

Brave new world

The traditional silo approach to financial comms has been replaced by an equal and integrated focus on IR, financial media, and corporate comms. By Craig McGuire

Accounting scandals and sweeping corporate-disclosure rule changes of the past two years have dramatically altered the landscape of financial communications.

In this, the era of the CNBC perp walk and relentless 24-hour cable news, where stakes are high and stakeholder confidence low, publicly traded companies are shrugging off the silo system of disjointed financial communications. In its wake, more companies are embracing programs that offer an integrated approach that gives them a firmer grasp on their financial communications.

"The business landscape has changed radically the past few years, driving a strong convergence in business communications," says Declan Kelly, president and CEO of inte-

grated financial communications firm Financial Dynamics. "In the past, you had specialists in investor relations, financial media, and corporate communications. Today, the bottom line is that companies now expect their business communications providers to speak on their behalf, in each area, with equal degrees of confidence and expertise."

These – IR, financial media relations, and corporate communications – are the three pillars of financial communications, each requiring specialized skills, and each targeting different audiences. Investor relations focuses on communicating financial data and performance to investors and analysts. Financial media relations involves securing placements with television, print, and

radio outlets. And corporate communications involves all other aspects of internal (to employees) and external (to consumers and other interested parties) communications.

Because they require such drastically different capabilities (for example, senior IR pros will usually have an MBA on their résumés, while financial media pros are more likely to be former journalists), companies have traditionally looked to multiple sources to fill multiple needs.

However, this silo approach more often than not can produce varied results and, even worse, different arms saying different things.

Having lost more than \$6 trillion in the market value of their portfolios the past few years, it is little wonder that investors are less than trusting

when they hear different messages emanating from the same company.

"If companies are to be successful moving forward in this climate, they must address the concerns and expectations of their many audiences with communications that are consistent," Kelly says. "One thing is certain: Gone are the days when you could bring to the table a range of people from different backgrounds and expect the client to pay for all of them."

A booming sector

This need for more sophisticated financial communications has produced a growth spurt in the financial communications sector. While there is no central tracking entity to gauge the specific overall growth, consider



that during the past three years membership growth in the financial communications section of the PRSA has rocketed 22%, according to Donna Stein, chair of the section.

During this same time, the number of financial professional-development programs the PRSA offers increased 50%, Stein adds.

Additionally, the National Investor Relations Institute (NIRI), the primary industry trade group for IR professionals, reports a 25% increase in its membership during the past five years.

This boom has also fueled the emergence of specialty practices and agencies, who make a compelling case for clients such as L-3 Communications. As a provider of intelligence, surveillance, and reconnaissance systems and products to the US Department of Defense, the US Department of Homeland Security, and various government intelligence agencies, L-3 hardly has much difficulty attracting media attention in these uncertain times.

In fact, L-3's human-patient simulator, which is positioned for medical use but has an application in the military in training for weapons of mass destruction, was recently profiled in *The New York Times*, *LA Times*, and Reuters, among other outlets.

But despite its relevance and ability to attract attention, L-3 still saw a definite need for an integrated financial communications program, and hired FD to implement it.

"Even without all the scandals and the new legislation, the need for more sophisticated financial communications programs has been growing for some time," says Cynthia Swain, L-3's VP of communications. "Beginning in the early 1990s, there has been a lot more interest in business stories from the general public that accompanied the rise of the cable news media. At the same time, the Street is demanding a higher level of disclosure, presenting a tremendous challenge to get out the right information in the right manner, and as fast as possible."

The advantages of integration

Even agencies not exclusively devoted to financial communications have realized the benefit of offering integrated programs. According to Rick Anderson, an SVP and partner with Fleishman-Hillard's New York office, the agency's integrated financial communications programs are currently used by several of its major clients, including Procter & Gamble, Emerson, Texas Instruments, Pulitzer, Fresh Del Monte, and CryoLife.

"Since Enron, WorldCom, and the [Sarbanes-Oxley Act], the investment community and the media have become more sensitive to a company's reputation, both real and perceived," Anderson says. "Understanding what motivates Wall Street today is key to strategic financial communications."

While depth of service is important, one indication of the true value of an integrated financial communications program is in its ability to propel a client through a crisis.

Perhaps nothing exemplifies this need for flexibility better than the story of Alameda, CA-based TheraSense, a company that provides glucose monitoring and diagnostic tools for people with diabetes. TheraSense has the distinction of being the first US company to go public following the September 11 terrorist attacks. In fact, the company's CEO and CFO were on the road in San Diego at the time of the attacks, planning to head to New York, says Holly Kulp, VP of professional relations at TheraSense.

"We actually had meetings scheduled in the [World Trade Center] that week, so everyone was pretty anxious, to say the least" Kulp says.

Still, with TheraSense literally days from its scheduled IPO and so much invested in that, the company decided to postpone – rather than



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President and CEO
Financial Dynamics*

scrap – the issuance. One thing was certain, though: With the financial community keenly affected by the attacks and the psyche of the entire nation wounded, TheraSense would have to rework key aspects of its communications program if it was going to pull off a successful IPO.

"The financial community was distracted and facing a lot of challenges, so we retrenched for a few weeks before heading back out," Kulp says. "What we witnessed on that road show was an amazing story of resilience and cooperation. We met with people moving into new facilities, sharing facilities. We saw a lot of cooperation between different banking groups and funds because of the shared tragedy."

In all the confusion, TheraSense stayed the course with an integrated campaign addressing various audiences with a consistent message. This involved explaining the company's intent to use the net proceeds of the offering to increase its sales and marketing efforts for its device, FreeStyle; to fund continued research and development of enhanced FreeStyle products and TheraSense's Continuous Glucose Monitoring System; to expand the company's test-strip manufacturing capabilities; and for working capital and other general corporate purposes.

"But we did tone down and took a less celebratory and more somber and respectful approach," Kulp reflects. "We didn't have a lot of fanfare. We didn't go to the [New York Stock Exchange] and ring the bell like most do, and I think investors recognized our sincerity."

TheraSense's IPO exceeded expectations, closing up more than 30% on its first day of trading, and eventually netting the company more than \$130 million.

Having carefully orchestrated an integrated communications program to execute its IPO, TheraSense was well prepared to shift gears in mid-stream. Soon after the IPO, TheraSense hired FD. Its communications program today involves a variety of vehicles, ranging from media place-

ments across top-tier and national/regional media, as well as trades; conference support programs; investor relations marketing; and diabetes patient education.

The communications effort reports to a key internal executive, but includes direct involvement with the CEO, CFO, VP of marketing, and the VP of sales.

Because of the high impact and longevity of media coverage, TheraSense places particular emphasis on strategic media relations, resulting in placements in not only mainstream outlets (*BusinessWeek*, *Dow Jones*, *Investor's Business Daily*, *Nasdaq* magazine, *Parade*, and *The Wall Street Journal*), but also in key industry trade publications (*Diabetes Positive*, *Drug Store News*, *Managed Care Interface*, *Health Care Distributor*, and *Managed Market Retailers*).

Integrated financial communications programs can make even more sense for multinational companies with far-flung operations and audiences that span many markets and countries.

For example, Suez, the world's largest water company and the 10th largest power producer with \$45 billion in sales, was an early advocate of integrated communications.

"We have found that tight coordination in addressing both the media and the market – we are listed on the NYSE – helps to flesh out our corporate strategy," says Anne Lontas, director of media relations at the Paris-based giant.

Lontas works closely with Arnaud Erbin, who is director of IR. "Disciplined financial communications adds structure to the corporate story," Erbin says. "And, the corporate story helps give life to the investment side of things, where management credibility has become an increasingly important factor in how companies are regarded."

Industry in transition

To know where the industry is going, it is important to remember where it's been.

"Not very long ago, communications professionals were specialists focusing on very specific audiences," says Matthew Della Croce, SVP of Ogilvy PR's financial communications group. "Investor relations only spoke to the investment community, corporate communications dealt with the C-suite's interaction with the media and executive visibility, there were specialists who focused on the trade media, and others who touched customers through events."

Often, these specialists had different reporting tracks in their organizations – IR reporting to the CFO, events coordination through marketing, and so on.

The economic expansion of the 1990s and the ensuing economic downturn of the past few years are at the heart of the dynamic evolution of financial communications, Della Croce says. "In the '90s we saw billions of dollars pouring into the equity markets," he says. "The investment community expanded from Wall Street to Main Street. So the appetite for information about the markets ballooned in step, and the mass media was there to feed that."

Starting with CNN and cable, and then the internet, access to information became instantaneous and 24-7. Consequently, corporations needed to respond to the demand and master the new mediums in order to effectively communicate to both institutional investors and individuals.

Meanwhile, as a result of the tech bubble, companies found themselves with massive competition for both mindshare and capital. This was also a time when a series of major scandals rocked investor confidence. From WorldCom's Bernard Ebbers to Tyco's Dennis Kozlowski, Enron's Andrew Fastow and Jeff Skilling to CSFB's Frank Quattrone, the investing public will never look at C-level

executives the same way again.

The US government then stepped in and regulated access to the information public companies must communicate by creating Regulation Fair Disclosure (a.k.a. Reg FD). Soon after, Sarbanes-Oxley was implemented to provide more stringent rules on corporate governance.

"All of these events caused the need to communicate consistent messages across all audiences at the same time," Della Croce says. "What was once only of interest to one audience now influenced all key audiences, including investors, employees, customers, partners, and regulators."

So it is essential that a company's message is communicated in an articulate and consistent manner, considering the many sources investors look to for information these days.

According to a survey of 206 institutional investors conducted by FD, when asked to rank the top information sources in terms of influence on their investment decision-making, 81.5% put information emanating directly from the company and its management in the top three.

However, with an integrated financial communications program, you are also able to deliver a consistent message to multiple audiences through the other information

sources cited in the survey, including buy-side analysts (69.6% ranked this in the top three), the trade media (63.8%), sell-side analysts (52%), national business media (49.1%), local news media (40.8%), and television (26.9%).

The financial communications professional is now more of an integral player in the overall management of a company.

"A corporate communications professional must become a member of management," says Joshua Hochberg, principal of the Vistance Group. "A financial communications professional must become a corporate communications professional through a deep understanding and acumen of finance, transactions, public policy, and law. The greater the credentials, the greater the perceived value of this individual by management."

However, until recent years, this was hardly the case.

"Historically, IR was a rotational assignment where up-and-coming financial executives spent a one- to three-year rotation learning how to communicate with Wall Street," says Joe Crivelli, director of investor relations for Gregory FCA Communications. Historically, PR and other communications disciplines were not invited to participate in the investor

A financial comms glossary

Conquering financial communications requires mastering a wide range of sophisticated subjects. But if you have yet to wrestle with your MBA, here are some prevailing terms you need to know.

■ Material information

Information pertaining to the company is deemed material if there is a substantial likelihood that a reasonable investor would consider it important in determining whether to buy, sell, hold, or engage in other transactions concerning the company's securities. Although not intended to be an exhaustive list, the following are examples of information that could be considered material:

- Earnings results or projections
- News of impending merger and acquisition activity
- Pending or threatened litigation
- Senior management hirings, firings, and retirements
- The public or private sale of additional securities
- New product announcements
- Change in auditors and agreements/disagreements with auditors

■ Reg FD

Regulation Fair Disclosure is a landmark rule passed by the SEC to prohibit the selective disclosure of material information by public companies to market professionals and select shareholders.

- The Reg FD rule reads as follows: "Whenever an issuer, or any person acting on its behalf, discloses any material nonpublic information regarding that issuer or its securities to [certain enumerated persons], the issuer shall make public disclosure of that information... simultaneously, in the case of an intentional disclosure; and... promptly, in the case of a non-intentional disclosure."

■ Reg G

In light of the corporate accounting scandals of the past two years and the enactment of the Sarbanes-Oxley Act, the SEC adopted Reg G in January. It essentially requires publicly traded companies to state when their earnings reports do not adhere to national accounting standards.

Specifically, Reg G governs the presentation of pro-forma financial information in earnings releases

and similar public announcements. Furthermore, companies are now required to also furnish numbers that comply with generally accepted accounting principles (GAAP).

Therefore, whenever a company discloses or releases material information that includes pro-forma information, it needs to reconcile the difference between the pro-forma and GAAP numbers.

Financial communications professionals need to understand the difference and prepare executives to be able to discuss both sets of numbers with the investing public and to explain why the company is using one set as its standard rather than the other.

■ Sarbanes-Oxley

The most profound change to federal securities laws since the 1930s, the Sarbanes-Oxley Act of 2002 dramatically transforms federal regulation of public-company corporate governance and reporting obligations. The act also significantly tightens accountability standards for directors and officers, auditors, securities analysts, and legal counsel. Key provisions of the act include the following:

- CEOs and CFOs must certify in each periodic report containing financial statements that the report fully complies with Sections 13(a) and 15(d) of the Securities Exchange Act of 1934 and that the information fairly presents the company's financial condition and results of operations.
- Certifying officers will face penalties for false certification of \$1,000,000 and/or up to 10 years' imprisonment for "knowing" violation, and \$5,000,000 and/or up to 20 years' imprisonment for "willing" violation.
- No public company may make, extend, modify, or renew any personal loan to its executive officers or directors, with limited exceptions.
- Each company must disclose "on a rapid and current basis" additional information about the company's financial condition or operations as the SEC determines is necessary or useful to investors or in the public interest.
- All annual reports filed with the SEC containing financial statements must include all material corrections identified by a public accounting firm.

Surviving the face-to-face

No other aspects of financial communications are as wrought with danger as face-to-face encounters, where a company's executives are exposed, accountable, and working without a safety net.

Unfortunately, no matter how much of a loose cannon a company's CEO may be, if the business wants to compete for funds and fame in this era of intense scrutiny, the CEO must, from time to time, get in front of investors and the press.

"Like most things in life, it is a question of execution," says Michael Bayer, Financial Dynamics' MD of corporate communications. "If companies adhere to the principals of 'best practices' investor relations, they will be able to maintain those dialogues without running afoul of securities laws."

Following is advice Bayer offers clients to keep them in the SEC's good books.



1 Review 'Material' material

Before conducting a meeting with investors, consider whether something will likely be discussed that is material and non-public. The SEC recognizes that analysts often ask questions about information that rational investors in the general public would not deem material. If management addresses such big news items only in forums open to all investors, it will reduce the opportunity to disclose new information selectively.

2 Keep earnings under wraps

Adopt a strict policy of not speaking about earnings, except at a meeting or conference call that has been announced with a press release in advance and is webcast in order to allow all interested parties to receive the information.

3 Show them you care

Hold one-on-one meetings to answer analysts' detailed questions as soon after the webcast meeting as is practical. And you should never hold analyst meetings prior to the issuance of press releases.

4 Put your game face on

Sophisticated investors are adept at reading body language. So, before anything is announced, all of your executives must practice and project an extremely good poker face when interacting with outsiders, especially during earnings season.

5 Absolutely no surprises

When faced with an opportunity – or obligation – to have one-on-one meetings, consider whether there is an impending revision in investors' expectations. If so, and management can excuse itself from the commitment, postpone the meetings. While not an entirely desirable solution, the negative repercussions of canceling a long-scheduled meeting pale in comparison to the risks of unintended disclosures. If the decision is made to proceed with the meetings, issue a press release beforehand to allow for discussion of the changed expectations.

6 Practice, practice, practice

Work from prepared remarks. This will better enable you to control the discussion in the meeting. Also, try to anticipate what questions are likely to arise out of the formal remarks and issues surrounding the company, and craft responses consistent with what has already been publicly disclosed.

7 Strength in numbers

Have multiple representatives from management attend meetings to take notes on the discussion topics and increase the likelihood of catching inadvertent disclosure.

8 Keep an eye on the ticker

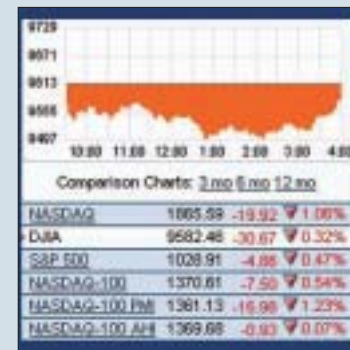
Pay attention to the trading of the shares following private meetings. While it can be coincidental, if the stock moves on high volume in the wake of a private meeting or presentation, odds are someone with whom you met thought he/she heard something new that caused them to make an immediate investment decision. In that case, the company should issue a press release with the new information within 24 hours of discovering the inadvertent disclosure.

9 Keep your focus

Obviously, every situation is different and requires a tailored solution and action plan. Encourage clients to confer with their account teams to ensure a seamless interaction with the investment community.

10 Do the legwork for them

Investors and analysts love data, so make sure you've got plenty of it and it is easily accessible, preferably directly on your client's website. This will foster a positive perception of competence, while providing you and your client with an effective point of reference.



messaging sessions. Investor messaging was the domain of the CFO."

However, two trends have changed this dynamic, Crivelli points out.

First, the Enron- and WorldCom-type fiascos demonstrated the need for all communicators to understand the financial mechanics of the company. "Second, last year Baruch Lev of NYU published a seminal work entitled *Intangibles: Management, Measurement, and Reporting*, in which he theorizes that as much as 80% of a stock's valuation is represented by nonfinancial assets of the company," Crivelli explains. "As a result of these two dynamics, the need to cross-pollinate the financial and nonfinancial communications disciplines became apparent, and the word 'convergence' started to

Intangible assets

Having studied the role of intangible assets in the valuation of publicly traded companies, Professor Baruch Lev of New York University's Stern School says today that more than half of the average S&P 500 company's market value is due to intangible assets.

But what exactly are intangible assets? If you are developing a central message with which you want to convey the value of these attributes, consider this list*:

- Quality of management**
- Innovation and new product development
- Market share
- Development and retention of human and intellectual capital
- Corporate governance
- Quality of investor and corporate communications
- Executive compensation policies
- Customer satisfaction

*Source: NIRI

**A recent survey of analysts and portfolio managers by Price WaterhouseCoopers found that, for the first time, quality of management was more important than earnings per share in making an investment decision or recommendation.

gain traction."

But what information is shared with whom can have far-reaching consequences. Pharmaceutical giant Schering-Plough agreed to pay \$1 million earlier this year to settle SEC allegations that the company violated Reg FD rules.

In the settlement, not only did Schering agree to pay a fine, but former CEO Richard Kogan agreed to pay a civil penalty of \$50,000, marking the largest penalty paid by a US corporation in settling a Reg FD violation and, more notably, the first time an individual has been penalized. The settlement was reached without Schering or Kogan admitting or denying the allegations and findings.

The settlement sprung from a series of private meetings between Kogan and several of Schering's largest institutional shareholders and financial analysts in late September/early October 2002. Subsequently, a large sell-off in the company's shares of an unusually large trading volume occurred.

This, according to a memo FD sent out to its clients highlighting what should be learned from the episode, "could have been easily avoided through adherence to best-practice communications policies." There was nothing in the issue, the memo continued, that should dissuade managers from continuing to meet with their institutional shareholders and analysts, provided that they adhere to these policies.

The charges were brought in response to private meetings held between Kogan, Schering's SVP of IR Geraldine Foster, and four major investors during late September 2002. Material, nonpublic information was disclosed in those meetings, according to the SEC, containing "spoken language, tone, emphasis, and demeanor" that led to the sell-off. During the days that followed, Schering's trading volume more than quadrupled and its stock price fell more than 17%, from \$21.34 to \$17.34. Given that there had been no public news, this was deemed a significant drop.

Then on October 3, during a private meeting, Kogan told a group of 25 analysts that the company's 2003 earnings would be "terrible." Scher-

ing sent out a press release later that night providing guidance for 2002 and 2003 that was materially below analysts' estimates.

While Schering maintains that nothing material was discussed at any of the aforementioned meetings, some skeptics say that such a high trading volume on little information is an unusual scenario.

Denise Foy, Schering's manager of financial communications, says the company will not comment on the settlement beyond what was stated in the press release the company issued. "In moving forward with our Action Agenda to stabilize and then turn around Schering-Plough, we determined that resolving this issue is in the best interests of the company," said Fred Hassan, chairman and CEO, in that release. Hassan joined the company in April this year to replace Kogan. "I am glad we were able to put this legacy issue behind us as we move to create a new Schering-Plough."

More rules and regulations coming

With the first anniversary of Sarbanes-Oxley marked in early August, NIRI is moving rapidly to keep its nearly 5,000 members up to speed.

"In my 21 years as president and CEO of NIRI, no year can compare with the past year," Lou Thompson says. "We have come across a flood of new laws and regulations – most of which stem from Sarbanes-Oxley – that determine the way we communicate with investors, how we disclose information, and what we disclose."

To educate its members, both NIRI and the PRSA have stepped up the frequency of the reports and data they disseminate to financial communications professionals.

With this heightened flurry of activity, the ability to reach the right audiences at the right time has never been more important to the success and viability of public companies.

For instance, consider Aquila, a Kansas City, MO-based gas and electric utility company that was, until a few years ago, one of the top-10 US-merchant energy companies with major operations throughout the US and abroad. But the fallout from Enron's collapse in 2001 placed the

whole energy sector under a cloud of uncertainty, and drastically raised the level of scrutiny and the bar on management credibility.

Behind the scenes, though, the energy trading markets changed almost overnight, and given market uncertainty, utilities were forced to post massive amounts of collateral to buttress their trading positions. Many companies, including Aquila, were forced to either exit the trading business quickly at significant losses, risk bankruptcy, or both. Aquila, traditionally a gas and electric utility company, made the strategic decision to return to its roots and recast itself from a merchant energy company to a regulated utility company.

"We have come across a flood of new laws and regulations that determine the way we communicate with investors"

Lou Thompson
President and CEO
National Investor Relations Institute

To do so, Aquila needed to quickly liquidate its trading positions, post needed collateral on open trades, refinance its debt, shed non-core assets, and rebuild trust and confidence in management among all key audiences.

But, in doing so, the company went into a self-imposed stealth mode, where it ceased external communications. The company's rationale was that there were so many moving pieces, and Aquila was unable to say definitively what and when any number of possible outcomes might occur. But as a result, stakeholders revolted.

In the absence of information on a restructuring plan, the media began to paint Aquila with the same brush as scandal-ridden energy companies like Enron and El Paso, despite the fact that there was no evidence of fraudulent practice on Aquila's behalf.

Shareholders and bondholders threatened to dump their holdings, and Aquila's creditors began to reconsider their loans. The company's stock price plunged, hovering around the ever-looming \$1 delisting mark.

Aquila hired Edelman to develop and implement a communications strategy that would manage the perceptions of its diverse stakeholders and, most importantly, help the company buy the necessary time in order to complete its restructuring.

"Silence bred discontent, and it was like a contagious infection that ran from one audience to the next," says Hollis Rafkin-Sax, then Edelman's GM for financial communications. (As *PRWeek* went to press, it was announced that FD had hired Rafkin-Sax.) "The risk was that worst-case scenarios would turn into self-fulfilling prophecies."

Key to that plan was successfully navigating through several intricately connected milestones and interrelated audiences, each having implications on the success of the next.

"We used financial communications as an exacting and strategic tool to begin the education process," Rafkin-Sax says. "We broke the silence with a simple press release directing the financial community to their website."

Posted on the site was a complete presentation, detailing where the

Saving Steve Madden



Madden... footwear company hired FD to keep founder's legal woes from impacting its business and market valuation

company was, its challenges, strategy to overcome them, a timeline, and update on accomplishments to date. Information was fully and publicly disclosed, providing all constituencies time to digest the plan before any analyst or press calls.

Aquila's campaign included a road show in which company leaders traveled to key institutional investors, as well as retail shareholders in major cities around the country.

Given the enormous and sudden drop in stock price, the company was not expecting happy audiences, Raffkin-Sax says. To weather the storm, each meeting was opened by the CEO, allowing an honest, open session where angry, testy, and confused shareholders were able to air their issues and articulate concerns. The CEO listened, and promised to answer each and every question.

"Once shareholders had vented and put their issues on the table, they were willing to listen as the chairman addressed next steps and likely time frames for the restructuring," Raffkin-Sax says. "While they did not always like all the answers, the chairman won ringing endorsements and support for his candor, openness, and honesty."

In fact, he was reelected to his board position at the company's annual meeting with a more than 95% affirmative vote.

More importantly, the outreach and vote of confidence earned the company the precious time it needed to execute its strategy. As evidence of the critical and productive role financial communications can play in delicate financial situations, Aquila's stock price has appreciated significantly, although still at depressed levels, with the company successfully refinancing its line of credit.

Harnessing the messages

However, it is not always the fact that you are speaking, but what you are saying. As a government-sponsored enterprise (GSE), Freddie Mac has not always been held to the same high standards of transparency and accountability as are other traditional publicly traded companies.

Therefore, not only has the tendency been to speak less, but also Freddie Mac's various communications programs often have had inconsistent messages, says David Palombi, VP of corporate communications.

Communications strategy is particularly important now, as Freddie Mac continues to deal with an accounting scandal that led to the ousting of two CEOs, a president, a CFO, and general counsel. It is a stockholder-owned corporation chartered by Congress in 1970 to create a continuous flow of funds to mortgage lenders. By supplying lenders with the money to make mortgages, and packaging the mortgages into marketable securities, Freddie Mac sustains a stable mortgage credit system, and reduces the mortgage rates paid by home buyers. Over the years, Freddie Mac has opened doors for one in six home buyers in America and 2 million renters.

"The fact that we are a GSE and we don't deal directly with consumers shaped a decentralized approach to communications, without a single point of accountability," Palombi says. "Each communications program had its own targeted audience: investor relations, single-family, community lending, etc. They each owned their own audiences, with no overall guiding theme - sort of like a group of spokes without a hub."

With mounting political and media pressure, in 1998 Freddie Mac began a major shift to align messages more consistently.

For example, in 1998 the annual report, which until then had been a purely IR-oriented document designed for sophisticated investor audiences, was reshaped with more of a corporate feel. Simultaneously, Freddie Mac consolidated its advertising functions into a single entity.

In 1999, it then launched its first real branding project, while also building a centralized internet communications group.

Then, in 2000 Freddie Mac began convening monthly forums that brought together the internal communications directors - who managed the company's top-10 audiences - to reinforce the centralization of policy making and positioning.

Today, Freddie Mac adheres to three metrics for measuring, Palombi says. First, it has a zero tolerance for surprises; second is comprehensive survey-based reputation tracking begun in late 1999; and lastly is traditional media studies ascertaining the volume and nature of coverage.

More recently, Freddie Mac hired FD to spearhead an integrated communications program targeting overseas investors.

"We learned that overseas there is a huge appetite for investing in Freddie Mac, but the audiences were not that aware of what we do," Palombi says. "They knew the brand, but not a lot about what it stands for."

Within months of bringing FD on in early 2000, Freddie Mac began selling its bonds, which are essentially pools of mortgage loans, in European and Asian markets. The integrated program included developing messages and understanding of what investors are looking for in notes and bills and bonds; media outreach; and making nearly a dozen high-level trips a year.

Financial communicators have to understand that their messages may be a bit too sophisticated, requiring patience and perseverance to get through to less savvy audiences.

For instance, storage networking specialist CNT acquired fiber-channel switch maker Inrange Technologies in April for \$190 million in cash. While not exactly as sexy as the AOL-Time Warner deal, this single transaction created the world's second-largest provider of storage networking products and solutions, giving the company higher-margin businesses and significant cost-reduction opportunities.

However, considering the complexity of the networking-products industry, the acquisition was initially received badly by the Street. CNT's stock plummeted 27% on April 7, the day the deal was announced.

Undaunted, the CNT team continued to communicate the value proposition through an integrated program, simultaneously targeting multiple external audiences, including Wall Street, industry analysts, employees, and the media.

"The net result is that the stock has

"In some cases, it's easy to see senior execs have been coached by media-savvy PR professionals"

Robert Sales
Editor-in-chief
GARP Risk Review

Major footwear company Steven Madden faced a crisis of dramatic proportions when its highly visible founder and CEO was indicted and convicted in US federal court last year.

The crisis emerged in June 2000 when Steve Madden, who was also chairman and head designer, was charged for his role in a stock-swindle scheme coordinated by a now-closed corrupt brokerage. With Madden incarcerated, the company had to move fast to reinforce investor confidence and protect its hard-fought market share.

The company hired Financial Dynamics, which developed an integrated investor and media relations plan targeting key audiences, including analysts, investors, the financial media, the trade press, and retail customers.

FD's primary goal was to minimize the impact of the legal proceedings on the company's business and market valuation by building the credibility of the senior management team, highlighting operating and financial successes, controlling media access, and aggressively correcting false and misleading information.

For even though the allegations were against Madden personally and the company was not charged with any wrongdoing, the corporation still faced major communications challenges because of its close association with its founder.

No short-term solutions

The crisis period was drawn out by a series of events initiated by the original indictment. The months that followed were marked by Madden's stepping down; a plea agreement requiring Madden to plead guilty to two counts of money laundering and securities fraud; the resignation of Rhonda Brown, the company's president; Madden's sentencing in US federal court, which included a \$3.1 million fine, as well as a jail term of 41 months; and Madden's ultimate departure in September 2002 to commence his incarceration.

FD identified five core objectives: emphasize the distinction between

the legal issues of the individual and the success of the company; demonstrate the strengths of the company's senior management and design teams; elevate the perception of the company in the investment community; ensure fair and accurate coverage in the media; and protect the stock price/valuation of the company.

"When we began advising [the company] on this situation, we recognized that the communications would, to some extent, be driven by a series of events as the case proceeded through the legal system," says Gordon McCoun, FD's senior managing director of investor relations. "While some events could be anticipated, many others could not. A major priority was to do everything possible to ensure that the story of Madden's legal issues remain attached to him personally and not be seen as a reflection of the company."

Tactical campaign

Specifically, FD sought to minimize concerns over Madden's legal issues by raising the profile of other key senior managers and designers and focusing on the company's strong business.

"This reinforced that the company had a management team with experience and depth, as well as a proven operating model, the combination of which would enable the company to prosper in the absence of Mr. Madden," says McCoun. It was especially important that the new management team sounded intelligent, focused, in control of the business, visionary, and goal-oriented, he adds.

To disseminate positive messages, FD relied heavily on direct marketing to analysts and investors through group events, face-to-face meetings, and conference participation.

For a company under such intense scrutiny, it was imperative that all public communications highlighted the company's key operating/financial successes and growth strategies.

There was also a high risk that incorrect information would be included in media stories, given the nature and complexity of the situation.

"We closely monitored all media

coverage - print and broadcast - and aggressively followed up to ensure prompt corrections when errors were made," says McCoun. "As one example, we secured a prominent on-air apology on CNN Headline News following incorrect reporting."

Net results

While the company's stock price fell dramatically immediately after Madden's indictment, from \$11.19 to an all-time low of \$5.50, the effort to rebuild credibility was successful. The stock has since risen to \$20.15.

The company's stock price outperformed the market and its peer group for the period encompassing the legal proceedings. Investors who held Steven Madden stock immediately before the indictment was announced, would have seen the value of their investment appreciate approximately 62% through the close of market on December 31, 2002. Over the same period, the S&P 500 index declined 38.6%.

Objective and accurate coverage ran in many trade publications and most major media outlets, including AP, Bloomberg, *Newsday*, the *New York Post*, CNN, *Women's Wear Daily*, and *Footwear News*.

"Our strategic and aggressive approach also enabled us to dissuade a prominent national ABC producer from including Steve Madden, both person and company, in a potentially damaging segment about the excesses of executive compensation and unfair employment contracts," says McCoun.

Since then, a *Wall Street Journal* feature story that ran earlier this year favorably contrasts the company Steven Madden with Martha Stewart's company, noting that Madden's conviction was not "a death knell for [the] company, even one whose name and image are intertwined."

And a column on *The Motley Fool* read, "There's little doubt that when Steve Madden gets out of Club Fed, he'll want to jump back into creating and selling the popular shoes that bear his name. But if things keep going the way they have, the company he built may not need him back."

rebounded 83% since the deal was announced," says Crivell at Gregory FCA, the agency retained by CNT. He explains that the rebound would have been much slower and muted were it not for an integrated program simultaneously hammering home the value of the acquisition to all audiences.

Relying on media ties

While financial acumen, industry knowledge, and communication skills are essential, they are only part of the equation. In the information age, strong ties with the media are equally important to any integrated financial communications program. But, exactly how is it journalists really want?

As the initial conduit between a firm and both the media and the mainstream, PR professionals play a very significant role in how a company is perceived by the media.

Competent PR people know precisely how to deliver their company's message, whether they are relaying information on the release of financial results, the launch of a new product, or the formation of a partnership.

"Unfortunately, not enough PR people do their homework on the journalists and publications they're working with," says Robert Sales, editor-in-chief of *GARP Risk Review*, a New York-based trade magazine. "I spearhead a magazine that provides in-depth analytical stories on a variety of risk-related issues, including Basel II, STP, operational risk, credit risk, insurance risk, and risk-management careers. I expect PR professionals to know this, but am often disappointed."

Generally speaking, though, Sales says he feels PR professionals are more knowledgeable about the companies they represent than they were a decade ago.

"Many PR pros now speak intelligently and articulately about projects, products, and partnerships, providing valuable insight and useful suggestions," Sales says. "That simply wasn't true 10 years ago."

Not surprisingly, Sales is also sensing more evidence of media training, to both the benefit and detriment of the companies his magazine covers,

with sources typically choosing their words carefully and usually trying to steer clear of controversial stories.

"In some cases, it's easy to see these people have been coached by media-savvy PR professionals," Sales says. "That said, however, there are some executives who don't care much about what their PR people think. These executives are obviously the most fun to interview, and are usually at the heart of most great stories because they provide straightforward, honest opinions that are not tainted by a PR brush."

"More often than not, the attorneys even actively participate in the process of crafting messages and strategizing"

Tim O'Brien
Principal
O'Brien Communications

"My advice for PR pros is not to be too strict when coaching executives on how to deal with the press," Sales continues. "If you put too great a limit on what an executive can say, a person can come across in a story as aloof or, even worse, ignorant."

However, given the excruciatingly tight regulatory climate, executive instruction is becoming an essential piece of integrated financial communications programs.

Executives must be coached about how to stay within disclosure guidelines, because if they say something that has not been widely disseminated in an open public forum, it has to be reported in a news release or 8-K, explains Terry McWilliams, president of Mozaic Investor Relations in Louisville, KY.

"Numbers reported in a non-GAAP fashion must be reconciled against GAAP numbers, and the CEO must recognize that," McWilliams adds (GAAP is the Generally Accepted Accounting Principles, the recognized standard for financial reporting).

Trained to get the point across

But there is also a more practical reason why training is important.

"This is increasingly a video and audio society. You have webcasts and teleconferences, and more TV and cable channels dedicated to business news," McWilliams says. "It is important for the CEO to get his or her point across emphatically and effectively."

Inevitably, though, there are some executives who simply do not want to cooperate.

"Effective training is important, but semantics are equally important," says Tim O'Brien, principal of O'Brien Communications, a Pittsburgh-based financial communications company. "I have been in numerous situations where the CEO did not like the idea of being trained. So I tend to approach this process without much of a label."

This usually involves masking the training as a briefing session prior to an interview, including coaching and some media prep work.

"The words may vary, but the

process is the same, with the intent of helping the CEO be more comfortable and capable when faced with media scrutiny," O'Brien says.

Another vital part of CEO training is teaching them the language of attribution. There are no hard and fast rules when it comes to attributing information, and navigating the murky waters of attribution becomes that much more difficult when speaking with multiple audiences.

The basic rule of thumb, of course, is never, ever speak to a source outside the company's four walls about anything the company would not want to see in print, or that could violate federal laws of disclosure.

Unfortunately, the business world is not that black and white. Perhaps in an effort to build a relationship with an analyst or journalist, a senior executive would like to speak freely on an industry trend, but does not want that information attributed to them, as it may affect investors' perception of the company.

The term "off the record," used widely, means many different things to many different people and publications. The most literal journalistic translation purports that anything that is off the record is not to be used in any manner, and may only serve as a reference point to guide the journalist in the right direction.

But when speaking with investors, employees, or analysts, "off the record" has a broader interpretation, varying from listener to listener. While these audiences may not have the reach of a newspaper or nightly broadcast, they also are not bound by the professional integrity that responsible journalists should demonstrate in protecting your identity.

Due to its ambiguous nature, "on background" attribution is particularly wide open to interpretation, as many people confuse the term with "off the record."

Generally speaking, "on background" usually means the journalist can use the information in the story, but not use a direct quote and not source it in any identifying way. "Not for attribution" or "on condition of anonymity" usually means that the

reporter can use the quote, but cannot source it directly to the informant. Instead, the reporter will ambiguously source it close to the event or subject in question.

Before speaking to a journalist, the rules for attribution must be clearly established. "There is nothing more frustrating than conducting an entire interview only to have the PR person state that it was all on background," says *GARP Risk Review's* Sales. "If a source wants to remain anonymous, that's okay – so long as he or she specifies that preference prior to the start of an interview."

Should preferences and terms not be negotiated and established, it is automatically assumed that everything an executive says to a reporter is fair game, regardless of what is said after the interview is concluded. "If I identify myself as a journalist and tell you I'm working on a story," says Sales, "it's just a given that everything's on the record."

Unfortunately, there is very little recourse should a reporter decide to name names regardless of what may or may not have been agreed upon. Assuming the information is accurate, the damages caused by the release of that information cannot be attributed to the journalist, because you, an employed representative of the company, were the actual source.

Collaborating with the lawyers

One clear indication of the need for more effective communication, the fundamental trend driving financial communications convergence, is not so much reflected in the increased activity, but subtly evident in the increasing collaboration with the communicator's traditional nemesis: the company's legal department.

"In fact, in spite of the intensified regulatory environment, we are seeing the lawyers open up more," O'Brien says. "In the past, lawyers tended to approach sensitive issues with a blanket 'no comment' posture. Now, in most cases, the lawyers know companies cannot get away with that sort of smugness. More often than not, the attorneys even actively participate in the process of crafting messages and strategizing."

Given the growing demand for competent, multitasking communications professionals with the ability to manage integrated financial communications programs, some financial communications agencies are finding that the talent pool has some catching up to do.

"Business communications involves a very particular sphere of influence, and you either know it or you don't," says FD's Kelly. "You deal with very strategic issues, almost exclusively with the C-level, so spend the entire day talking with CEOs and CFOs. They want people to understand their business as well as they do."

While the greatest amount of improvement has been at the top, there remains a great deal more work to do.

"At a time when the cover of *Time* asks, 'Who can we trust?' executives need to be more transparent and communicate more openly with key audiences than ever," says Ogilvy's Della Croce. "Those companies' executives who communicate well will benefit greatly." So, while the C-suite has come a long way to understanding the value of a strong financial communications program, there still remains a great deal more work.

"Inevitably, there are still far too many companies, faced with diversity, that double back and climb under their shells," says Gordon McCoun, senior managing director of FD's investor relations practice. "With thousands of public companies out there, our clients are competing for mindshare and attention from the investment community. Essentially, if you want to compete in the business world today, you've got to integrate and communicate a consistent message throughout your entire organization. Period."

Tractor Supply's struggle for identity



AP/WIDE WORLD PHOTOS

2000. (The agency has since undergone a management buyout and been renamed Financial Dynamics.)

"Initially, it was about getting the messaging right, but it quickly evolved into getting the story out to the Street," Massmann says.

To get the company on track, Morgen-Walke designed an integrated campaign involving investor relations, financial communications, and media outreach strategies, says Michael Bayer, MD, corporate communications for FD New York.

It also involved getting the CEO out in front of the company where investors, analysts, and consumers could see and hear him.

"This was very important, because we admittedly made a mistake by not getting our previous CEO out on the road, which helped create a significant void in our communications with Wall Street," Massmann says.

Morgen-Walke set up meetings with the few analysts still following the company, as well as others not following, but interested. Simultaneously, various media outlets were presented with information on the company's performance.

"The third leg of the stool was the ability to get us in front of buy-side investment managers," Massmann says.

Writers specially trained to write for Wall Street-type audiences of investors and analysts were used to pump out a steady stream of press releases that were sent to various publications. Meanwhile, a battery of events was scheduled with various

audiences to help introduce a management team that was rebuilt in 2001.

However, an even greater communications challenge lay ahead, just around the corner.

In mid-2001, Quality Stores, a competing privately held retailer selling many of the same products as Tractor Supply, went bankrupt. Tractor Supply moved quickly and a federal bankruptcy judge approved the company's bid to assume Quality Stores' debt on December 31 that year.

The buy resulted in a stunning one-day 20% drop in Tractor Supply's stock price.

However, Quality Stores gave Tractor Supply 87 additional locations, Massmann says, which bumped the company's retail base up to a total of 323 outlets.

During the next six months, Tractor Supply successfully reopened these locations under its banner.

"We stayed the course, executed the transaction, opened the new stores, and through it all kept our senior management out front discussing our growth and success," says Massmann.

Since recruiting Morgen-Walke and reshaping its communications program in 2000, when its stock price dipped below \$5 per share, Tractor Supply's stock has rocketed to its current level of nearly \$40 a share.

As for Street credibility, Tractor Supply eventually did gain the recognition it sought. Whereas there was one analyst providing sporadic coverage of the company three years ago, eight analysts now cover Tractor Supply on a regular basis.

With an unremarkable brand, a disjointed communications program, and little Street credibility, Tractor Supply Company in early 2000 set about reshaping the way it represented itself to its many audiences.

"We realized that we were just not getting a lot of value out of our communications and sought alternatives," says CFO Calvin Massmann. "While we had a lot of brand equity built up with our customers, we did not have a name that was resonating with investors and Wall Street, which was a constant challenge."

Tractor Supply sells tractor parts,

not entire tractors, but in one of its stores you can also pick up farm supplies (including its own private labels) such as fencing, animal feeds and medicines, garden products, riding mowers, and work clothes. Tractor Supply operates one of the largest retail farm-store chains in the US. Its stores, concentrated in Indiana, Michigan, Ohio, Tennessee, and Texas, are in rural areas and near large cities to cater to full- and part-time farmers and ranchers, as well as contractors.

Realizing it needed to strengthen its communications, Tractor Supply approached Morgen-Walke in early