Investor Marketing

by Hermann Simon, Bernhard Ebel and Markus B. Hofer

Prof. Dr. Hermann Simon is Partner and Chairman, Dr. Bernhard Ebel is Partner and Dr. Markus B. Hofer is Senior Consultant at SIMON - KUCHER & PARTNERS Strategy & Marketing Consultants (www.simon-kucher.com) with offices in Boston, Bonn, Munich, Paris, Vienna, Zurich, London and Tokyo.

Corresponding author: Markus B. Hofer
c/o Simon, Kucher & Partners
Haydnstrasse 36
D-53115 Bonn, Germany
Phone: ++49-228-9843-205
Fax: ++49-228-9843-310
mhofer@simon-kucher.com

Abstract

As competition in capital markets continues to intensify, companies need to “sell” themselves more effectively and strive for an optimal positioning toward investors. Investor Marketing supports a company’s investor relations activities by focusing squarely on the investor’s needs. The investor is seen as a “customer” to which marketing ideas apply.

Topic Area: Management

Keywords: Investor Relations; Financial Communication; Stock Market Strategy.

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1. Introduction

The growing significance of capital markets requires a new leadership orientation in companies. The evaluation of a company's stock market performance is considered today to be an excellent gauge by which indicators and factors for success can be identified and examined. The market values of companies have become an integral part of the stock exchange list and are well known to every interested investor. Shareholder value is targeted at the long-term yield for investors who place greater importance on the stock price and market value rather than the dividend.

In terms of international market value, most European companies are in an unfavorable position. Several disadvantages and risks arise from this position:

- An undervalued company could fall victim to a hostile takeover.
- Undervalued companies lack the cash for growth. Takeovers are increasingly being financed by stock swaps rather than cash payments.
- Those owning or desiring to own stock options—primarily business executives and other key figures, but also young executives and graduates—view undervalued companies as unattractive employers.

A recent Mannesmann-Vodafone case reveals the multi-dimensional nature of the problem. In the beginning of the (initially hostile) takeover attempt, Mannesmann achieved a market valuation of approx. €100 billion. But in the end the company was taken over for €180 billion. Klaus Esser, the former CEO, commented: „We haven't announced our progress loud enough. We have, in the German tradition, been too reserved in communicating our value and our increase in value. If the purchase price of €180 billion was correct, why hadn't we tried to convince the shareholders earlier that our market value of €100 billion was too low? A market value of €120 or €130 billion probably would have produced a different outcome. Germany’s industrial heavyweights, in particular the attractive ones, should learn from that.... They must run a show like the Americans do. It must be done! Even if that is unusual for many of us, it is good for the health and survival of the company." This statement accurately characterizes the challenge existing in Investor Marketing.

In this article we will first describe the task of Investor Marketing and the reasons for its implementation, e.g. during an initial public offering (IPO) and for ongoing price management. Using well-known marketing concepts as our basic frame of reference, we will then deal with strategic aspects like target group selection, equity story, positioning and push versus pull procedures. With the assistance of certain Investor Marketing instruments, we will then analyze the more tactical issues involved. We will close by exploring the problems confronted during implementation, concluding with a summary of the overall strategy.

2. The Task of Investor Marketing and the Reasons For Implementation

2.1. The Task of Investor Marketing

The basic task of Investor Marketing is obvious: the market value should be increased to and maintained at the highest level possible. This does not exclude market price fluctuations. The stock market will continue to have its highs and lows; it will always be subject to fads, differing opinions and illusions. No company is able to elude such general and industry-related influences. As empirical research shows though, individual companies, even while operating under the same conditions, will still perform differently from one another.

An investigation of Investor Marketing is based therefore on a wide perspective which puts two basic ideas under analysis:

On the one hand, the company strategy must be sound. Only when a company is competitive and profitable with regard to costs, products and market position, can it hope for lasting success on the stock market. In this respect, the European firms have made substantial progress which has been internationally recognized. A managing director of a major company in the metal industry describes their progress: "We have worked hard in the last 5 years. We have cut costs. We have polished up our company. Our profit has doubled from €300 million to €600 million. We are in excellent form today. International competitors look at us with respect now. But this hasn't been acknowledged by the stock market. Our stock exchange price just doesn’t budge.“ Good performance is apparently not enough. As in traditional business, a good product doesn’t sell by itself.

On the other hand, a company has to properly sell, market and position itself on the stock market. This challenge must be tackled in the same professional manner as performance in the core businesses. Investor Marketing covers two aspects: the orientation of the strategy on the long-term interests of the investors and effective marketing of the strategy. Investor Marketing requires that the customer’s perspective not only be accepted, but it should be the complete focus of marketing, as reflected in a statement from business guru Peter Drucker: “Marketing means to look at the whole business with the customer’s eyes (*or, in this case, with the investor’s eyes*).” Continuing with this thought, superior Investor Marketing can only begin with a better understanding of the needs of relevant target groups (share holders, analysts, institutional investors, journalists, financial consultants). A successful operation is founded on an upgraded information system. Most importantly, this involves an accurate investigation into the expectations of the investors and their perceptions of both the company and the competition. The knowledge of supply and demand curves and the influence of instruments is also just as crucial. Reinforcements in staff may also be necessary. Today, investor relations divisions are often comprised of three to five people—an inadequate number for fulfilling the tasks of Investor Marketing.

As in product marketing, an entire range of marketing instruments can be applied. The “product”, i.e. the strategy and the company story, must be sound: the pricing policy should control supply and demand, communication should be coordinated, and access to customers, i.e. distribution, should be arranged with cognizance.

The basic starting points of Investor Marketing concern the value drivers of shareholder value. In this regard, profit traditionally plays an important role. Yet it seems that other factors are increasingly playing a significant role in this. By means of empirical analysis, Michigan State University professor Dave Ulrich found that until the early 1990s, profit was responsible for 90 percent of the market price; today the percentage lies at about 50 percent.[1] Where the remaining 50 percent goes is unknown. Revenue growth is of particular importance here—obviously investors view this as a sign for future yield potentials. With this, criteria like market leadership, technology, the character of the CEO or special traits (e.g. “docking” on a favorite; strategic partnerships) come to the forefront. We are convinced that this new way of assessment is not just a fad. Instead, it reveals the investors’ desire to understand to a greater degree the long-term success factors of a company, including its strategy. The formulation of a strategy for Investor Marketing is called the “equity story”. It is the foundation and necessary requirement for lasting success in Investor Marketing.

An underdeveloped Investor Marketing division should be seen by company leaders as a golden opportunity: those who make clever use of Investor Marketing instruments are able to achieve an above-average value increase.

2.2. Reasons for the Implementation of Investor Marketing

There are two different reasons for implementing Investor Marketing: the initial public offering (IPO) of a company and the ongoing price management. Similar to situations in product marketing and the launch of a product, the first market listing and the ongoing support involved pose a

number of problems and proffer various marketing instruments.

Investor Marketing is crucial for a successful IPO. When stock is made attractive from the start to potential shareholders, then an Investor Marketing strategy could be advantageous. It is not surprising then that in recent years Investor Marketing has been implemented in IPOs, as observed at Deutsche Telekom, Deutsche Post World Net, Stinnes, Infineon Technologies, etc.

All aspects dealing with IPOs are analyzed in the following chapters:

- the determination of the target group,
- the strategy/equity story and positioning,
- the individual Investor Marketing instruments, in particular the assessment of the price margin.

In the analysis, circumstances surrounding the IPO must be taken into consideration. Theoretically, it is sensible to fall back on approved marketing models. We will show this in our discussion about the AIDA model, a so-called “hierarchy of effects model” (see *Figure 1*) with *A* standing for attention, *I* for interest, *D* for desire and *A* for Action.

In marketing teachings it is presumed that a product must pass through a hierarchy of effects. In this respect, a company in the pre-IPO stage can confront a variety of situations, as illustrated in figure 1 by the shares A, B and C. The shares B and C experience great difficulties. Company B is hardly known and must therefore concentrate its efforts on gaining publicity. In contrast to that, company C has already gained great publicity (e.g. because their products are sold widely), but the shareholders’ interest is low. In this case, Investor Marketing must focus on stimulating the shareholder’s interest. Various results arise pursuant to the AIDA profile.

There is another distinction pertaining to the intensity of IPO marketing. A proven rule of thumb can also be applied to Investor Marketing: in the IPO stage about twice as much revenue must be used for marketing than in times of stability. The amount of effort exerted during the IPO phase should be more than double than that of later phases. This is true for both the budgets and the time dedication from the management who must deal with an enormous amount of physical and mental stress in this phase. Edgar Ernst, financial manager for the Deutsche Post World Net, had to endure the stress of 77 meetings with investors and analysts during the IPO.[2]

Figure 1

For any listed company the challenge of ongoing price management always exists. Potential and existing shareholders keep a close eye on companies. The investors' interests must be considered, their expectations must be fulfilled and their demands must be met. Disappointments and surprises must be avoided. As we have found in numerous studies, even positive surprises can turn out to be a double-edged sword. Analysts want no surprises.

Investor Marketing distinguishes itself from product marketing in that it controls both supply and demand. The stock exchange is a perfect market where the price is not directly fixed by the company but rather by the balance between supply and demand. The desired influence on the price can be accomplished only indirectly by controlling both supply and demand.

It is essential that supply and demand are of equal importance for pricing. That means that a shift in the supply curve to the left (tantamount to a reduction of supply) has the same effect on the stock price as a shift in the demand curve to the right (tantamount to an increase in demand). This particularity of Investor Marketing should always be kept in mind.

The demand for stocks comes from three sources:

- current shareholders who buy additional shares
- current non-shareholders who buy shares for the first time
- companies wich repurchase their own shares

There are only two sources for the supply of shares:

- current shareholders
- the company itself (reissue or sale of retained shares)

Only the second supply source applies to IPOs. With most sources, Investor Marketing differs from IPO Investor Marketing. This is the launching point for a dynamic new perspective of the situation from where we can draw a parallel to the well-known marketing model from Parfitt and Collins.[3] In this model the long-term market share of a product is explained by looking at the share of first time buyers (“penetration“) and the rebuy rate. If 90 percent of the customers buy the product for the first time and 10 percent of them continuously rebuy, the resulting market share is 9 percent (=0.90 x 0.10). Likewise, the market share will be 9 percent with 10 percent of first-time purchasers and 90 percent of repurchasers (=0.1 x 0.9). However, if there are 50 percent of first-time-purchasers and 50 percent of repurchasers, a significantly higher long-term market share will be achieved, namely 25 percent (=0.5 x 0.5). Thus, many first-time purchasers will be attracted and a high rate of repurchasers will be achieved. If one of the percentages remains low the product cannot reach a high level either. The graph of the function is u-shaped.

This concept can be applied to Investor Marketing. High stock quotations and stock exchange values can only result from high rates of first-time purchasers and repurchasers. Short-term success which, supported by a campaign, attracts numerous new or first-time shareholders who immediately resell their stocks does not accomplish the long-term objective of high stock market value. On the contrary, the desired positive effect on prices will not occur if the current shareholders keep their stocks but fail to attract a sufficient number of new shareholders.

Efficiency in Investor Marketing requires that efforts be spent equally on both recruiting new shareholders and maintaining their loyalty. Only then can the market value be increased to and stabilized on a higher level.

3. Strategic Investor Marketing

3.1. Target Groups of Investor Marketing

Although there are large capital sums around the world which are available for investment opportunities, competition for this capital is increasing (e.g. in the form of a capital increase, IPOs, company bond issues etc.) In this situation it crucial to have an excellent knowledge of the investor target groups and their needs and perceptions. This is the decisive point where superiority and inferiority on the capital market distinguish themselves.

The following target groups are particularly relevant to Investor Marketing:

- Institutional Investors
    - banks
    - insurance companies
    - investment trusts
    - industry and trade

- Analysts

  In this group, depending on the orientation of the analysts, a series of sub-segments exist, e.g. buy-side analysts and sell-side analysts working with institutional investors and brokers, branch experts, financial advisors, etc.

- Private Investors

  This group consists of current and potential shareholders of different income classes, ages, resident countries and perspectives for investment.

- Employees, company leaders, applicants,
- Journalists and other multipliers.

Depending on the regional entrance or listing on the various stock exchanges, specific national differences and assessments for the respective target groups must also be considered. For these target groups sufficient strategies must be developed. Modern Investor Marketing thereby includes the consistent execution of push and pull strategies adjusted to the envisaged target groups.

While the push strategy was dominant in the past with large scale investors, banks and selected analysts, the pull approach will play a larger role in the future. *Figure 2* illustrates both approaches.

Figure 2

To achieve success with the various target groups it is essential to know

- what the investors expect from the individual segments.

- to what extent the company fulfills these expectations. The (potential) investors' perception—both overall and in relation to other companies or investment options—is of utmost importance.
- how shareholders/non-shareholders can be influenced.
- how the current measures work and what other instruments are available.

A study of various target groups enables this kind of information to be gathered without expending too much effort in the process. Figure 3 outlines the relevant information and their connection.

Figure 3

The investors' requirements are important, but perceptions of a company's performance are of particular importance. The combination of both of these information items in the matrix of stock advantages reveals where the investors see strengths and weaknesses. This data also communicates the major differences between the individual segments and countries.

Figure 4

Figure 4 exhibits the demands and expectations of investors in the U.K. and U.S. metal industry. Strategy, equity story and the quality of management are the most importance criteria for the U.K. and U.S. Upon comparison though, it is clear that American investors place more value on strategy and equity story. Moreover, growth prospects, corporate governance and U.S. Generally Accepted Accounting Principles (GAAP) Reporting are considerably more important for American shareholders. The dividend tends to fall to the bottom on their list of priorities. Nevertheless, CEOs and management often rate this point as important.

3.2. Equity Story/Corporate Strategy and Positioning

In the past, a company's positioning on the capital market was strongly influenced by its profit or other financial/result ratios. As already elucidated, even more factors today have become market value pushers. Thus, in the eyes of potential investors, the opportunities for the company's positioning on the market increase. As in product marketing, the objective is to stimulate higher preferences from the investors.

The central element of Investor Marketing is the equity story. The equity story corresponds to the product in the Investor Marketing mix. The task of the equity story is to communicate the corporate strategy and its advantages over companies using the language of investors, analysts, business partners and the media. Within this framework, the imagination and upside-potential of a company's future must be methodically drawn out. The equity story, or rather the corporate strategy, is the heart of Investor Marketing. The equity story must "sell" the company to investors.

When assessing a company and its future potential, investors focus largely on the industry in which the company operates. If a company operates in an attractive industry (e.g. technology, pharmaceuticals, biotechnology, logistics etc.), they deliberately emphasize this and the advantages attached to their industry membership. A strong position in an industry is a distinct advantage if both the industry is attractive **and** the company holds a strong position in its market. Many investors put their money into select industries with successful and large corporations. Belonging to some industries can be inopportune, however, if the industry is viewed by investors to be unattractive (e.g. retail, construction or the automotive industry).

Despite their good financial standing, the companies which belong to unattractive industries have difficulties in overcoming the stereotypes attached to these industries. Yet there are a precious few companies which have managed to achieve better valuations. In the automotive industry, Porsche is a good example; Toyota and BMW are also to a certain extent.

The general valuations and attitudes of investors and analysts towards industries are tough to change. Every company should be aware that belonging to a certain industry entails limited possibilities for positioning. But many examples show that industry membership itself might serve as a parameter of action. A diversified company can benefit greatly in this aspect if they chose to place their most attractive industries in the forefront of their Investor Marketing. Disassociation from industry stereotypes is an especially ambitious challenge for companies looking to better position themselves.

The second dimension of the equity story pertains to building advantages against the competition in the industry. The stronger the competitive advantages are compared to the listed competitors, the more positive the valuation from analysts and investors. For successful positioning it is crucial to show investor groups that the company possesses competitive advantages and distinct position traits which are

- clearly perceivable,
- important for the investor, and
- resistant to competition.

Competitive advantages exist in products or services, outstanding customer care or in market or technological leadership. The following example shows the importance of the customer's perception by illustrating positions within different target groups (see *Figure 5*). The figure shows how the positioning of a company in the chemical industry is perceived by investors and analysts.

Figure 5

There is a vast difference between the perception of analysts and institutional investors. While analysts evaluate the company as inferior to its competitors in almost every criterion, investors spot a number of competitive advantages, e.g. quality of management, financial ratios and company transparency. In recent years, a very intensive and structured representation of the company was given to the potential investors. In this situation, the (conglomerate) strategies were explained extensively and discussed, which gave investors a more positive impression.

Since analysts mostly deal with a restricted number of business sectors (e.g. the pharmaceutical industry), they often lack the information and knowledge about other business segments required for the valuation of conglomerates. In these cases, a successful positioning of the company inevitably demands a detailed explanation of the individual business sectors.

Another interesting element of this case was the chemical company's strong emphasis on environmental aspects in their communication (also in financial business media). The study shows that the assessment of environmental aspects is very positive, but both target groups attach only minor importance to it. In the future, aspects of less importance should be disregarded.

4. Tactical Investor Marketing: Instruments

Positioning and equity story offer a complete range of tactical instruments for Investor Marketing—far more instruments than what is typically used in investor relations, which is mainly communication measures elaborately described in technical literature.[4]

By implementing specific Investor Marketing instruments, the companies can pursue various objectives. Communication instruments mainly serve to offer a continuous and up-to-date supply of information about the target groups of Investor Marketing. Based on the aforementioned AIDA model, factors like publicity, interest, desire for ownership and purchase can be systematically influenced by organized communication. Ultimately, this produces a positive shift in the demand curve. The content of the communication is determined by the product itself and the company. The main objective of the price instruments—e.g. price margins, early share discounts or loyalty discounts— is to attract and commit investors. Distribution instruments should allow for the optimal positioning of stocks on a variety of markets and with various target groups. The individual Investor Marketing instruments will be dealt with in greater detail later.

In Investor Marketing, communication chiefly involves investor relations activities, e.g. roadshows, news reports, ad-hoc notifications, press conferences, company reports and the involvement of the CEO and the managers. These classical instruments make it possible to adequately inform the Investor Marketing target groups. Depending on the occasion and contents of the communication, the instruments are applied with varying intensity. For example, while the permanent supply of information for the various target groups comes from news reports or company reports, important company news is communicated rather in press conferences, through ad-hoc notifications and/or by the CEO personally. It is precisely in classical investor relations and roadshows that personal forms of communication play an especially critical role.

In the same manner, public relations, brand development and sponsoring are gaining importance for Investor Marketing. These activities lead to greater attention and publicity for the companies and their stocks. Many companies pursue a consistent brand policy which works towards presenting their shares as high quality products. This tactic is called share branding[5]. Naturally, companies experience greater success when they combine the product, the company and the shares themselves under one brand name known already to investors, as seen at Porsche, Nokia or Microsoft. Today a number of companies have realized how important it is to develop not only the brand image of the product but also the brand image of the company and stock.

Price as a marketing instrument opens up a window of opportunity in structuring Investor Marketing activities. This opportunity has yet to be fully taken advantage of and put into practice. As mentioned before, the share price is determined by supply and demand. On the occasion of a new issue, the share price is fixed through the determination of the bookbuilding spread. Working within this framework, there are various instruments to be used: promotion rebates, early share discounts, and incentives for retaining stock, such as loyalty discounts, maintenance bonuses or qualifying periods. In principle, a whole variety of bulk discounts, price or physical product bundlings and multi-person pricing (family or group offers) are conceivable. Some companies have proven to be quite inventive in their use of instruments. For a boost in their IPOs, Germany’s Deutsche Telekom and the Deutsche Post World Net made use of a temporary price differentiation instrument which offered lower prices to early share purchasers. The Deutsche Telekom private investors receive additional loyalty shares if they retain their shares through the initial three years of issue. The first incidents of a personal price differentiation strategy are also starting to take place. The Eichborn publishing house offered their authors preferential conditions during its IPO. In contrast to other purchasers, they were presented with a special discount. The Postbank, a subsidiary of the Deutsche Post, issued bundling offers to new customers. All new customers who had opened a securities account before February 28, 2001 with Easytrade, the online broker of the Postbank**,** were offered a free additional share of the Deutsche Post World Net. This instrument reveals how successful it can be to combine a company’s core business with its efforts to woo new investors.

The distribution instrument in Investor Marketing is essentially a tool for placing stocks throughout channels and in specific markets. Credit Suisse Group, a Swiss corporate bank, offers the customers of Easytrade a preferential allotment of stock issues under the direction of Credit Suisse First Boston (CSFB). Access to international customers is crucial in Investor Marketing. Like in marketing, all instruments must be compatible with one another. Keeping a high-profile, being attractive and staying available are paramount in Investor Marketing. U.S. studies reveal that most European companies have considerable room for improvement in their investor relations and Investor Marketing areas.
Figure 6 summarizes the most important marketing instruments.

Figure 6

5. Investor Marketing Implementation

Ultimately, success in Investor Marketing is contingent on its implementation. In many companies, however, Investor Marketing—in the form described here—does not yet existent. Because the scope of Investor Marketing goes far beyond conventional investor relations, the current organizational structure of most companies is most likely too underdeveloped for the holistic implementation of Investor Marketing. But in the long run, all efforts will be rewarded with improved positioning and increased market capitalization. The process of systematically introducing and improving Investor Marketing requires several months of constant activity and perseverance. This process is depicted in *Figure 7*. Phase 1 involves an assessment of the current position which will indicate the information available. As experience has shown, in many cases the information system is desperately insufficient. There is a lack of fundamental knowledge about the investor's expectations and assessment criteria. Too little is known about the effects of activities on the supply and demand curves. In phase 2 possible strategies are discussed. Here, corporate strategy and Investor Marketing are combined and then options are developed for the presentation of the company to the investors. These options are evaluated in the next phase. Various internal and external sources of information are drawn upon in this analysis, including an evaluation of the cost-effect relationship. Such effects can be easily evaluated by means of customer and investor interviews.

Figure 7

Based on this information, the Investor Marketing strategy and its implementation is developed in phases 4 and 5. Concrete measures are adopted in these phases and the responsibilities and time frame are established. The operational functions involved are primarily investor relations, finances and marketing.

Organizational aspects and content take center stage in this approach. The core success factors are an integrated view of internal goals, strategies, and external information as well as a professional combination of all content. Improving the information system in a company has proved to be particularly time-consuming. The development of divisional strategies and an overall corporate strategy requires cooperative work between all functional areas. Based on the development of the equity story, we often find that fundamental questions emerge in this process which must be answered. In this sense, Investor Marketing often induces a strategic clarification process. The integration of all participants in the implementation is an important step in ensuring that management levels are consistent in their external communication.

On the organization level, the implementation phase involves increasing staff size and upgrading the content of the investor relations division. A product marketing division should be complemented by Investor Marketing in that it functions as an integrated investor relations division. Investor Marketing completes and intensifies the current investor relations activities. The new Investor Marketing task demands a staff reinforced in both size and competencies. We recommend doubling the average staff size from three to five employees to six to ten. Ideally, these new employees should be competent in both finances **and** marketing. The increasing importance of Investor Marketing necessitates a respective increase in the budget to support the measures. The same applies for the attention the upper levels of management pay to Investor Marketing (compared to classical product marketing). Through the implementation of the appropriate management incentives (e.g. stock option programs), the attention from executive personnel can be enhanced[6].

6. Conclusion

Investor Marketing means expanding the thought process in marketing into an area which is primarily dominated by financial concepts and experts in financial management. It is therefore not astonishing that a certain degree of scepticism and a need for habituation can often be noticed with the affected persons. Nonetheless, Investor Marketing means a significant revaluation of the investor relations function (see *Figure 8*). This is based on the conviction that superiority begins with better information about the investors' needs. The next step is a consistent marketing process optimizing all tactical and strategic parameters. Compared to the aspired effects, the additional costs are relatively low. With the cost-benefit ratio being so favourable, we would predict that in the years to come Investor Marketing will experience a marked increase in attention from business administration.

Figure 8

Footnotes

[1] cf. Dave, 2000.

[2] cf. Döhle/Papendick, 2001, p. 146.

[3] cf. Parfitt/Collins, 1986, p. 131.

[4] cf. for example structure of chapter D in Kirchhoff/Piwinger, 2001, p. 279 - 366.

[5] cf. for example Schmidt, 2001, p. 232 ff.

[6] Cf. for example Pellens/Crassel/Rockholtz, 1998, p. 1 - 28; Achleitner/Wichels, 2000, p. 279 ff. for empirical results cf. Bassen/Koch/Wichels, 2000, p. 9 ff.

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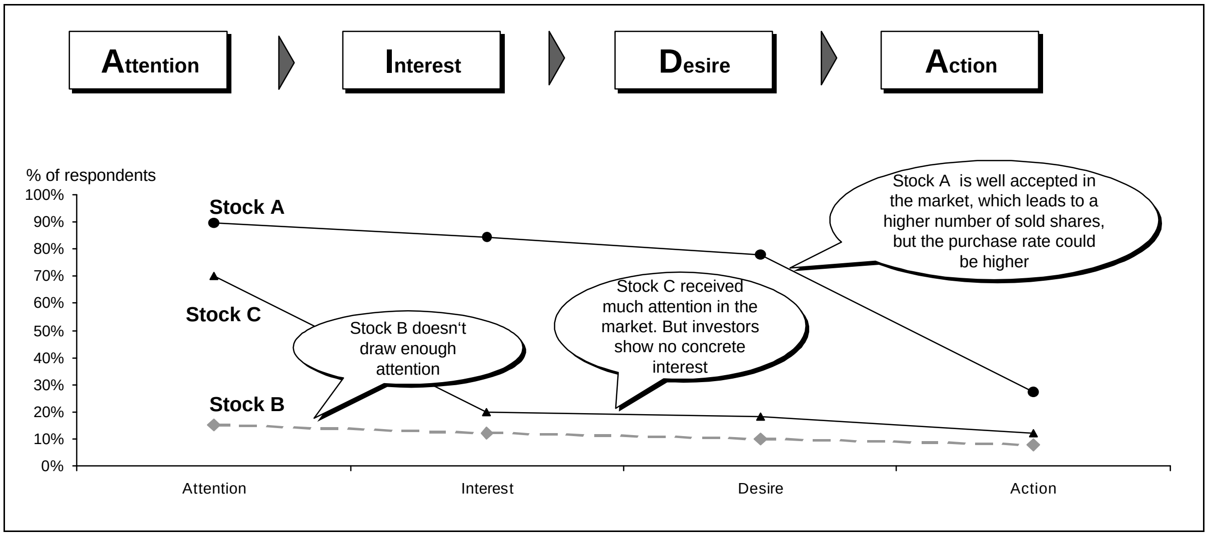

Figure 1: Application of the AIDA Model in Investor Marketing

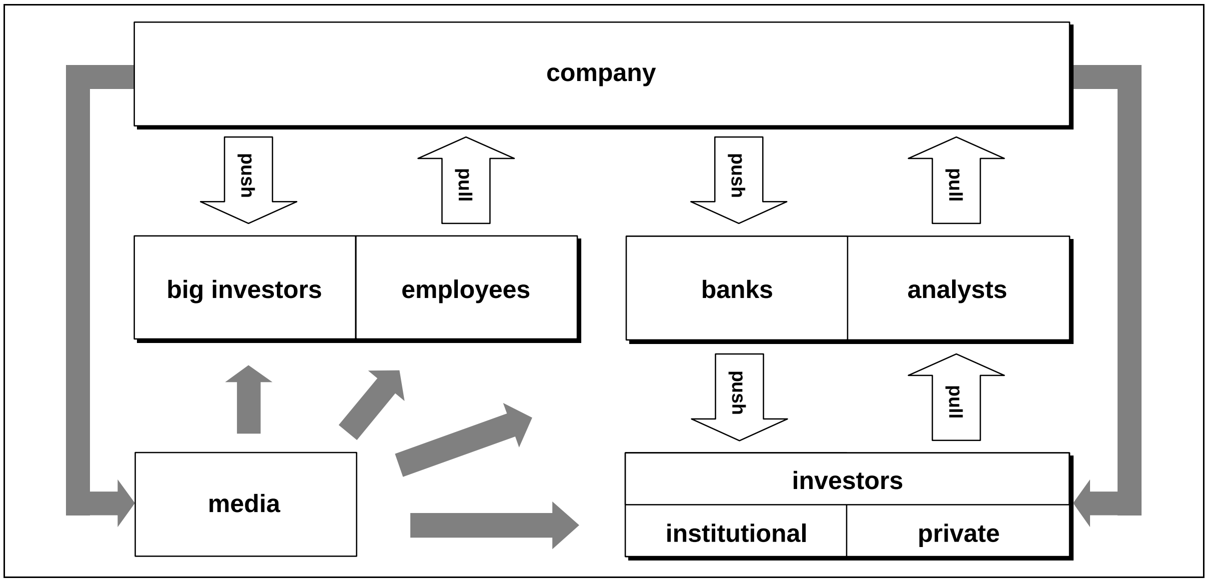

Figure 2: Push and pull strategy in Investor Marketing

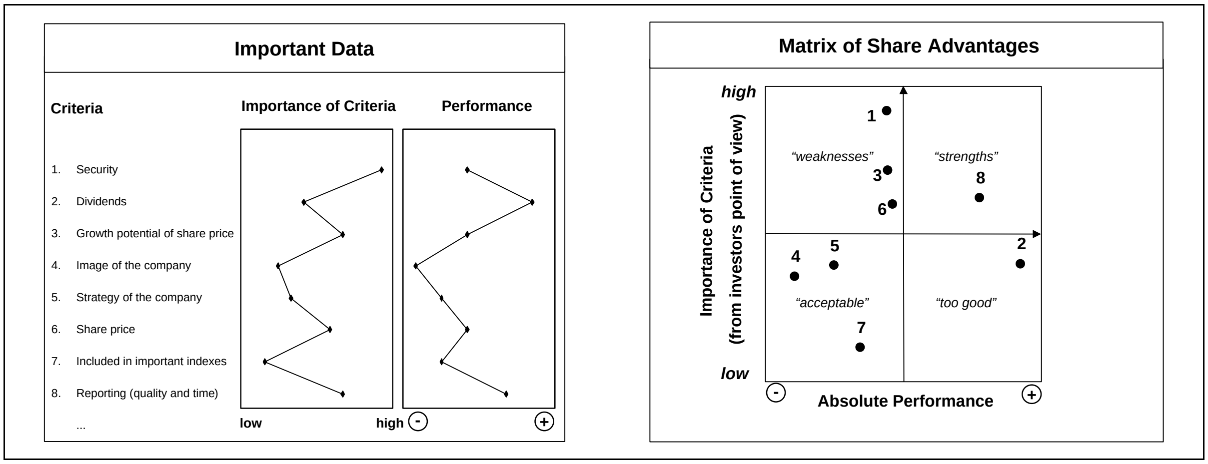

Figure 3: Strengths and weaknesses of the stock from the investors' perspective (example)

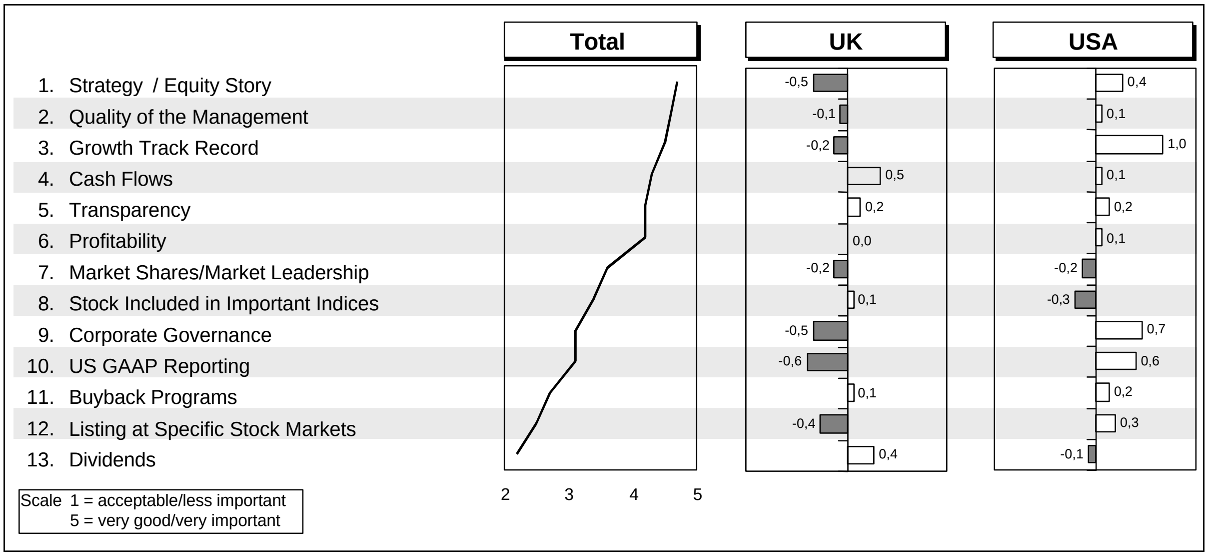

Figure 4: Differences in investors' demands

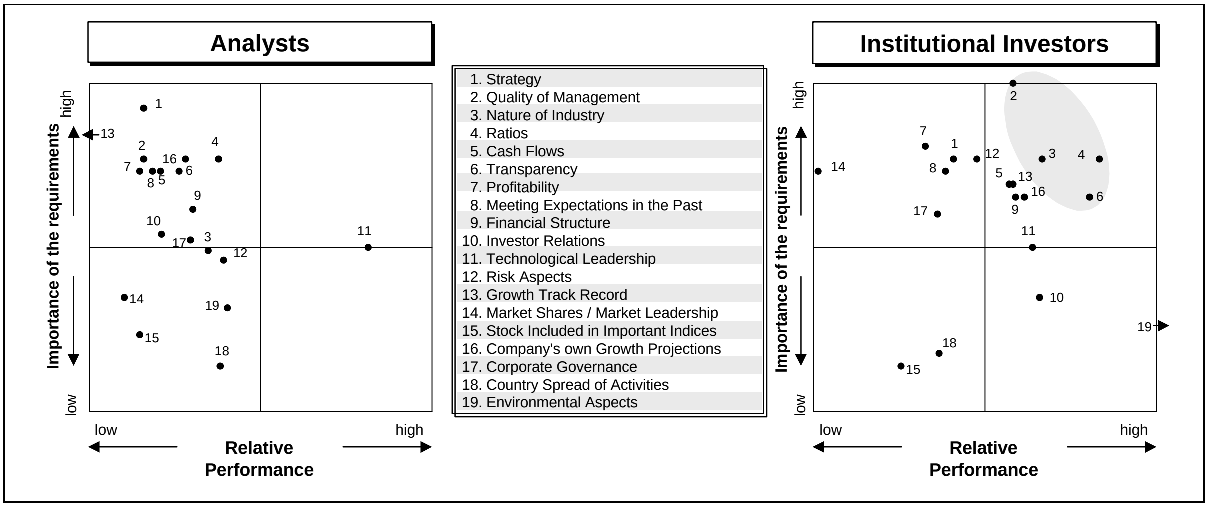

Figure 5: Positioning of a company in the eyes of analysts and institutional investors

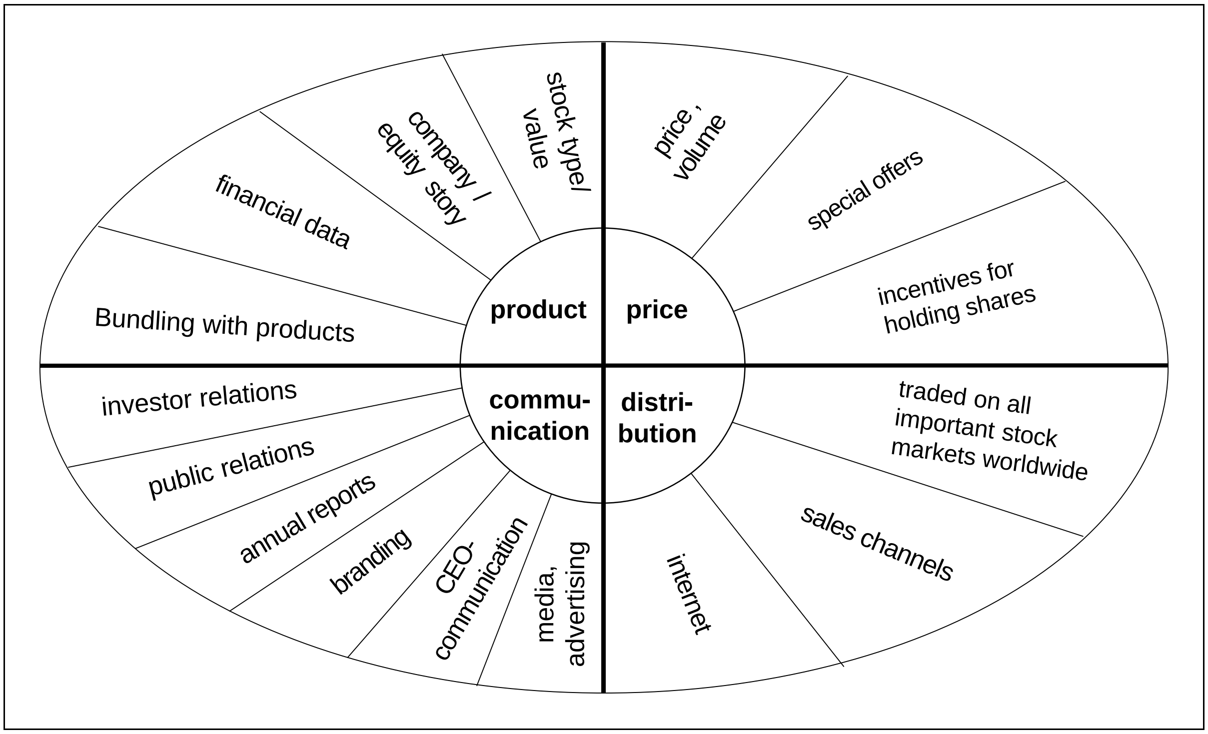

Figure 6: Overview of Investor Marketing instruments

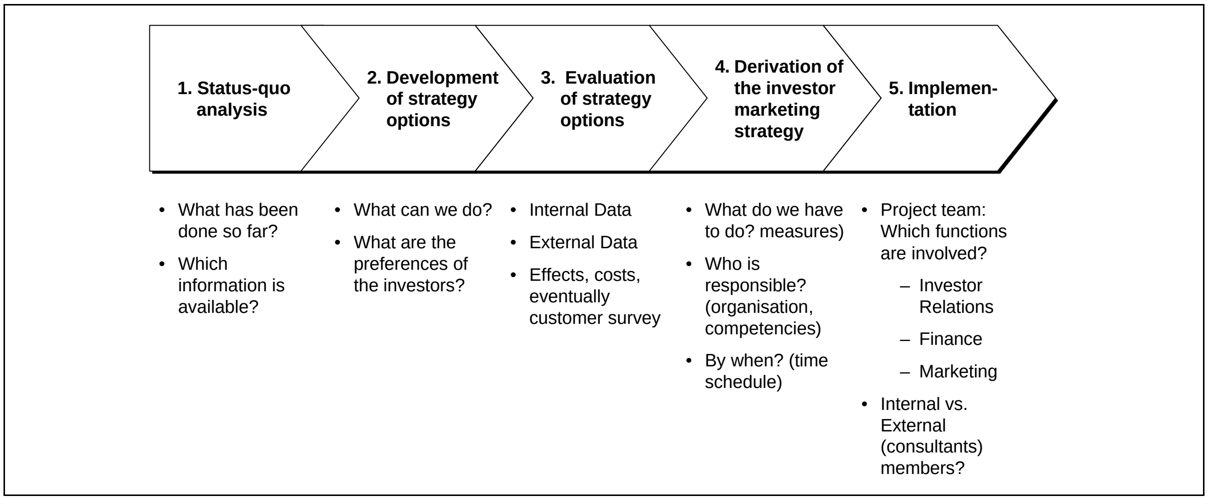

Figure 7: Implementation phases

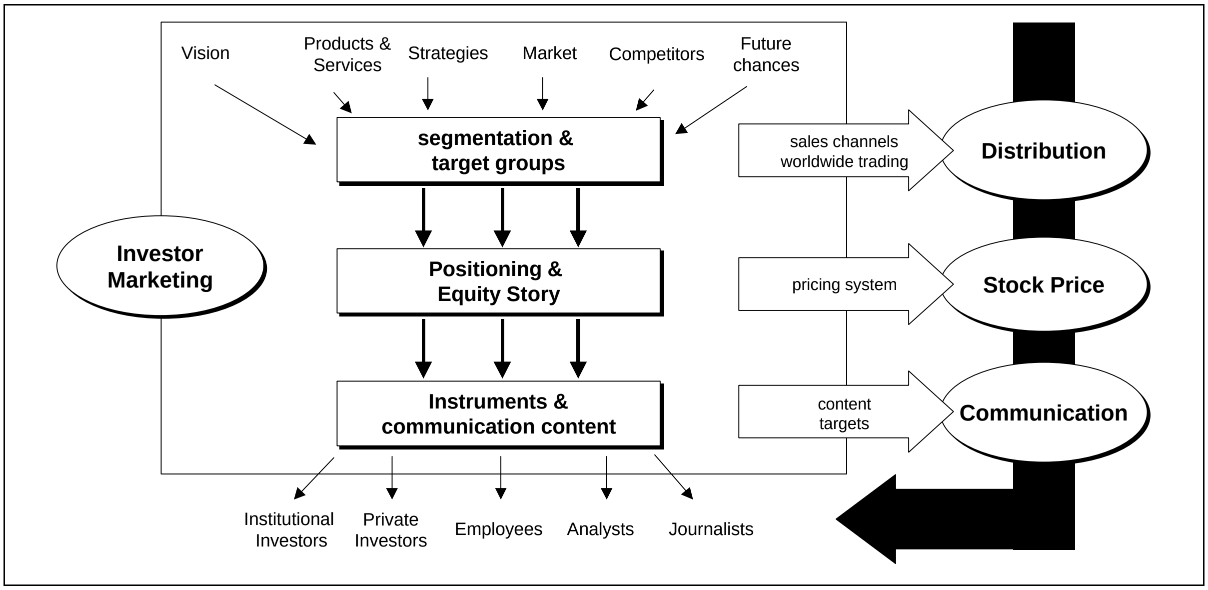

Figure 8: Basics of Investor Marketing