

Trends in annual reports: how to enhance shareholder engagement

Much is expected of the annual report. No longer just a record of past performance, the annual has evolved into a multipurpose communication vehicle. Its shelf life now extends beyond the annual meeting as its power to share an organization's vision with multiple stakeholders grows.

Capitalize on a growing audience

Today's annual report readers run the gamut from shareholders to customers, employees to the media. According to recent findings, such stakeholder diversity can be a double-edged sword. Opportunities to reach key audiences have increased, but, as a majority of listed and public interest companies recently reported, satisfying diverse needs and expectations can be challenging.¹

Paying dividends

Despite the challenges, annual reports are still well worth the effort. As a sampling of recent research shows, the payoff can be substantial:

- / Investors increase their shareholdings in organizations that have clear financial disclosures.²
- / Analyst following and forecast accuracy are positively associated with well-executed financials.³
- / Seventy percent of the buy side relies on annuals for stock-buying decisions and nearly as many say the document continues to be useful for tracking purposes.⁴

So the first question companies should ask themselves is: How do we use this unique platform to tell an inspiring story that resonates with our key stakeholders?

Specific points to consider

- Who are the stakeholders you wish to reach and what information appeals to them?
- How can the annual report be best organized into a cohesive, compelling document?
- What medium is the most effective for delivering the message—print, online, video?

Appeal to your stakeholders

Data shows that most people spend less than 10 minutes reading an annual report.⁵ A good rule of thumb is that companies have just a few minutes to get their message across before a reader moves on.⁶ An important first step is to define the audience—who is the annual report addressing? Next, consider which types of content appeal to your particular audiences. Here is a quick sampling of ways to address three specific audiences: Employees, customers and shareholders.

1 Employees

An effective way to instill a sense of pride and purpose in your workforce is to highlight the company's distinctive culture and what your staff members achieved.

Example: GE Chairman's letter

Chairman & CEO Jeff Immelt's most recent letter engages GE's workforce from the start with "Culture is the foundation for any successful enterprise, and ours inspires our people to improve every day. It's why GE works."⁷

Takeaway: Inclusive, optimistic language, such as "we" instead of "the company," is a simple yet effective way to gain traction with employees.

2 Customers

When reaching out to customers, products and services need to be explained clearly. Client testimonials, photography or videos of company operations and facilities, and interviews with senior executives discussing business lines or market trends are all effective ways to engage this audience.

Keep in mind customers may also be investors—or potential investors—so it’s important to present business information in a way that emphasizes brand strength and a promising future.

Example: The Coca-Cola Company

- The beverage giant opens its annual review by reminding readers that the company has been going strong for 125 years.
- Images of people enjoying Coke products serve as an advertisement to both consumers and investors.

Takeaway: Putting an emphasis on the strength of your brand or quality of your product does double duty by engaging two constituencies at once. It also can be repurposed for other marketing and promotional efforts.

EXPERT TIPS

/ A simple way to convey authenticity and to engage staff is to use commissioned photography or videos of real employees rather than stock photography/footage.

/ Emphasizing customer loyalty can be beneficial not only in terms of engagement, but also, according to recent academic findings, because it enhances company value.⁸

3 Shareholders

Institutional investors and retail investors tend to use annual reports in different ways, so the type of content you provide may depend largely on the makeup of your shareholder base. That said, the preferences of both groups are expanding, and it’s worth considering topics that interest both groups.

Prevailing wisdom dictates that institutional investors are more apt than individual shareholders to read financial statements and footnotes.⁹ This may be changing, however. A recent survey of the retail community, commissioned by the Task Force to Modernize Securities Legislation, found that the number of shareholders who read and use financial statements has grown to nearly 56 percent.¹⁰

Similarly, new evidence shows that institutional investors are taking greater interest in nonfinancial information, such as key performance indicators and sustainability efforts.¹¹

Worth noting:

- Foreign investors can be a unique and important segment of this audience. According to the Federal Reserve's most recent data, non-US citizens hold about 20 percent of US equity.¹²
- Buy-side interest in macroeconomic and microeconomic indicators is at an all-time high.¹³
- Seventy percent of investors say that since the financial crisis, the most pressing issue for them is a company's risks and how it plans to mitigate them.¹⁴
- A majority of investors factor climate change into their investment strategies, even with today's economic and political uncertainties.¹⁵

Tips from the trenches: how to identify what's most appealing to your investors:

- Conduct investor perception studies: Coca-Cola's Director of Investor Relations, Jackson Kelly, uses such studies to track key interest areas of his investment community.¹⁶
- Keep track of their questions: Qualcomm's Senior Vice President of Global Marketing and IR, Bill Davidson, tracks hot topics among investors by writing down every question he's asked on the road.

Turn diverse needs into a cohesive story

A growing annual report trend is the use of themes to organize and streamline information. A compelling theme allows organizations to engage their audiences, amplify the brand and provide a resonant through-line for key messages. The best themes are simple but compelling ideas that define who the company is and what it stands for.

Example: Ryder: "Get to know Ryder." The small-cap transportation and logistics company has been trying to revamp its reputation following a management change, so in its most recent annual report, Ryder picked a theme that emphasized its operations and growth prospects.¹⁷

Takeaway: Focusing on the future and the quality of your products is a good way to rebuild trust.

EXPERT TIPS

- / When there are various or complex business units, video is particularly effective at helping stakeholders better understand the company.
- / Themes help tie annuals and sustainability reports together.
- / Narratives, such as business unit summaries and even financial information, can work well as sidebars within major report areas.

Example: Caterpillar: “What the world needs.” This annual report focuses on generating customer loyalty and instilling pride among Caterpillar’s workforce.

Takeaway: Showing why you are indispensable speaks to all investors. Well-crafted content can also be easily repurposed in marketing and other materials.

Example: New Visions for Public Schools: “Focus on the day.” This nonprofit’s annual conveys its impact and services through compelling student stories.

Takeaway: Stories can humanize an organization’s services, providing an inviting entry point to the report and conveying impact via real-world examples.

Three advantages of themes:

- Provide an easy point of access: Particularly helpful given the increasing length and complexity of annuals.
- Clarify the company message: Keep key points from getting lost.
- Guide the design: Themes give designers a direction and harmonize text and graphics.

EXPERT TIPS

- / Use strong headlines and descriptive sub-headlines as needed to help readers find topics of interest.
- / Keep copy short.
- / When writing paragraphs, state your conclusion first—many readers don’t read full paragraphs.
- / If your readers are keen on financials, provide charts.
- / Make your print annuals greener, and cut costs, by printing with environmentally sustainable paper and ink.

Format your story

Research has shown that nearly 80 percent of people seeking information online scan pages rather than read them.¹⁸ So it’s important to format your information, whether it’s in print or online, in a way that allows readers to easily pick out key points.

Example: Bessemer Trust

The wealth manager’s annual report opens with a few keywords expressing the vision of the company. Bold headlines clearly identify each topic and summaries allow readers to quickly understand messages and continue reading.

Takeaway: Making information easy to locate and digest is not only a good communication practice, it also sends the message that you value stakeholders and respect their time.

Select the right medium

Although public companies must post their annual reports online, and private firms and other organizations are using the Internet as well, there are a variety of options to consider when thinking about the right platform for your annual report.

Print

It's worth bearing in mind that most companies still produce a hard-copy report. Organizations are significantly reducing page count, however—from shorter 10K wraps for public companies to slimmer reports overall for private firms and nonprofits. This trend has been strengthening since at least 2008.¹⁹

Online

In the past few years, the number of companies adopting the interactive annual report—that is, the microsite—has been rising.²⁰ Since 2008, the number of Fortune 1000 companies producing online reports has jumped 185 percent.²¹ According to Broadridge, investor interest in online annuals is rising, too. The most recent proxy season saw a 17 percent rise in the number of investors requesting annual report materials delivered to them online.²²

Trends in online reports

Video

Online videos are gaining traction in the business community at a rapid pace:

- Seventy-five percent of executives are watching work-related videos.²³
- More than half of buy-side analysts and retail investors are watching videos posted on investor relations websites as part of their research efforts, and nearly as many sell-side analysts reported doing the same.²⁴

Popular ways to use video:

- Clips of senior officers discussing the company's performance, strategy or vision.
- Segments showcasing an organization's operations: For example, demonstrating a new product or offering a virtual tour of the company's facilities.
- Merger and acquisition announcements in which the acquiring company's CEO welcomes new employees or explains the benefits of the merger to stakeholders.

Online videos have been shown to improve investors' perception of CEO credibility, according to a March 2012 study by the Accounting Review. This is good news for IROs, who ranked "ensuring senior management is visible and accessible" among their top-three goals for 2012.²⁵

Example: In 2011, Corning Inc.'s investor-day video, "A Day Made of Glass," racked up more than eight million views on YouTube in less than a month. The secret to its mass appeal? According to its creators: "It's a simply told story."

EXPERT TIP

/ You can maximize your investment in video by repurposing it for a variety of other uses, such as human resources, recruitment or internal communications.

Going Mobile

Each year for the past four years, mobile traffic has more than doubled. It's predicted that by 2016 there will be 1.4 mobile devices per person, which amounts to more than 10 billion mobile-connected devices around the world.²⁶ This makes mobile versions of annual reports the next frontier. A key step in the process is to determine how many of your users are using mobile devices and then decide if going mobile is right for you. Versions of iPad and tablet-specific annual reports have emerged in Europe, with companies like Zurich Financial Services and Siemens leading the charge.

Adoption in North America is beginning to catch up as companies like GE and Citigroup have put out their own annual report apps. Vale, the world's second-largest mining company, also recently joined the trend. For now, most of these mobile annuals resemble simple flipbooks, although it's likely that interactive features will be added in the coming years.

Conclusion: The Bottom Line

The annual report has evolved into a powerful communication vehicle, one that affords great opportunities to share key company messages with an increasingly wide, and varied, audience.

While there is no single solution on how to engage such a diverse readership, a growing number of companies are finding the following tactics effective:

Determine the information your stakeholders are seeking.
Organize your information around a single and compelling theme.
Simplify the story. Remember, you have about three minutes to engage your reader.
Simplify the format. Again, you have about three minutes to engage your reader, so make it easy for them to find topics of interest.
Select a medium that reflects the company's strategy and stakeholders' media preferences. ///

Footnotes

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