.2 RETURN ON INVESTMENT (ROI)

Return on Investment (ROI) measures the profitability and efficiency of an investment by comparing the net return generated to the amount of capital invested. It indicates how effectively a company uses its assets to generate earnings.

For the year ended December 31st

Table 6. ROI (2024)

	2024
	(€ thousands)
OPERATING INCOME (EBIT)	1,525
TOTAL ASSETS	9,497,146 - 3,543= 5,954
ROI	0,25 → 25%

(N.V., Annual Report 2024, 2025)

A ROI of 25.6% indicates that Ferrari is able to generate approximately 26 cents of net profit for every euro invested in its business, including both equity and debt. This result can be considered an outstanding high return, particularly for a company in the automotive industry, where global peers often achieve ROIs in the low-to-mid teens.

5.3.3 RETURN ON EQUITY (ROE)

Return on Equity (ROE) measures a company's profitability in relation to shareholders' equity. It indicates how effectively management is using the equity invested by shareholders to generate net income.

For the year ended of December 31st

Table 7. ROE (2024)

	2024
	(€thousands)
NET PROFIT	1,525,913
SHAREHOLDERS EQUITY	3,543,238
ROE	0,43 → 43%

(N.V., Annual Report 2024, 2025)

Ferrari's 2024 ROE is extremely high. This is a remarkable figure when compared to the average ROE of most global automotive companies, which typically falls between 10% and 20%.

A high ROE indicates that Ferrari is exceptionally effective at turning shareholders' equity into profits. This reflects not only strong profitability but also the company's unique business model. Another factor behind this high ROE is Ferrari's relatively lean capital structure. Because it does not need to reinvest heavily in massive production facilities, the company can generate strong earnings without requiring proportionally large amounts of shareholder equity. This amplifies the return for investors.

5.3.4 CAPM

The Capital Asset Pricing Model (CAPM) is a fundamental framework in modern finance that establishes a linear relationship between the expected return of an investment and its systematic risk, which is the portion of total risk that cannot be eliminated through diversification. CAPM assumes that investors are rational, markets are efficient, and risk is measured relative to the overall market portfolio.

$${}^2\text{CAPM} = E(R_i) = R_F + \beta_i [E(R_M) - R_F]$$

$$\text{CAPM} = E(R_i) = 2,4\% + 0.70 (6,3\%) = 6,81\%$$

From a corporate finance perspective, the cost of equity represents the return required by shareholders for providing capital to the firm, given the level of systematic risk that the firm carries relative to the market. It is not simply an arbitrary number; rather, it reflects the equilibrium between investors' opportunity cost of investing in a risk-free asset and the additional compensation demanded for bearing the risk of equity ownership.

Applying the CAPM to Ferrari in 2024, we obtain a cost of equity of approximately 6.8%. This figure can be interpreted as follows: if investors can earn about 2.4% on a virtually

² R_F = In the Eurozone, the standard proxy for a risk-free asset is the 10-year German Bund yield which in 2024 corresponded to 2.4 %

β = it measures how sensitive Ferrari's stock is to the overall market. Over the past 5 years (monthly), Ferrari's beta is around 0.70 (according to Yahoo Finance)

$\text{ERP} = R_M - R_F = 8,7\% - 2,4\% = 6,3\%$

risk-free instrument such as the German 10-year Bund, they will only choose to hold Ferrari's equity if the expected return exceeds this baseline. The excess compensation is determined by Ferrari's beta of 0.7, which indicates that the stock is less volatile than the market. Multiplying this beta by the equity risk premium in the Eurozone (about 6.3%) yields an additional 4.4%, which, when added to the risk-free rate, produces the 6.8% figure.

From an evaluative standpoint, 6.8% is a relatively low cost of equity compared with the average range for European companies, often between 7% and 9%. This lower required return suggests that investors perceive Ferrari as less risky than the typical listed firm. The comparison becomes even more favorable within the automotive sector: traditional mass-market car manufacturers such as Volkswagen or Stellantis typically display higher betas, reflecting their sensitivity to economic cycles, and thus carry higher costs of equity. Ferrari, by contrast, is regarded by the market as closer to a luxury brand than a conventional carmaker, supported by strong margins, stable demand, and exceptional brand equity.

Consequently, a 6.8% cost of equity enhances Ferrari's valuation in discounted cash flow models, since a lower discount rate inflates the present value of expected future cash flows. At the same time, it implies that shareholders are not expecting extremely high returns; rather, they are satisfied with moderate but stable compensation in exchange for the company's resilience and unique market position.

5.3.5. WACC

The Weighted Average Cost of Capital (WACC) represents the average rate of return a company is expected to pay to all its capital providers, including both equity investors and debt holders, weighted by their proportion in the firm's capital structure. It essentially reflects the minimum return a company must generate on its existing asset base to satisfy its creditors, owners, and other providers of capital.

$${}^3WACC = \frac{MVD}{MVD + MVCE} r_d (1 - TAX RATE) + \frac{MVCE}{MVD + MVCE} r$$

³ r_d = pre-tax cost of debt (we'll estimate from Ferrari's reported interest expense divided the interest/gross industrial debt). Ferrari reports interest expenses €40.054 million in 2024. Interest / gross industrial debt 1,896 milion. $r_d = 2,1\%$

T = effective tax rate (19,2%)

r = cost of equity (CAPM) = 6,8%

MVD and $MVCE$ = debt and equity market values

$$WACC = \frac{1,896}{1,896 + 73,800} 2,1(1 - 0,192)\% + \frac{73,800}{1,896 + 73,800} 6,8\% = 6,64\%$$

Ferrari's Weighted Average Cost of Capital for 2024, which we estimated at approximately 6.65%, can be understood as the minimum average return the company must achieve on its invested capital in order to satisfy both shareholders and lenders. In other words, this percentage represents the opportunity cost of financing Ferrari's operations: if the company earns returns above this threshold, it creates value; if its returns fall below it, value is destroyed relative to the expectations of capital providers.

What stands out in Ferrari's case is the very clear dominance of equity financing. Roughly 97.5% of its capital structure is composed of equity, while debt accounts for only about 2.5%. This unusually low reliance on debt is consistent with Ferrari's positioning as a luxury brand that prioritizes financial flexibility and stability over leverage. Because of this, the tax advantages that usually reduce the cost of debt financing play only a marginal role in Ferrari's WACC. Instead, the figure is driven almost entirely by the cost of equity, which investors expect to be around 6.8%.

A WACC of 6.65% is relatively moderate when compared to Ferrari's peers. Traditional mass-market automakers often operate with higher costs of capital, sometimes in the range of 8–10%, because they face greater cyclicity, competitive pressures, and debt reliance. By contrast, luxury companies such as LVMH typically display WACCs closer to 6–7%. Ferrari's cost of capital therefore positions it closer to the luxury sector than to the broader automotive industry, reinforcing its hybrid identity as both a car manufacturer and a luxury goods company.

From a strategic perspective, this cost of capital sets the hurdle rate for Ferrari's investments. Any project, whether in electric vehicle development, production capacity, or new model launches, must deliver returns above 6.65% to generate shareholder value. Given that Ferrari's actual return on invested capital (ROI) consistently exceeds 20%, the company creates substantial value over and above its cost of capital. This large spread between ROI

*MVCE = Ferrari reports a market capitalization of €73,800 million
MVD (proxy) = €1,896 million. Ferrari's total industrial (interest-bearing) debt (gross, third-party) is reported as €1,896 million (this excludes the asset-backed financing related to Financial Services when we isolate industrial activities).*

and WACC is one of the reasons Ferrari enjoys such extraordinary profitability and such a strong market valuation.

5.3.6 FCFF

FCFF captures the actual liquidity created by the business after covering operating costs, taxes, reinvestments in fixed assets, and adjustments in working capital. In other words, it represents the amount of cash that remains once the company has done everything it needs to sustain and grow its core operations, before any payments to banks or shareholders are made.

$${}^4FCFF = EBIT \times (1 - T) + AMMORTAMENTI - CAPEX - \Delta WORKING CAPITAL$$

$$FCFF = 1,888 \times (1 - 0,192) + 667 - 989 - 244 = 959,5 \text{ million}$$

In 2024, Ferrari generated a Free Cash Flow to the Firm (FCFF) of about €959.5 million. This figure represents the real cash available to all providers of capital (both equity holders and debt holders) after accounting for the costs of running the business, paying taxes, reinvesting in new assets, and financing working capital needs.

Starting from operating profit (EBIT of €1.888 billion), we adjust for taxes, which leaves a net operating profit after tax (NOPAT) of around €1.525 billion. To this, we add back non-cash charges such as depreciation and amortization (€667 million), since these reduce accounting profit but do not involve an actual cash outflow. At this stage, Ferrari looks very cash-rich, but two major deductions must be considered: first, the capital expenditures (CapEx) of €989 million, which cover investments in factories, technology, and R&D capitalized as intangible assets; and second, the €244 million absorbed by working capital, reflecting higher inventories and receivables that tied up liquidity.

After these adjustments, the free cash flow settles at just under €1 billion. This number is very strong relative to Ferrari's size, as it shows that despite heavy investments in new

⁴ EBIT (Operating profit): €1,888m

Effective tax rate: 19.2%

Depreciation & Amortization (D&A): €667m

Investments (CapEx) used in FCF: €989m (intangible assets €507m + PP&E €482)

Δworking capital = Ferrari reported a –€244m change in trade working capital.

technologies and growth, the company still manages to convert a large share of its operating profit into cash.

In essence, this €959.5 million is the sustainable cash that Ferrari's core operations generated in 2024. It is the flow of money that can be used to pay debt, distribute dividends, or be reinvested in further growth. More importantly, it is the key input for valuation models such as the Discounted Cash Flow (DCF), which use FCFF as the base to estimate the company's intrinsic value.

5.3.7 FCFE

Free Cash Flow to Equity, or FCFE, represents the portion of cash flows that is ultimately available to a company's shareholders after covering all expenses, taxes, investments in working capital and fixed assets, as well as net payments to or from debt holders

$${}^5FCFE = NET\ INCOME + D\&A - CapEX - \Delta WC + NET\ BORROWING - NET\ FINANCE\ CASH\ PAID$$

$$FCFE = 1,521.9 + 666.8 - 989.2 - 244 + 701 - 0.7 = 1,656.0\ million$$

In 2024, Ferrari generated an FCFE of around €1.65 billion, which represents the actual cash available for shareholders after covering operating expenses, taxes, capital expenditures, working capital needs, and debt-related activities. This is a very strong number, particularly when compared to the company's dividend and share buyback programs, which together amounted to about €1.02 billion. In other words, Ferrari's shareholder distributions were more than fully supported by the cash flow available to equity, leaving an additional surplus that contributed to an increase of roughly €620 million in the company's cash balance.

⁵ *Net Income (to owners) = 1,521.9 million*
Depreciation & Amortization = 666.8 million
Capital Expenditures (CapEx) = 989.2 million
Change in Working Capital (ΔWC) = 244.0 million
Net Borrowing = 701.0 million
Net Finance Cash Paid \approx 0.7

What makes this figure especially interesting is that a meaningful portion of the FCFE was boosted by net borrowing of €701 million. This means that not all of the free cash flow came from Ferrari's operating strength; part of it was the result of additional debt raised during the year. Nevertheless, the company still demonstrated that it generates ample cash from its operations to support both growth investments and generous shareholder returns.

Overall, the 2024 FCFE confirms Ferrari's solid financial flexibility: it not only rewards shareholders through dividends and buybacks, but also retains additional liquidity to support future expansion and strategic projects.

5.3.8 EVA

Economic Value Added (EVA) is a measure of a company's true economic profit, taking into account not only operational profitability but also the full cost of all capital employed, both equity and debt. In essence, EVA tells us whether a business is generating returns above what investors require, encompassing the so-called opportunity cost of capital.

$${}^6EVA = NOPAT - (C\% \times TC)$$

$$EVA = 1,525 - (0.06 \times 3,723.2) = 1,302,1 \text{ million}$$

This positive and substantial number confirms that Ferrari is not only profitable in accounting terms but also creating considerable economic value. The company's returns on invested capital are far higher than its cost of capital, which reflects Ferrari's strong pricing power, brand exclusivity, and operational efficiency.

Ultimately, the EVA result reinforces Ferrari's status as a firm that is able to transform its luxury positioning and engineering excellence into tangible value for shareholders. Rather than just covering the cost of its financing, Ferrari is producing wealth well in excess of it. This is an important distinction: while many companies can show profits, far fewer consistently generate positive economic value. Ferrari's 2024 EVA shows that it belongs firmly in that select group.

⁶ $Nopat = EBIT \times (1 - tax\ rate) = 1,888 \times (1 - 0.192) = \text{€}1,525.5 \text{ million}$

$C\% = WACC = 6,6\% = 0.06$

$TC = INVESTED\ CAPITAL = Equity + Net\ Industrial\ Debt = 3,543.2 + 180 = \text{€}3,723.2 \text{ million}$

5.3.9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of Ferrari by the weighted average number of common shares issued and outstanding during the period. The following table provides the amounts used in the calculation of basic earnings per share for the years ended December 31, 2024.

For the year ended December 31st

Table 8. EPS (2024)

	2024
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	€million 1,525
WEIGHTED AVERAGE NUMBER OF COMMON SHARES FOR BASIC EARNINGS PER SHARE	million shares 179.992
BASIC EARNINGS PER COMMON SHARES	€8.47

(N.V., Annual Report 2024, 2025)

5.3.10 P/E ratio

The Price-to-Earnings ratio, or P/E, is essentially a way of measuring how much investors are prepared to pay for each euro of profit that a company generates. It is one of the simplest but also most telling valuation tools in finance. A high P/E indicates that the market has strong confidence in the company’s future, expecting earnings to grow and the business to remain highly profitable. A low P/E, by contrast, may suggest that investors are doubtful about growth prospects, or that the company faces risks that make them less willing to pay a premium for its shares.

$${}^7\frac{P}{E} = \frac{\text{price per share}}{EPS}$$

$$\frac{P}{E} = \frac{424.84}{8.46} = 50.22$$

⁷ Price= 424.84
EPS= 8.46

For Ferrari in 2024, the P/E works out to around 48 to 50, depending on which share price we take as reference. At first sight, this is a very high multiple, far above the typical range seen in the broader market, which often falls between 12 and 25. However, Ferrari is not a typical car manufacturer. The market sees it as a luxury brand with extraordinary pricing power, resilient demand, and a strong pipeline for long-term growth. That perception justifies, in investors' eyes, a much higher valuation multiple.

What this result tells us is that Ferrari's shares trade at a significant premium because the market is not just paying for current earnings, but also for the expectation that profits will continue to grow in the years ahead. It is, in other words, a vote of confidence in the company's brand, its financial strength, and its ability to sustain its unique positioning in the luxury market. At the same time, such a high ratio means that expectations are already very ambitious: if earnings growth were to slow or fall short, the stock could come under pressure more quickly than a company valued at a lower multiple.

5.3.11 FORWARD P/E

The forward Price-to-Earnings ratio measures how much investors are paying today for each unit of earnings that analysts expect the company to generate in the next 12 months (future EPS).

$$FORWARD \frac{P}{E} = \frac{\text{price per share}}{\text{estimated EPS (next 12 months)}}$$

$$FORWARD \frac{P}{E} = \frac{424.84}{9.50} = 44.7$$

Using Ferrari's closing price at year-end 2024 of approximately €424.84, and consensus analyst EPS forecasts for 2025 around of €9.50, the company's forward P/E is calculated to be around 44. This represents a decline relative to the trailing P/E of about 50x, reflecting anticipated earnings growth in 2025. Put differently, while investors paid €50 for each euro of earnings in 2024, they are expected to pay closer to €44 for each euro of 2025 earnings, assuming the share price remains stable.

From a technical standpoint, this narrowing of the multiple is a positive signal, as it implies that Ferrari's future profitability is projected to expand. At the same time, the absolute level of the ratio remains significantly above sector and market averages. Traditional automakers often trade on forward P/Es in the mid-to-high single digits, while even premium peers (such as Porsche or Mercedes AMG) tend to remain below 20x. Ferrari's multiple instead positions it closer to the luxury goods sector, where valuations are supported by strong brand equity, scarcity value, and pricing power.

The interpretation is therefore twofold: on the one hand, the market attributes Ferrari with the status of a luxury growth asset rather than a cyclical car manufacturer, justifying its premium valuation. On the other hand, the elevated forward P/E signals that expectations are extremely demanding: the company is priced for sustained double-digit growth, and any deviation from this trajectory could compress the multiple sharply.

5.4 FERRARI IN CHINA

Ferrari operates in a number of emerging markets, both directly and through its network of dealers, and has experienced growing demand in regions such as China and the Middle East. The Group's strategy envisages the progressive expansion of sales across the Middle East and Asia, acknowledging the significant rise in personal wealth characterizing these markets. While demand in such regions has been supported in recent years by sustained economic growth and increasing levels of disposable income, it remains uncertain to what extent such growth can be maintained over time. As Ferrari continues to pursue sales expansion in these countries, exposure to emerging markets is expected to increase. Economic and political dynamics in these markets, including crises or instability, have in the past had, and could in the future have, a material adverse impact on financial performance and operating results. Moreover, in certain jurisdictions where Ferrari or its dealers operate, government approvals may constrain the ability to take swift operational decisions. Additional regulatory measures, such as changes to taxation regimes or initiatives aimed at discouraging luxury consumption, may also adversely affect the demand for luxury goods in these regions.

The strengthening and consolidation of Ferrari's presence in emerging markets represents a cornerstone of the Group's global growth strategy. Nevertheless, initiatives by several global luxury automotive manufacturers have intensified competitive pressures, and

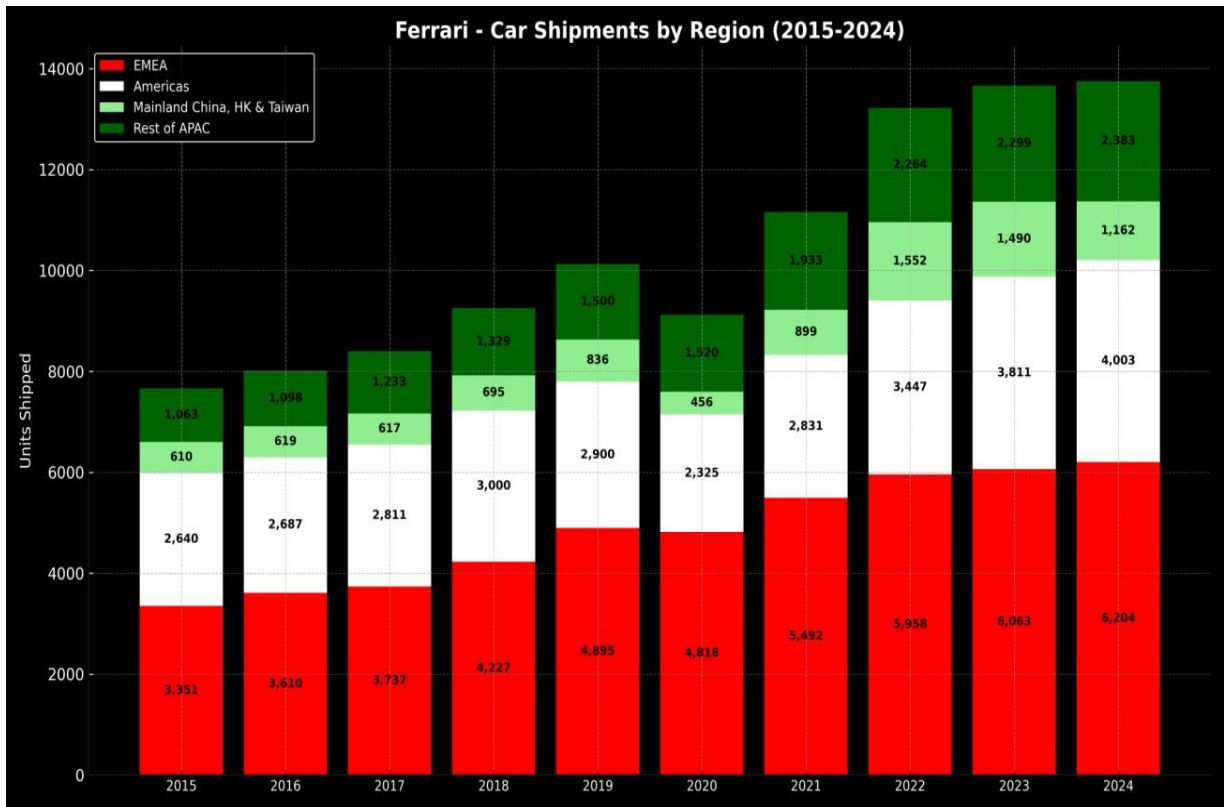
as these markets expand further, it is anticipated that both international and domestic competitors will seek to enter, while incumbent players strive to reinforce their positions. This intensification of competition may exert downward pressure on pricing, erode margins, and limit the ability to expand or even preserve market share, potentially resulting in material adverse effects on the Group's financial condition and operating results.

5.5 SHIMPMENTS

Ferrari positions its products at the very pinnacle of the luxury automotive segment, addressing a clientele that predominantly belongs to the wealthiest strata of society. As the size and spending capacity of this distinguished customer base has expanded significantly in recent years, both the breadth of the addressable market and the aura of exclusivity fostered by the Group's deliberate low-volume strategy have been further reinforced. In alignment with these dynamics, Ferrari has progressively enhanced its distribution capabilities and pursued a rebalancing of the geographical allocation of shipments, shifting emphasis from certain traditional markets, particularly in Europe, to the rapidly expanding markets of Asia, most notably China and the Middle East.

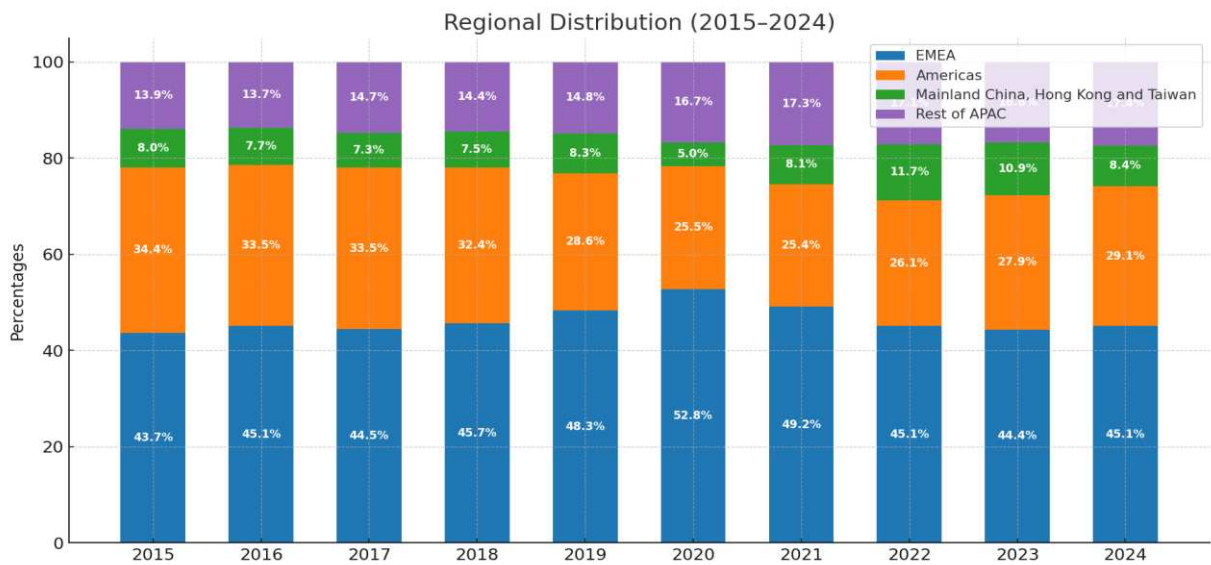
By way of illustration, whereas in 1993 fully 90 percent of Ferrari's cars were delivered to customers in Italy, Germany and the United States, these markets together now account for less than half of the Group's unit shipments. It should be noted, however, that profitability levels may vary across markets, reflecting differences in local conditions and demand structures. Benefiting from a deliberately flexible shipment strategy, Ferrari retains the capacity to adjust allocations dynamically in response to evolving trends in its most critical markets, thereby ensuring the continued preservation of both exclusivity and profitability on a global scale.

Figure 4. Car shipments by region (2024)



(N.V., Annual Report 2024, 2025)

Figura 5. Group shipments % (2024)



(N.V., Annual Report 2024, 2025)

5.5.1 QUANTITATIVE SHIPMENTS FORECAST

Starting from Ferrari's official 2024 results, the company delivered a total of 13,752 cars worldwide, with 1,162 units in Greater China (Mainland China, Hong Kong, and Taiwan). This means that the Chinese market currently accounts for around 8.5% of Ferrari's global sales, although deliveries declined by 22% compared to the previous year.

To project Ferrari's potential expansion in China over the coming years, we can combine two sets of assumptions: the overall growth of Ferrari's global deliveries and the evolution of China's share within that total.

When constructing the forecast of Ferrari's future deliveries in Greater China, the analysis is based on a formula that combines three main elements: the baseline of current sales, the global growth factor, and the relative weight of the Chinese market within Ferrari's total deliveries.

The starting point is the baseline value, which corresponds to Ferrari's actual sales in Greater China in 2024. This figure, amounting to 1,162 cars, provides the reference level upon which future estimates are built. Without an accurate baseline, any projection would lack a reliable foundation.

The second component of the formula is the growth factor, expressed as $(1 + g)^t$. Here, g represents the assumed annual growth rate of Ferrari's global deliveries, while t indicates the number of years into the future from the base year (in this case, six years from 2024 to 2030). This element captures the overall expansion of Ferrari worldwide, under the assumption that growth in China is tied, at least partially, to the company's global trajectory. For example, if Ferrari's global deliveries increase by 3% per year, the multiplier after six years becomes approximately 1.194, which means that total sales would be about 19% higher than in 2024.

The third element is the market share ratio, written as $\frac{SHARE_t}{SHARE_{2024}}$. This term adjusts the projection to account for changes in the proportion of Ferrari's sales that come from Greater China. The denominator, $SHARE_{2024}$, is the actual share of the Chinese market in 2024 (8.45%), while the numerator, $SHARE_t$, is the assumed share in the target year, 2030. Based on this baseline, we outline three possible scenarios: pessimistic, realistic, and optimistic to capture different assumptions about Ferrari's global growth and the evolution of China's role within the company's overall sales mix.

5.5.1.1 PESSIMISTIC SCENARIO

In this case, Ferrari's global deliveries grow very modestly, at only around +1% per year (conservative assumption) between 2024 and 2030. Such a pace could reflect economic headwinds, stricter regulations, or a slowdown in global luxury demand. At the same time, Ferrari's market share in Greater China remains flat at about 8% of global sales, which is roughly the level recorded in 2024.

$$CHINA SALES = SALES_{2030} = 1162 \times (1 + 0.01)^6 \times \frac{0.08}{0.0845} = 1168$$

This means that under the pessimistic outlook, Ferrari's sales in Greater China in 2030 would remain almost flat compared to today, reflecting a scenario of stagnation. These conditions essentially show stagnation compared to current levels. This scenario assumes that competitive pressure, import duties, or limited demand prevent Ferrari from regaining momentum in the Chinese market.

5.5.1.2 REALISTIC SCENARIO

The realistic scenario assumes moderate global growth of +3% annually, in line with Ferrari's guidance and industry expectations. In addition, we suppose that the share of Greater China in Ferrari's total sales increases gradually from 8.45% in 2024 to 12% by 2030.

$$CHINA SALES = SALES_{2030} = 1162 \times (1 + 0.03)^6 \times \frac{0.12}{0.0845} = 1970$$

Therefore, under the realistic scenario, Ferrari would nearly double its deliveries in Greater China by 2030, a sign of steady recovery and moderate expansion of its market presence. This increase reflects a partial recovery from the recent dip in sales, driven by the growth of Chinese high-net-worth individuals, a wider dealer network, and greater personalization options. Under these assumptions, Ferrari would deliver close to 2,000 cars annually in Greater China by 2030. This scenario represents a balanced outlook: steady global expansion combined with China re-establishing itself as a stronger contributor.

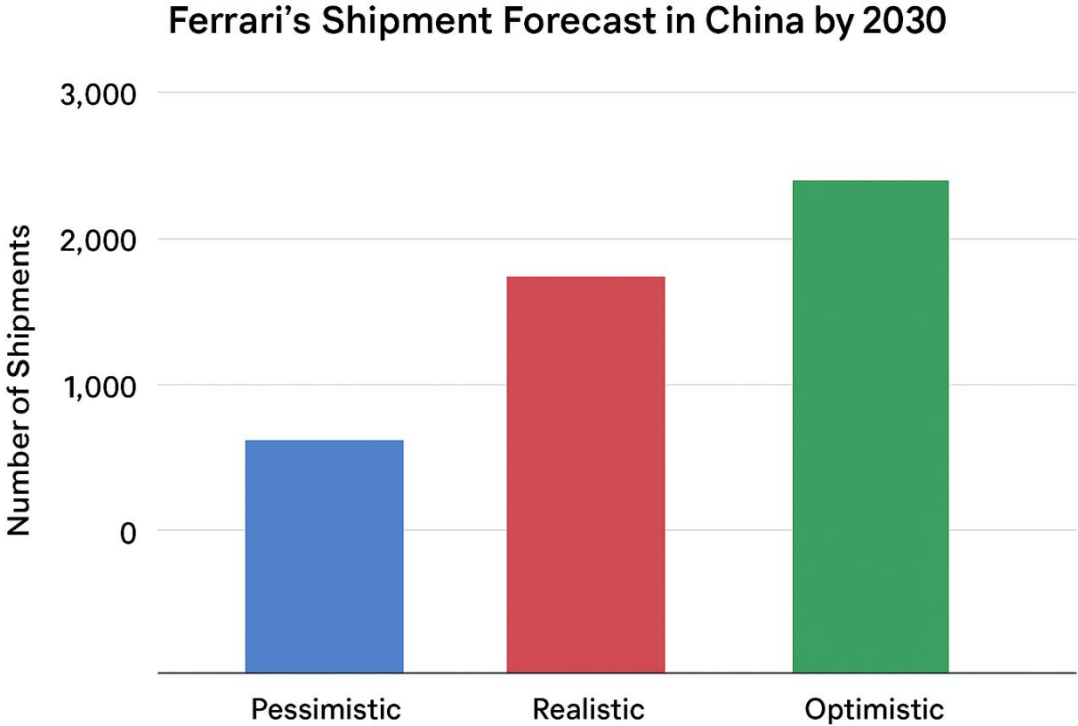
5.5.1.3 OPTIMISTIC SCENARIO

In the most favorable case, Ferrari achieves faster global growth, around +5% per year, fueled by strong demand across all regions and the successful launch of new models, including the brand’s first fully electric car expected in 2025. At the same time, the Chinese market becomes significantly more important, with Ferrari’s share of global deliveries rising to 15% by 2030.

$$CHINA SALES = SALES_{2030} = 1162 \times (1 + 0.05)^6 \times \frac{0.15}{0.0845} = 2764$$

Such a shift would be supported by booming luxury demand, deeper brand penetration in tier-two Chinese cities, and a strong appetite for exclusive products among China’s wealthy clientele. In this scenario, Ferrari’s deliveries in Greater China would reach approximately 2,700 cars per year by 2030, more than doubling the 2024 figure.

Figure 6. Ferrari’s shipment forecast in china by 2030



5.6 CONCLUSIONS

Ferrari's 2024 financial performance reaffirms its position as an extraordinary case within the global automotive and luxury sectors, combining operational efficiency, financial resilience, and brand exclusivity to produce results that are rarely attainable in such a capital-intensive industry.

At the core of this success lies profitability. Ferrari's EBITDA margin of over 38% remains one of the highest in the industry, underscoring the sustainability of a business model that derives value not from scale but from scarcity, personalization, and prestige. The company's ability to consistently expand EBITDA, supported by product mix and bespoke features, demonstrates that exclusivity itself has been monetized into a powerful profit driver. Where competitors struggle to generate margins in the mid-teens, Ferrari operates at a level closer to luxury conglomerates such as LVMH, confirming its hybrid identity as both manufacturer and luxury brand.

The same dynamic emerges when considering returns. Ferrari's ROI of 25.6% and ROE well above sector averages show not only operational efficiency but also the effectiveness with which shareholder equity is transformed into profit. Unlike mass producers, Ferrari is not burdened by excessive reinvestments into large-scale facilities. Its lean capital structure allows high returns with relatively modest equity inputs, thereby amplifying value creation for investors. These results are reinforced by a consistently positive and substantial Economic Value Added (EVA), confirming that Ferrari generates returns well above its cost of capital and thus produces true economic wealth rather than mere accounting profits.

Capital market metrics further underline Ferrari's distinctive positioning. A cost of equity of 6.8%, combined with a WACC of 6.65%, reflects investor perception of Ferrari as relatively low-risk, especially compared to cyclical automotive peers. The fact that its ROI so dramatically exceeds its WACC, by nearly 20 percentage points, underscores Ferrari's capacity to create value at a level that few companies in any industry can match. This gap is not merely financial but strategic, since it enables the company to approach innovation and electrification from a position of strength, unconstrained by financing pressures.

Cash flow indicators complement this picture of resilience. The company generated nearly €960 million in free cash flow to the firm (FCFF) and €1.65 billion in free cash flow to equity (FCFE), demonstrating that its profits translate into tangible liquidity. Importantly,

shareholder distributions through dividends and buybacks, amounting to around €1 billion, were comfortably covered by FCFE, with surplus liquidity further strengthening the balance sheet. While part of this surplus was influenced by net borrowing, Ferrari's operations remain robust enough to sustain investment and shareholder remuneration simultaneously: an equilibrium that very few manufacturers achieve during periods of high CapEx and technological transition.

The market's response is visible in valuation ratios. Ferrari trades at a P/E of around 50x and a forward P/E of roughly 45x, multiples that far exceed those of both mass-market automakers and premium automotive peers. Such valuation places Ferrari alongside luxury goods companies, signaling that investors do not view it as a cyclical manufacturer but as a luxury growth asset. While this reflects extraordinary confidence in Ferrari's future earnings trajectory, it also raises expectations to demanding levels: the company is effectively priced for sustained double-digit growth, leaving little room for underperformance without valuation risk.

Ferrari's trajectory in China and broader shipment dynamics highlight both the potential and the challenges of sustaining growth in a rapidly evolving global luxury market. The company's 2024 results, with China contributing 8.5% of global deliveries yet registering a 22% decline from the previous year, serve as a reminder that emerging markets remain volatile. Despite this setback, the structural drivers of wealth creation and luxury demand in China suggest that the country will remain central to Ferrari's long-term expansion strategy.

What distinguishes Ferrari's approach is its ability to balance exclusivity with strategic reallocation of shipments. Historically, Ferrari's sales were concentrated in Europe and North America, yet today less than half of its deliveries occur in these mature markets. The shift towards Asia, particularly China, is not simply a matter of volume but of rebalancing global demand while preserving scarcity, which is essential to maintaining brand equity. This flexible shipment strategy enables Ferrari to adapt to short-term shocks, such as regulatory tightening or economic slowdowns, without compromising its global positioning.

The quantitative scenarios projected to 2030 shed light on the range of possible futures. In the pessimistic case, Ferrari's deliveries in China stagnate, barely exceeding 1,100 cars, reflecting regulatory pressures or muted demand. While this outcome would not erode Ferrari's profitability (given its ability to command margins independently of volume) it would limit the strategic role of China in the brand's global growth.

The realistic scenario, however, appears most aligned with current trends. With moderate global growth of around 3% annually and China's share of deliveries rising to 12%, Ferrari could approach 2,000 units in the region by 2030. Such growth would reflect both the resilience of China's high-net-worth population and Ferrari's efforts to deepen market penetration, expand dealer networks, and enhance personalization options. This projection underlines a balanced narrative: Ferrari remains exclusive, yet it steadily strengthens its presence in the most dynamic luxury market in the world.

Finally, the optimistic scenario, where deliveries could rise to 2,700 units by 2030, highlights Ferrari's potential to more than double its Chinese sales if structural conditions prove favorable. This path would likely be supported by the introduction of new models, especially the first fully electric Ferrari, which could resonate strongly with Chinese consumers who are increasingly embracing luxury EVs. Combined with the expansion of the HNWI base, the development into tier-two and tier-three cities and the cultural significance of luxury as a marker of status, such a scenario underscores how China could evolve into one of Ferrari's primary growth engines.

Across all scenarios, the central challenge remains balancing growth with exclusivity. Ferrari cannot pursue volume at the expense of brand scarcity, as its very identity and profitability rest on limited supply and high differentiation. Moreover, the company must navigate regulatory risks, including potential curbs on conspicuous consumption, shifting tax regimes, and geopolitical tensions that could impact cross-border trade.

Ferrari's prospects in China and its global shipment strategy reflect a delicate equilibrium. The company is exceptionally well positioned to capture growth opportunities thanks to its strong brand equity, flexible allocation system, and ability to monetize personalization. Yet, its long-term success will depend on its capacity to adapt to Chinese market specificities, harness the momentum of electrification, and defend exclusivity against intensifying competition. If these conditions are met, Ferrari will not only preserve its aura of prestige but also cement its role as a leading player in the intersection of luxury and mobility within the world's most dynamic consumer market.

In conclusion, taken together, all these indicators point to a company in exceptional health. Ferrari combines strong operational profitability, disciplined financial management, and shareholder-oriented capital allocation with the intangible strength of a brand that commands global admiration. Yet, the very factors that constitute Ferrari's strengths such as

scarcity, exclusivity, and high expectations, also introduce vulnerabilities. The company must continue to deliver innovation, particularly in electrification, without diluting its heritage of craftsmanship and performance. It must also manage the risks associated with operating at valuation multiples that assume flawless execution.

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