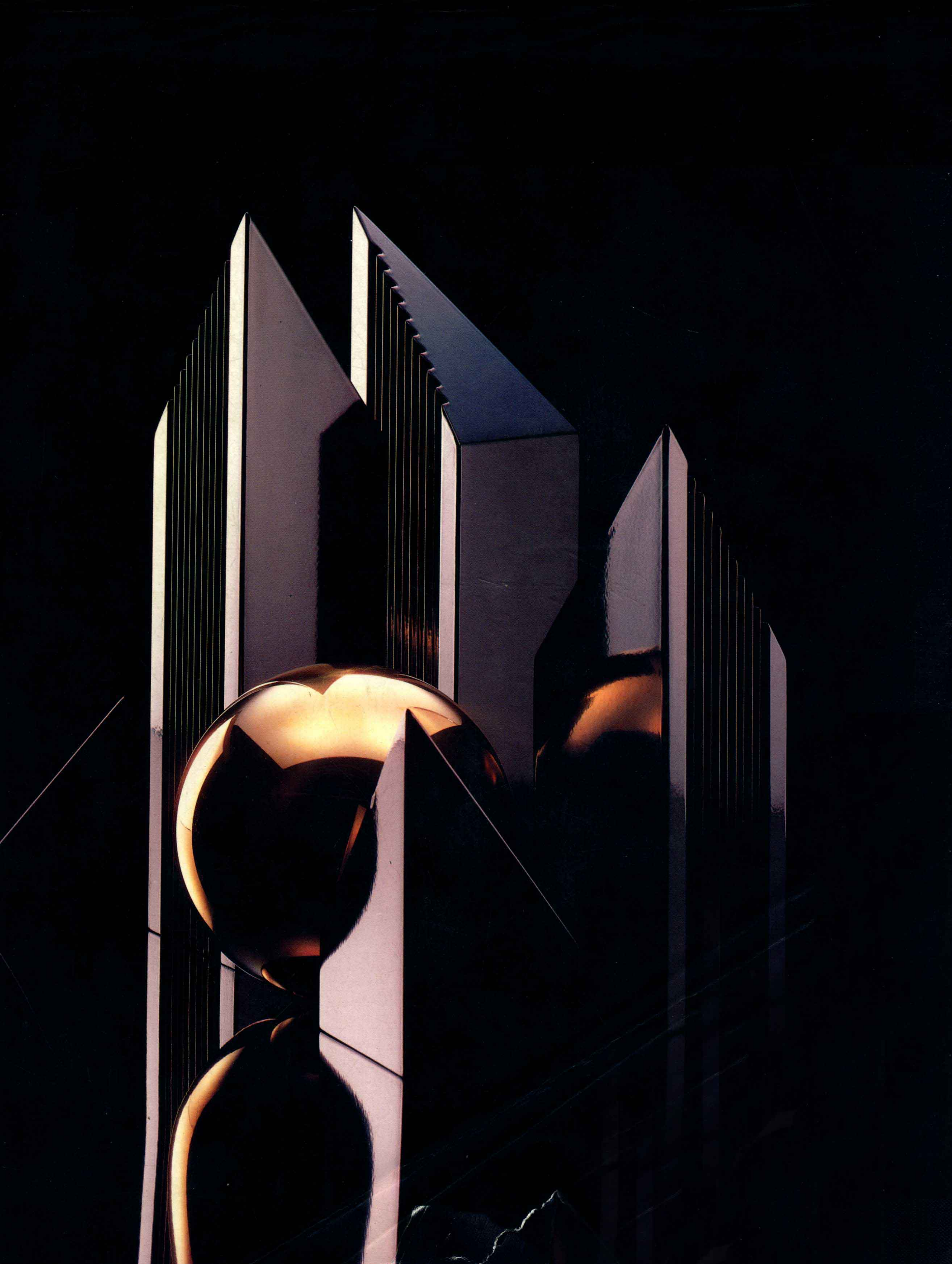

GRAPHIS ANNUAL REPORTS 1

THE INTERNATIONAL YEARBOOK OF ANNUAL REPORTS

DAS INTERNATIONALE JAHRBUCH ÜBER JAHRESBERICHTE

LE REPEROIRE INTERNATIONAL DES RAPPORTS ANNUELS

EDITED BY/HERAUSGEGEBEN VON/RÉALISÉ PAR

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GRAPHIS PRESS CORP., ZÜRICH (SWITZERLAND)

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GRAPHIS DESIGN, The international annual of design and illustration
GRAPHIS PHOTO, The international annual of photography
GRAPHIS POSTER, The international annual of poster art
GRAPHIS PACKAGING VOL. 5, An international survey of packaging design
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By Richard Lewis

The basics of annual reports have changed very little in the 17 years since I wrote the text for the first edition of *Graphis Annual Reports*. The text that follows essentially sets down those basics, just as it did in that earlier edition.

In this new edition, there is even more emphasis on the annual report as a leadership tool for the chief executive because the stakes have become greater: On the upside, the stock market has sprung alive, more than doubling in value in the past five years. And despite subsequent volatility, hope remains that a compelling annual report can impress investors and encourage a still higher stock price; on the downside, corporate raiders and takeover artists have turned members of the Fortune 500 into an endangered species, like buffalo. The leaders of these hunted companies know that a high stock price is the only sure defense against extinction; and many of them see the annual report as a tool to help obtain a higher stock price.

But this is primarily a graphics book. More than that, it is a *Graphis* book, dedicated to bring its readers the newest thinking, the most innovative design.

Many of the reports shown in this book seemingly contradict the recommendations of the text: With their wide-spaced lines of type, they are hard to read; with their non-specific art, they neither show the products nor clarify the business; with their confetti colors, they seem more akin to restaurant menus. They don't look as though they belong to the world of business. They are a startling new breed.

What's going on here? Annual reports have proliferated in America, expanding far beyond the Fortune 500 lists of giant companies, far beyond even the 10,000 or so publicly held companies that are required to issue annual reports to stockholders. Today some 50,000 organizations in the United States—both profit-making and non-profit—issue annual reports. Most non-profit foundations, for example, are now required by law to issue annual reports. Other issuers include government agencies, hospitals, research organizations, and universities. And while most of these annual documents include a financial report, they are also used for fund raising, marketing, image making, advocacy, and bragging. Winning an award, in some cases, has become the highest priority for the client as well as for the designer.

And so today, there is a two-tier annual report market. In the first tier are the corporate annual reports, which have large press runs, spell out the corporate strengths, and articulate the strategies of management, all in hopes of impressing investors and other key audiences. In the second tier are myriad "other" annual reports, most of which have small press runs and a more expansive view of what annual reports can be. Participants in this second group have lighter spirits, trendier instincts, and are more willing to put form before substance, especially when it comes to typography.

But it is not a neat division. Some producers of corporate annual reports—especially entrepreneurs and the leaders in the new technologies—have embraced innovative design as a way to set themselves apart from old-fashioned companies. Even among older corporations the idea of "exciting design" is being embraced by many corporate communicators—men and women who have become bored with the same old annual reports they had been putting out for years. "My single most driving ambition for these books," recalled David Bither, charged with producing the Warner Communications annual reports, "was that they not look like anybody else's annual report had ever looked. One reporter called that report "the first punk annual report." Even conservative Mobil Oil bathed its 1984 report in "Miami Vice" pastels.

As the annual report field has grown larger and richer, it has drawn more participants, and more attention—from contests, magazines, newsletters, seminars, workshops, and the press. The emphasis is on innovation. Hence the spotlight is on the smaller organizations willing to risk more to gain attention in a crowded field.

And so, also, for the reader of this book, there are two levels. There is the text, which focuses on how to produce an annual report that is a management tool, and there are the graphics, which celebrate the latest fashions in design.

The Annual Report: The CEO's Medium

The annual report as we know it today in Europe, Japan, and the United States was born during the booming 1950s by a few farsighted companies like IBM, Litton Industries, and General Dynamics, and designers like Paul Rand, Robert Miles Runyan, and Eric Nitsche.

In 1954, for instance, the IBM report was essentially unchanged from the reports issued each year since the company's founding 42 years earlier. It had a stiff brown-paper cover, 20 pages with scanty financial disclosure, and was innocent of photographs or any attempt at graphic design.

The very next year, as the computer age began to dawn, IBM modernized its annual report and has been a leader in design and corporate communications ever since. The trend, which began in a period of great economic vitality by a corporate elite, eventually grew into a national and an international movement. By the 1960s, most major corporations had joined the vast switch-over to the modern annual report. Today, tens of thousands of companies and other organizations are turning out sleekly handsome, informative annual reports. And today's top graphic designers are not only in New York, London, Paris, and Zürich. They're in Seattle and Dusseldorf, Minneapolis and Milan.

The trail blazed in the 1950s has become a post-modern freeway of experimentation and high style. Perhaps the most arresting annual report yet produced is the 96-page H.J. Heinz Company report for 1984. It was dedicated to the tomato, the source of many of Heinz's celebrated 57 varieties, and filled with pages of tomato-inspired art. The typography was printed in tomato red and tomato-leaf green. It had entertainment value as well as financial information, widening the possibilities of what an annual report could be.

The annual report field continues to grow. From London to Singapore, entrepreneurs are selling stock in fledgling companies. In Japan, many larger companies issue American-style, English-language annual reports, which they use around the world for banking and trading purposes. In the U.S., annual reports are routinely issued by hospitals, non-profit foundations, and government agencies. Despite the activity in the annual report field, perhaps only one report in 20 is well designed. For designers, who understand the needs of the market, the potential is huge.

The Central Question

To be effective, every annual report must answer this central question: How is our company going to survive and grow? The answer is of critical interest not

In the ever-changing environment of business (in the 1960s and 1970s corporations were acquiring companies and diversifying; in the 1980s they were spinning off divisions and concentrating on the businesses they knew best) the annual report is the prime, and often the only, tool to help corporate management define and report developments. The legal deadline established for submission of the annual report provides the impetus for top corporate executives to sit down for the only time each year to explain their company—where it's been and where it's going—to their various publics.

The primary corporate spokesman is the Chief Executive Officer, who usually holds the additional title of Chairman. Direct involvement of the CEO in the preparation of the annual report is essential. For it is a corporate reality—not always understood by employees or outsiders—that the CEO drives the communications program.

The effective CEO drives his company's communications program, just as he drives his company; and the annual report is his chief medium for projecting his message. For example, Campbell Soup Company's CEO, Gordon McGovern, emblazoned the words "Focus on Consumers" on his annual report cover. It was not an idle slogan; it underlined Mr. McGovern's crusade within Campbell's to inculcate a customer consciousness among all employees.

Projecting Quality Management

No matter what theme the CEO is presenting in his annual report, the first characteristic that every security analyst looks for in assessing a company is quality management. Of course, no CEO wants to be seen as a self-promoter. Still, it is essential that management be perceived as doing a superior job. The challenge of getting this message across requires subtlety on the part of the designer and writer.

An annual report itself can make the quality-of-management case indirectly. Good graphics, a sense of organization, and crisp writing can give the impression of high competence and professionalism. Even the CEO's portrait can affect, for good or ill, the reader's impression of management. The CEO must be persuaded that his photograph matters and that he must take the time—a half hour at least—to sit for a first-rate executive photographer. But "sit" only in the figurative sense; the best executive photos show the CEO in action—at a plant site, on the move, interacting with his staff.

A more substantive means of reinforcing the sense of quality management is by the CEO spelling out his corporate strategy in simple, precise, and concrete language. When Robert Gorzueta became CEO of Coca-Cola, he delineated his strategy in a formal statement, which was distributed in pamphlet form. It was then reprinted in the annual report, in recognition of the report's role as the document of record. One result of this top management involvement is a willingness to spend large sums to produce the best possible annual report. When the CEO cares about his report, the company hires the finest graphic designers and photographers and uses the best quality paper and printing.

Upwards of 50,000 American companies, institutions and agencies issue annual reports. Together, they spend an estimated half billion dollars on their reports. While no other market approaches the U.S. market in size, usage is expanding around the world, especially for English language reports that have become the preferred calling card of international business. Shown here are English-language reports from Germany, Great Britain, and Yugoslavia.

Costs of annual reports based on a 1986 survey by *The Corporate Communications Report*, range from as little as 86 cents to above 6 dollars per copy, depending, of course, on such factors as the number of copies printed, the number of pages and color photos, and the quality of paper.

Well Worth the Price. Even a unit cost of 6 dollars for some 5,000 reports can be a good investment for a new, small company. The annual report is likely to be its one major printed piece of the year, its only source of corporate identity. Large firms have long-established relationships with investors, suppliers, and customers—and, usually, active public relations and advertising programs as well. Many small companies, on the other hand, have no effective way to communicate except through the annual report.

If an annual report can help raise the price/earnings ratio of a medium-sized company by even one point, this translates into an increase of millions of dollars in total stock value; for a blue-chip company, the increase might be measured in billions.

The annual report enjoys this primacy for several reasons. It is the most believable corporate document. The Chief Executive Officer signs his name to the report, the accountants audit its financial information, and the regulatory agencies in the securities industry review it.

Companies generally print two to three times as many reports as they have shareholders. In addition to its primary function of meeting legal requirements and informing shareholders, the annual report is used regularly for recruiting employees, selling products and services, addressing government agencies, informing the media, and attracting acquisitions.

GTE, for example, printed one million copies of its 1986 annual report, distributing 500,000 to listed stockholders and another 120,000 to unlisted shareholders whose stock is held by brokers or nominees. It reserved 25,000 reports for training and recruiting work, 20,000 for investor relations mailings, and 30,000 for public and community relations use by its various telephone companies and offices throughout the country. There were 100,000 copies for employees participating in the company's saving and investment plan, and retirees were sent 50,000 copies. The company held the remaining reports in reserve for new shareholders and for general corporate purposes.

Summary Annual Report

In 1986, the summary annual report arrived, sparking controversy. General Motors won permission from the Securities and Exchange Commission to include its required financial statements in its proxy statement, thus freeing the annual report from legal obligations and making it possible for companies to issue a more creative, readable annual report to shareholders—and save money. (They were also free to issue no annual report at all.) Initial opposition to the summary annual report came from financial analysts, including one who said he would never buy stock from a company that summarized its financials and another who said a corporate management would have to be "crazed" to consider the idea. Then McKesson Corp. issued the first summary annual report. It was 24 pages, down from 40 the year before. The report contained interesting features and a superb financial review. McKesson Vice President Marvin Krasnansky reported "not one" complaint from analysts and a 20-percent cost reduction.

Whatever the changes in annual reports, one thing has remained constant. Ask a CEO—in the privacy of his own office—what he wants the annual report to accomplish, and he will candidly respond that he wants it to influence people to invest in his company. In a word, to boost the stock price.

And if the most basic function of the annual report is to communicate with investors, the most important message to them is "buy our stock." Since the mid-1950s, encouraged by the modern annual report, a new breed of American stockholder has indeed been buying stock and creating the phenomenon of the growth company.

Capital Growth—The Prime Objective

In 1954, there were six or seven million stockholders in the U.S.—largely sophisticated businessmen, people with access to good investment counseling advice. Today, some 47 million shareholders hold stock directly, and through mutual funds. The shareholders of the 1980s tend to be younger, less well-established, more emotional, and more impatient with their investments. Until the 1950s, shareholders were primarily interested in dividend income—capital appreciation was not their main goal. But, increasingly, capital growth has become the primary objective for most investors, and the old reliable stocks with their steady dividends have long been out of favor.

And no wonder. In 1961, an investor could have purchased IBM stock at $100 a share and sold it at $158 later in the same year, or bought shares of Litton Industries at $17 and sold them for $33. With a chance to double their money, shareholders cared little about dividends. So investors began searching eagerly for growth companies. And the companies, just as eagerly, sought to be identified as growth companies. A *Graphis* survey in the early 1970s asked the chief executives of 146 of America's 1,000 largest companies what adjective described the impression they wanted the annual report reader to form about their company. The most popular answer, given by 57 company heads, was "growth-oriented." Only 20 executives listed "honest," and a single respondent listed "blue chip." This overwhelming preference for a growth company image, which is just as prevalent in 1986 as it was 15 years ago, explains why corporations lavish so much time and money on the annual report.

The Importance of the Growth Image

It is also necessary to understand the price-earnings multiple, commonly called the P/E, to comprehend the fervor with which corporations pursue the image of a growth company. The price-earnings multiple is the number that, when multiplied by a company's earnings, establishes a theoretical price that the stock should properly sell for. While closing prices of a stock vary daily, the P/E over the long run tends to establish the selling price range. Multiples are rather mysteriously assigned by a consensus of security analysts and other members of the financial community, but they are almost always based on the projected growth rate of future earnings.

Thus a company producing iron and steel might be assumed to have only an average growth potential and would be assigned a P/E of 10. But a high-tech company might be assumed to have extraordinary growth potential and would be assigned a P/E of 50. If the steel company and the technology company each earned $1 a share, the multiples would cause the steel company stock to sell for $10 and the high-tech stock to sell for $50. Should both companies increase earnings to $2 a share, the steel company's multiple would move its stock price up to $20, whereas the high-tech company's multiple would push its price to $100.

The Magic of Conglomerate Growth

It was in the early 1960s that certain companies learned the magic of how to parlay high multiples into conglomerate growth. It works like this: Electronics Company A, with two million shares outstanding, has earnings of $4 million, or $2 a share. Because of its 50-times multiple, investors are paying $100 a share. Electronics Company A then approaches Steel Company B and proposes a merger. Company B has the same earnings and the same shares outstanding, but has a multiple of only 10, so that its shares are selling for $20. Company A buys Company B for a dollar value of 10 times the earnings of Company B, or $40 million. But Company A doesn't pay in cash, it pays with its own $100-a-share stock, which requires issuing 400,000 shares to the owners of Company B. The result is that Company A now has 2,400,000 shares outstanding and earnings of $8 million, or $3.33 a share. Applying the 50-times multiple to these new earnings pushes Company A's stock from $100 to $166.50.

The Growth Company Look

Not all companies, of course, needed mergers to achieve growth or to command high P/Es. Three of the greatest growth companies of the 1960s—IBM, Xerox, and Polaroid, each of which dominated a field of high-growth technology—generated rapid internal growth. In fact, it is these companies, particularly IBM, that established the "growth company look" so much in evidence in today's annual reports.

Thomas Watson, Jr., who became President of IBM in 1951, brought Paul Rand, one of the world's leading graphic designers, into the company to head a new graphics program. Rand's innovations included paper (discarding old shiny blue-white sheets used in letterpress printing in favor of a rich dull-coated stock), a beautiful and refined typeface, different format sizes from the standard 8-½ by 11-inch report, and many other subtle design factors. But Paul Rand's greatest contribution to annual reports was in his use of photography. Working with some of the world's greatest photojournalists, Rand pioneered a new, slightly mysterious, and impressionistic industrial photography that seemed to express the spirit of IBM's kind of technology. Along with the dramatic color photography came a generous use of white space and other visual elements.

Meanwhile, annual reports were drawing increasing attention from the graphic arts field. Prominent commercial art shows began including categories for annual reports. An important influence was the Mead Library of Ideas International Annual Report Exhibit. Started in 1956 by the Mead Paper Company, the exhibit today consists of 50 traveling shows that visit more than 24 cities in the U.S. and Canada. Entries for possible inclusion in the show are judged by leading graphic designers and others involved in corporate graphics.

General Electric Company's procedure for building a growth company image was not based primarily on graphics. GE took a highly methodical, logical approach to the annual report, shaping it to meet corporate objectives. By the mid-1950s, GE had recognized the importance of growth and made it a major theme of company communications—so successfully that, despite a lackluster growth record during the 1960s, the company's healthy P/E ratio continued. In the 1980s, under CEO Jack Welch's declaration that GE would only remain in markets where it could be first or second, GE again become a growth company.

GE's annual reports have been scientifically improved, incorporating numerous innovations suggested by the readership surveys conducted nearly every year since 1953. The surveys showed, for example, that readership of the Chairman's Letter could be increased many times by reducing the text to two pages, and by including the chairman's picture. They also showed that readership could be sustained by running color photos throughout the report.

But General Electric's chief contribution was its emphasis on achieving strategic communications objectives by integrating photos, captions, headlines, and text to support specific annual report themes. One year's theme in the early 1960s, for example, was aimed at establishing GE as a company with superior "systems capability," a phrase that at the time was closely identified with growth.

The Glamorous Annual Report

If IBM led the way with good design and General Electric introduced strategic objectives, then Litton Industries must earn its place in history for the glamorous annual report. As a new company and a conglomerate, Litton possessed neither General Electric's long-established reputation as a producer of consumer products nor the clear-cut technological image provided by IBM's computers. Litton directly faced the problem of building a corporate image to go along with its intended growth. Almost from the beginning of its corporate existence in 1954, Litton was striving to look like the billion-dollar company that founder Tex Thornton was determined to build.

For its annual reports, Litton's strategy was elaborate editorial themes combined with spectacular graphic design. Crosby Kelly, Litton's Manager of Investor Relations at the time and the spearhead behind the reports, described Litton's communications problem this way: "In effect, we had to tell people 'We're coming, we'll be there.' Building faith and confidence in the company was the biggest single mission of the annual report. I feel you have to have something that symbolizes the corporation—something like a flag. And that flag is the annual report."

Litton was in effect highlighting the future before it had gotten there—a technique that was to have many imitators. Teaming with Kelly to produce the early Litton reports was Robert Miles Runyan, whose brilliant and flamboyant approach to graphic design set the pace for innovations in the 1960s, the 1970s, and the 1980s.

Conglomerates Lose Their Magic

Conglomerates—and annual report graphics—flourished for most of the Soaring Sixties. Then came 1969, and a sharp downtrend in the stock market. Conglomerates could no longer work magic and their stocks led the rest of the market into a precipitous decline, shattering the dreams of thousands of investors.

The investing public in general was left in a sober mood. People talked about "getting back to basics." Companies highlighted their strengths in their annual reports, citing such virtues as liquidity, productivity, and unique competitive advantages. But while the language had changed, surprisingly few companies actually cut back on the quality appearance of their annual reports.

Indeed it was during the mid-1970s that a new breed of innovative designers entered the field. Previously, the leading annual report designers—Bob Runyan, Arnold Saks, Leslie Segal, Jim Cross—had been specialists. Now came designers—Woody Pirtle, Stan Richards, Neil Shakery, Mike Weymouth, Bennett Robinson—with backgrounds in advertising, marketing, photography, and catalogs. Their expanded view of annual reports set the stage for an explosion of creativity. It was almost as if, in the mid-1970s, corporate problems were so great—oil shocks, inflation, global competition—that managements, like Nero, sought relief in the creative arts.

Trend Toward Fuller Disclosure

Fortunately for investors, the trends within the financial industry are toward greater readability, clarity, and disclosure. Fuller disclosure was greatly encouraged in 1980 by new regulations issued by the Securities and Exchange Commission that mandated, among other things, a Management's Discussion and Analysis. As Harold M. Williams, then Chairman of the Securities and Exchange Commission, told *The Corporate Communications Report* in an interview about the new regulations, "We want the CEO to tell shareholders what is significant —both in income statement and balance sheet terms—about the financial performance of their company."

More subtle pressure for better shareholder information has come from another quarter: *Financial World* magazine, which since 1941 has issued awards each year for annual reports on the basis of the amount of information disclosed to stockholders and professional investors, as well as general appearance. *Financial World's* influence is considerable, since each year it judges several thousand annual reports, awarding Bronze trophies in more than 90 industries, a dozen Silver awards in broader industry categories, and one Gold award for the year's most outstanding annual report.

Elements of the Annual Report

Each annual report's basic elements usually are in the same order from front to back, making it a challenge to design an annual report that stands out in the crowd. However, corporations that see their annual report as a competitive tool find ways to present their company's unique characteristics.

The Cover

The most important graphic element in an annual report, the cover, should intrigue the reader into opening the report, and establish or reinforce the corporate image. Of the many possible approaches, the most effective covers usually employ the kind of graphic interest contained in an exciting photo. Whether on an annual report or a news magazine, a stimulating photo excites curiosity and draws the reader into the book.

When it is desirable to establish a conservative tone for the company, other elements may be more appropriate than a photo, such as rich, colored paper, embossing, or foil stamping. Some of the most freewheeling conglomerates have used highly conservative covers, presumably in an effort to create a more stable image.

If an annual report has a strong specific theme, the cover can effectively highlight and introduce it. The cover of the 1986 National Medical Enterprises report, for instance, featured a calm young woman, standing hands-on-hips, against a background of flashing red lights. She is nurse Mary Rose Roach, one of six employees featured in the report, who illustrate the professional and humanitarian values NME provides to its patients.

The many types of modern corporations call for a wide range of cover treatments. Designer Paul Rand, for example, believes the cover should not be too literal: "If we merely put a piece of equipment on the cover, we do not accurately convey the image of a company like IBM. By using a photo that is non-representational, non-recognizable, and abstruse—a bit mysterious—I am able to convey what IBM really is," he once explained. A recent example of this approach was provided by Lotus Development Corp., a large computer software company. The cover on its 1985 report shows what looks like a 30-foot high floppy disc standing upright on an empty beach reflecting sunlight and silhouetting a man with a briefcase walking toward the distant waves.

Even more abstract was the Massachusetts Industrial Finance Agency (MIFA) cover for 1985. It displayed a series of blue, green, and red arches (the cover is an abstraction of an abstract photo that appears inside) to symbolize the agency's mission of bridging the gap between public and private sectors.

If the cover must draw the reader into the book, the opening spread—inside front cover and page one taken together—should have some material, written and/or graphic, that solidly engages his or her interest in the company. A plain table of contents and title page often throw away the excellent opportunity inherent in this space to provide real impact. The 1986 MGM/UA Communications report opens to red and orange pages introducing this new company, a combination of two of America's most famous motion picture companies. A 36-page "MGM/UA Story" follows, and only then does the Chairman's Letter begin.

The Corporate Identity Section

A brief copy block that identifies the company and positions it within its industry is one of the most effective uses of the opening spread. In a succinct way, it tells the reader what the company is and why it is important. It should also tell the professional investor what makes it special in the industry in which it operates: The largest, the most marketing-oriented, or the fastest growing, for example. This is called "positioning the company in its industry."

Following are admirably succinct ID copy blocks from the annual reports of two diverse companies:

> "The Coca-Cola Company is the world's leading soft drink company, one of the world's largest citrus marketers, and a major producer and distributor of motion pictures and television programs. The Company's products are sold in more than 155 countries and include such widely known trademarks as Coca-Cola, diet Coke, TAB, Sprite, Fanta, Minute Maid, Five Alive and Hi-C."

"Modulaire Industries is engaged in the rental, sale, service, and manufacturing of non-residential, relocatable modular structures. These building systems, ranging from single mobile offices to multi-module buildings, provide space solutions for various markets including business, government and industry."

The Table of Contents

Analysts and professional investors strongly advocate the publication of a table of contents on either the inside front cover or page one. This facilitates use of the report as a reference. A contents table is, nonetheless, an optional item. For short reports, a table of contents may not be necessary. Often it simply clutters the opening spread without adding anything substantive.

Some companies use a creative contents table that adds both information and interest. For each item, they run six or eight lines of descriptive copy and a thumbnail-sized illustration taken from inside the book.

The Financial Highlights

This is a very brief listing of the key financial figures of the past year—the briefer, the better—compared with the prior year or the two prior years. In cases where the comparison is with only the previous year, some reports include a "percentage change" column to make improved performances immediately obvious to the reader. Some companies waste space and readers' attention by having a long, detailed Highlights section in front, then repeat most of the information in the five- or ten-year statistical summary in the back of the book. The best approach is to have a limited Highlights section and a detailed five-year or ten-year Review section.

The Financial Highlights table can be located on the inside front cover (but this might prevent advance printing of the cover), or on page 1, or adjacent to the CEO's letter. Placed opposite the letter, it enables the CEO to concentrate on interpretative and descriptive material, and refer to highlights for figures.

The Letter to Shareholders

This letter, signed by the Chief Executive Officer, and sometimes by the Chief Operating Officer as well, is the best-read section in an annual report. The letter should be brief and interpretative, communicating directly to the reader the most important events of the year—inclusion of a topic in the letter confirms its importance. Although the letter should be short, it should cover key events of the past year and look ahead to the new year and beyond. It is an ideal forum in which the CEO can discuss the company's strategy for growth. The letter is an excellent indicator of the quality of management of a company.

This is the appropriate place to handle political matters and delicate questions of policy. One chemical company that had worked hard to eliminate its pollution problems, considered a special annual report feature that would, in effect, say, "Why we are no longer a polluter." Upon reflection, company officials decided instead to include one paragraph in the letter. This gave the matter the prestige position it deserved, but didn't overdo an unpleasant and unfavorable subject.

Brevity is the key to maximum readership of the letter. Surveys indicate that readership drops sharply if the letter exceeds two pages of text. The letter section itself may be three or four pages, including charts and the executive photo.

The date accompanying the letter, often a point of confusion, should be the date the mechanical boards are released to the printer, the final date after which changes can be made only with difficulty and at much added expense. The letter can and should report on all material corporate events up to that date, and not confine itself to the calendar year that may have closed earlier.

The title of the person or persons signing the letter is always printed in type under the signature—and his name should also be in type. Modern executives' signatures are so often illegible that this line is necessary for identification.

Special Features

These are the elements added to the annual report beyond the minimum sections dictated by law and custom. Special features can cover acquisitions, research, corporate strategy, the company credo, people, or any other area of interest to the company. The H.J. Heinz 1984 annual report, referred to earlier, contained a 43-page feature dedicated to the tomato. More typically, the 1986 Caremark report devoted six pages to a feature on "Why Caremark's market is expanding."

Questions and Answers

A question-and-answer presentation can be an effective means of conveying information in an informal, interpretive manner. A good example of the genre appeared in the 1986 Continental Insurance Corporation annual report. Six senior executives were interviewed on the corporate strategy; symbolic illustration underscored key strategic points.

Review of Operations

This section varies from the detailed coverage possible with a small and simply organized company to the mere touching upon highlights in the case of a large, complex organization. In general, the review should cover what the company did in the preceding year in terms of new products, new markets, sales, and earnings—and explain why the company performed as it did. It should also discuss capital investments, and give some clue to future prospects, which may influence per-share earnings in the years ahead. The trend today is to give a brief big-picture review and devote the space thus saved to a feature article highlighting one of the company's major strengths.

The Financial Review

The term "financial review" is an umbrella phrase that may include both a voluntary financial discussion and the SEC-required Management's Discussion and Analysis. The financial review is the appropriate place to put interpretive financial information. It is read principally by security analysts and other professional investors. The review should make the analyst's work easier by providing ratios and other information he or she would otherwise have to extract from the financial statements. It should also discuss capital spending plans and any other factors affecting liquidity. It should give reasons why earnings were higher or lower, why working capital dropped or rose, why less than the full rate of taxes was paid. If sales volume was higher, for instance, the SEC wants the company to explain whether it was due to an increase in the units sold, higher prices, or because of new products added to the line.

The Financial Statements

There is little variation in the way financial statements are presented. They usually include a statement of income for three years (also called statement of operations); a statement of current and retained earnings for three years; a balance sheet or statements of financial position (or condition) for two years; and a statement of source and application of funds.

Financial Notes. These essential appendages to the financial statements have become more legible since the SEC directed that they be set in a type size equivalent to 10-point. While the type is easy to read, the language, in most cases, is not. The prose, usually written by accountants with lawyers looking over their shoulders, remains turgid and difficult for the layperson to comprehend.

A keynote is the business segment data. Diversified companies must break out their major business segments in terms of net sales, operating profit, and identifiable sales. Because this information is of particular interest to securities analysts, it is often moved from the notes to the financial review section.

Stock Price Data. An SEC requirement is a statement of stock price information—the high and the low—by quarters for the year of the report and the prior year.

Accountant's Certification. This statement, required by law, certifies that an independent public accountant has reviewed the financial statements and found the presentation correct and in accordance with generally accepted accounting practices. Occasionally it will include an exception, which may be a tip-off that something is seriously wrong with the company's financial presentation. The certification, in the form of a letter, immediately precedes or follows the sections of the report the firm has examined. At some accounting firms, it is the custom to have the firm name signed by a senior partner; it's a sound precaution to get the signature in black ink on white paper well before the book goes to press.

Report of Management. This report, which is optional, states that the integrity of the financial data contained in the report is the responsibility of the company's management. The statement is signed by one or more senior officers.

The Long-Term Financial Summary. Companies are required to provide five years of selected financial data to accompany the management's discussion and analysis. A company, for reasons of its own, may opt for a six- or eight-year summary. Ten-year summaries, while not as common as they once were, are nonetheless still widely used.

The Listing of Officers and Directors

This listing is included in all annual reports, usually on the last page or the inside back cover. Under SEC regulations, the directors' affiliations and titles must be reported. This information indicates whether the board has a healthy proportion of outside directors and also the board's breadth of experience.

Corporate Data Section

Sometimes called "shareholder information," this section should include all the directory-type information that will be helpful to the annual report's many audiences: The address and telephone number of corporate headquarters, where to write for Form 10-K and other information, date and time of the annual meeting, stock exchange listing, information on dividend reinvestment plan, and the names of the transfer agents and registrars.

A statement about company trademarks could also appear on this page. It is less cumbersome than using the registered trademark symbol above or next to each appearance of a trade name. The 1986 Olin Corporation annual report handles it this way: "Italicized words identifying products in this report are trademarks or servicemarks of Olin Corporation or its subsidiaries or affiliates."

The Outside Back Cover

Some companies like a decorative back cover with a photo, but this cover is usually—and best—left for the company name (and perhaps the logo), address, and phone number.

PRODUCING THE ANNUAL REPORT

The key to producing an annual report on-time and on-budget is maintaining momentum. It takes literally thousands of individual steps to bring an annual report to completion. These steps, normally performed over a period of six or seven months, range from soliciting printers' bids to arranging a photographer's visit to a remote plant location. For the manager of the annual report project, success depends on steadily moving forward, never allowing the project to get bogged down.

The two most important tools for getting the job done are a plan, which describes the project, and a schedule, which paces the development of the project toward completion.