2 Types of Businesses and Why You Should Buy Both

Description

"There are two kinds of companies," Jeff Bezos once said, "those that work to try to charge more and those that work to charge less."

It's a simple fact that's easy to overlook but deserves more attention from investors. Great companies are high performers that take a business model and push it to the extreme. Either the focus is on higher margins and better branding or on superhuman efficiency and cost savings. Both strategies result in hefty profits.

That's why the richest people in the world own companies that fall into one of these two categories. In fact, the world's two richest people, Bernard Arnault and Jeff Bezos, made their fortunes on either side of this spectrum. Arnault is a master of luxury branding while Bezos is the undisputed champion of efficiency and low costs.

I believe savvy investors should mix the two strategies in their portfolio to balance long-term performance. Regardless of the macroeconomic situation or business debt cycle, companies on either side of the cost spectrum will continue to have steady returns. Here are two Canadian examples to make my point.

Canada Goose

Winter wear manufacturer **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) is probably the most popular luxury brand in Canada at the moment. The company's 25% gross margins on its products puts it in the same league as luxury perfume and handbag sellers from across the world.

Meanwhile, demand in China is a clear indication of a luxury brand's appeal. When Canada Goose launched its first flagship store in Beijing late last year, eager consumers lined up across the street waiting for the store to open. That's yet another sign that Goose has established itself as a premium manufacturer.

The exclusivity of the brand ultimately translates to above-average profits and better returns for shareholders. Goose is on track to expand further in China and take its brand to other international destinations, which means its double-digit growth rate can be sustained for the foreseeable future.

After a quarter of heavy selling pressure, I believe the stock might finally be fairly priced.

Dollarama

On the other end of the cost spectrum is bargain retailer **Dollarama** (TSX:DOL). Sales growth and profit margins were squeezed over the past 12 months, but the company is making a swift comeback this year.

The stock is up a jaw-dropping 53% year to date. Meanwhile, the net profit margin is stable at 12%, and the company reported a surprising 5.8% jump in comparable store sales in its most recent quarter. In other words, Dollarama is flying high.

This month, the company also took a majority stake in Latin American value retailer Dollarcity, another rapidly expanding brand. The acquisition of this stake indicates that Dollarama is focused on international expansion for the next leg of its growth cycle.

The company's stock currently trades for just 22 times forward earnings and four times sales. Considering its track record and scale, I believe the stock is fairly valued for long-term investors.

Bottom line

Success in business comes from picking and executing one of two strategies — high-margin luxury or high-volume discounting. Companies like Dollarama and Canada Goose are great examples of how firms can outperform and outmaneuver the competition by focusing on their core strategy.

I believe savvy, long-term investors seeking stable returns should probably add a combination of both strategies to drive portfolio performance.

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