

# pr reporter

The Weekly Newsletter of Public Relations,  
Public Affairs & Communication

Vol.30 No.48  
December 7, 1987

603 / 778 - 0514

## WHITHER ANNUAL REPORTS? MORE ORGANIZATIONS (INCLUDING NON-PROFITS) USE THEM TO REACH NON-INVESTORS (EMPLOYEES, CUSTOMERS, DONORS, ETC.) WHILE THEIR EFFECTIVENESS FOR FINANCIAL PUBLIC DRAWS EVER HOTTER DEBATE

Has the process of putting out the annual report -- which spawned a whole industry -- taken priority over effective outcomes? Practitioners are supposed to be innovators, yet only one experimented with the summary annual report when it became acceptable last year. Are we more interested in winning awards for ARs (from others with a stake in the AR industry, of course) than in serving the publics they are intended to inform & persuade?

The annual reports long ago surpassed their original function of serving exclusively as financial reporting documents, more organizations are talking about orienting them for use as an employee relations or sales & marketing tool. Problem: need for numbers, footnotes & brevity by analysts & brokers contrasts with need to promote human interest topics to other audiences.

This creates tension in format & message strategy. If the question is substance & clarity vs. style & image, maybe we're trying to make the annual report do too many things, suggests Lee Levitt, chrmn of Larimi Communications' (NYC) Annual Report Conference. In this issue, he & others pr spoke with highlight the conflicts & trends.

### HOW WILL THE STOCK MARKET PLUNGE CHANGE ANNUAL REPORTS FOR '87?

1. Austere format? Or chance to stand apart? Tho fear of stockholder reprisals may result in many smaller or b&w ARs, Dick Lewis of Corporate Annual Reports believes time is ideal to more clearly communicate investment values. "Since relative evaluations between stocks disappeared with the crash, all stocks will have to be looked at all over again in terms of the new reality & new prices."
2. "Companies shouldn't bleed all over the page." Look for everything from "we're actually stronger now" to candid appraisals. To maintain credibility, candor is needed in negative situations as well as positive, reminds Lewis. "But the annual report is not an impartial document. It should put a company's best foot forward, along with a realistic willingness to speak in straight-forward terms about any problems."
3. Nonprofit ARs may face toughest task. Their portfolios may have been ravaged, yet appealing for donor help could be blaming the victim -- since larger donors are most likely the investors who suffered most in stock crash.



EDITOR, PATRICK JACKSON • PUBLISHER, OTTO LERBINGER • ASSOCIATE EDITOR, JUNE D. BARBER  
READER SERVICE MANAGER, LAURIE ELDRIDGE • MARKETING DIRECTOR, ROBIN PETERS  
A PUBLICATION OF PR PUBLISHING COMPANY, INC. DUDLEY HOUSE, P.O. 600, EXETER, N.H. 03833-0600  
FOUNDED 1958 • \$145 YEARLY • ISSN 0048-2609 • COPYRIGHT 1987 • ALL RIGHTS RESERVED

ANNUAL REPORT AS EMPLOYEE RELATIONS TOOL

Whether an organization has other vehicles reaching employees, there is growing awareness of the importance of using ARs to keep them informed. As an example, Levitt points to a midwestern bank concerned about morale & lack of cohesion due to severe restructuring. Need to unite employees is so strong that this year's AR is being designed specifically with an eye to employees. But using photos of long-term employees may also make investors more confident, thinking of bank as stable despite changes.

Levitt feels AR designers across country are acknowledging client demand to make the AR more employee oriented. Since each designer may serve 10-30 clients, trend appears widespread. (This differs from producing a separate annual report for employees only. Questions for practitioners: 1) does an AR which tries to be all things to all people work? 2) Conversely, does an AR produced exclusively for employees have the same credibility?)

ANNUAL REPORTS FOR NON-PROFITS & PRIVATELY-HELD COMPANIES

Even organizations that aren't required to publish an annual report are finding it advantageous. One study indicates that of the 50,000 produced annually, only 11,000 are required by SEC. Remainder are produced by hospitals, foundations, quasi-public agencies without stockholder constituencies. Tho large national non-profits have produced ARs for years (American Cancer Society since 1944) use is also growing among private firms such as accountants, management consultants, etc. Reason: people these groups want to impress are largely execs who are familiar with the AR format, hence more likely to take it seriously. Publishing auditors' statement adds to overall credibility of organization.

Engineering consultants Parsons Brinckerhoff (NYC) began producing AR several years ago when firm became one of the first privately-held companies to offer stock to employees thru retirement savings plan. Tho a broadened shareholder base was original impetus, AR is also used as a marketing tool in new business proposals. With 40 offices worldwide, "we see it as an international calling card that establishes our credentials," Betty Hall, ad/promo dir, told pr. Tho company has ample other collateral pieces, AR is used because it offers a more general overview, is purposely low-key to reflect conservative management style. (Note: PB uses a simple format, but that may be an exception. Levitt says others he sees are as glossy as publicly-held companies. Dick Lewis says non-public ARs are usually more creative, graphically interesting.)

Non-profits use the AR to: 1) enhance contributions; 2) indoctrinate new volunteers; 3) background reporters & researchers; 4) keep employees apprised; 5) meet state accounting requirements (particularly strict in NY, Penn., Calif.).

"If you want to win public trust & recognition, you have to be accountable, and the way you're accountable on a year-round basis is to publish an annual report," says Irving Rimer, American Cancer Society vp-pr. He adds that increasingly state attorneys general are requiring more complete financial statements. Approval by the National Charities Information Bureau also requires submission of an AR.

CUTTING COSTS OF THE ANNUAL REPORT

With average costs ranging from \$1 to \$3 (plus mailing which can equal production) organizations are paying close attention to ways to hold the line. William Brantley, pres, Brantley & Co (Wilksboro, SC) offers these tips:

1. Streamline writing. Condensed AR has the advantage of being more readable as well as saving on executive time in writing, meetings, editing, etc.
2. Accelerate clearance schedule. Late charges, overtime & last-minute changes are extremely costly. Eliminate them by an earlier clearance schedule.
3. Trim design excess. Design costs can be way out of line. Make sure charges are justified. Negotiate; if necessary, find a lesser known but equally capable designer.
4. Funnel all approvals thru 1 person. Unless 1 individual oversees all changes in design, manuscript & production schedule, control will be lost -- & with it, control over costs.
5. Random proofing may be adequate, replacing more expensive chromalins, proofing in book form or in position.
6. Complain if auditors or attorneys take more time than planned. Often, their leisurely review means you will have to work double time.
7. Consider less expensive formats, paper stock. Get away from 80 & 100# paper; 44# is cheap, serviceable, cheaper to mail, prints 4-colors well.
8. Consider the SAR. Depending on quantity, SARs can trim costs from 25-50%.

"The year-end report is an artificial device invented for the convenience of securities laws and the accounting profession. But the need for information is an on-going process. The people who are in such a sweat over the disclosure issue of a full AR versus a summary AR are missing the most important point on the scale of what investors need, and that is: meaningful, detailed information, quarter-to-quarter, with intelligent, no-nonsense discussion of what's going on as the business progresses." -- Marvin Krasnansky, McKesson Corp.

WILL SUMMARY ANNUAL REPORT  
REPLACE THE FULL AR?

Is the AR an indispensable tool for investors -- or a white elephant? Two surveys within past year indicate an insupportable reliance on the expensive AR:

- a) Hill & Knowlton survey of individual investors found only 3% said their best investment information came from ARs, ranking lower than friends' & relatives' advice (4%). Newspapers were highest (35%);
- b) '86 Yankelovich survey of active individual investors found the AR ranked near the bottom of sources that influence investment decisions. Improvements suggested most often were: 1) simplification & 2) use of layman's language to make it easier to understand.

Despite growing evidence of the AR's problems as an investment influence, when the SEC opened the door to an abbreviated "summary" AR last year, only one firm, McKesson Corp. (San Francisco) jumped in. Based on frustration with the obtuse legalese that clogs the pages of most ARs, "we decided to produce a summary annual report -- not as an excuse to provide less information, but to make it more understandable, more compact, and more readable," Marvin Krasnansky, vp corp affairs, told pr.

Employees are also an important consideration for McKesson, since they hold 15% of the company's stock. Hence, Krasnansky has proposed replacing the old AR, 4 quarterlies for stockholders & 4 quarterly mags for employees with new quarterly magazine for both stockholders & employees. 4th issue would serve as the AR, but in a highly readable magazine format.

Levitt points out a compromise: send SARs to bulk of shareholders, offer more complete AR upon request. Since research indicates ARs are read by only 5-10% of investors, chances are that need for the fancy piece would be far lower.

SAR PROs & CONs:

Critics say: 1) inequitable in who gets what data, harming individual investors to the advantage of institutional investors; 2) eliminates promotional value of traditional AR; 3) opposed by analysts (tho McKesson hasn't received a single complaint, another H&K survey finds 64% opposed); 4) can obfuscate bad news since footnotes aren't required.

Proponents claim: 1) saves money (37% says McKesson); 2) preferred by analysts, who want numbers not hype; 3) are user-friendly & more readable; 4) avoid unnecessary lavish look of glossy ARs.

COMMENT:

"I've been amazed at the reactionary response of people in the communications business on this subject. The innovators have been the last people you'd expect -- lawyers, accountants, the SEC. And the people who have been resisting are the people in our business. I think many of them are threatened because it's a challenge -- to be creative, to do something different. It may mean more work, may be a little tougher to do. One associate told me, 'why should I change? My report won an award last year.'" -- Krasnansky

"Market plunge may have sounded the death knell for the SAR," believes Dick Lewis. Devastation in market capitalization as a result of falling prices means the most important audiences are professional investors -- who need more comprehensive info than provided in SARs. Ned Reynolds, H&K sr vp, agrees: "Fallout in the market will accentuate investors' need to be informed fully & accurately. It will also tend to make them suspicious of anything they feel is giving them less than the full story."

SHORT-TAKES ON ANNUAL REPORTS

"The Strategies of Annual Reports" provides fresh viewpoints for anyone involved in ARs. Finds most fall into 4 categories: 1) emphasis on financials, 2) marketing & sales device, 3) focus on role of employees, or 4) conveying organization's value & strength thru corporate image. Looks at 11 ARs from major & smaller organizations that effectively met objectives represented by the 4 strategies. Easy-to-understand copy outlines strategies. (Copy from Potlach Corp Northwest Paper Division, 207 Avenue C, Cloquet, Minn 55720; 218/879-2300)

Best way to evaluate annual reports is to do a pre-publication survey to suggest themes for the report, then a post-publication survey to see how well these points were conveyed, recommends Mark Penn of Penn + Schoen, market researchers (NYC & DC). Penn believes most research claiming to measure impact actually measures little more than graphics. His firm's approach takes broader perspective of entire corporate communications effort, focuses on strategy.

Video annual reports still too expensive to entice many. Most find they have to do a printed AR to supplement the video, which just adds to the expense. Still, many investor relations people say brokers will begin to want them. Videos dramatize investment possibilities to clients who might buy stock.