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Looking at more than just the numbers

[Craig McGuire](#)

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Annual reports can include some different features that truly resonate with investors. To 10-K wrap or not to 10-K wrap? That question is on the minds of many financial communications professionals this time of year.

A Form 10-K is the annual report required by the US Securities and Exchange Commission, providing a comprehensive summary of a public company's performance.

The practice of distributing so-called 10-K wraps - taking a Form 10-K and "wrapping" it with narrative materials - emerged in 2000 as an alternative during the tech-bomb fallout, gaining momentum during subsequent rounds of regulatory pressure.

In 2002, when the National Investor Relations Institute (NIRI) surveyed its membership, already 16% of respondents had made the jump. By 2006, the latest the biennial survey was taken, that number swelled to 56%.

However, it is the simultaneous emergence of the Internet as a viable, regulatory compliant, disseminator of information, that has not only made the 10-K Wrap an option, but has also helped the traditional annual report evolve well beyond those dreadful glossy telephone books of the heady 1980s.

"More and more companies are migrating towards a living, breathing presentation, leveraging the Internet to tell a deeper story," says Jeffrey Morgan, president and CEO of NIRI.

Regardless of whether a company opts for a traditional print annual report or migrates to a 10-K wrap, the strategy must incorporate effective use of the Internet, and not just for ensuring disclosure.

This includes providing complementary materials that tell the story behind the financials - such as testimonials of satisfied customers, virtual tours of facilities, interviews with employees, and relevant news reports.

The big challenge for many is articulating assets that can't quite fit into a spreadsheet.

For example, Lubrizol's most recent annual report focused on explaining the complex art/science of "formulation," its proprietary product innovation that is an intangible asset that just can't be gleaned from the financials.

Meanwhile, Stris Corp, a producer of sterilization materials, took another tack for its most recent annual, by including a section titled "Your Stories Tell Our Story," which featured video clips profiling customers.

"We are advising companies to include content on the various intangible assets that are driving results and creating growth opportunities," says Rob Berick, MD at Dix & Eaton, the agency that advised both Lubrizol and Stris.

Dix & Eaton also counsels clients to include quantifiable metrics by which the reader can measure the company's success, beyond SEC-mandated financials.

"Remember that current and prospective investors, customers, and employees have access to annual reports from companies around the world," Berick says. "Investors, in particular, can see more than 100 annuals in a given year. So invest the time and resources to develop a piece that clearly articulates your company's value proposition."

It's also important to invest in your creative. "With a well-planned photo shoot you can have a suite of photos that's unique to your company, which can become the basis for a year's worth of branding," says Beth Haiken, VP at The PMI Group, Inc.

Beware, though, to scale your design to the year's financial results.

"In a good year, more color, photos, or unique design features won't seem out of place," Haiken says. "In a bad year, lean and clean is best."

Lastly, whether it is soldiering on with a traditional annual report or jumping on the 10-K wrap bandwagon, there are two questions every annual communication to shareholders must answer, advises Fred Bratman, president of Hyde Park Financial Communications:

Why us? Why now?

"What is it that is most appealing about a company and why should investors invest now, as opposed to waiting?" Bratman says. "Take a hard look. When someone reads your annual and walks away, can that person answer those two questions?"

DO

- Find creative ways to focus on intangible assets
- Invest in creative elements, which can be re-purposed later
- Track what investors linger on and develop follow-up campaigns

DON'T

- Jump to a 10-K wrap unless your audiences are going to embrace it
- Use themes that are broad or cliched
- Issue a flashy report if performance was lackluster