

# Are online annual reports a waste of money?

**By Dominic Jones**



A RESPONDENT to our recent readership survey is unhappy with me because I refuse to admit that online annual reports are a waste of money.

Actually, I've never been asked to admit this, but I'm glad they raised the issue because it gives me a chance to explain why we advise our clients to produce full HTML annual reports and proxy statements.

First, let me admit that in my weaker moments I sometimes think high-end HTML annual reports are a waste of money, especially ones that have lots of bells and whistles that I doubt investors have much use for. I'll be reviewing an online annual report with a lot of Flash and fancy features like information shopping carts, and I'll find myself wondering what the point is. Investors don't really need all of that stuff.

But on reflection, I always end up changing my mind and coming back to a steadfast belief that a good online HTML annual report (you don't need Flash or a shopping cart for it to be good) is essential for every public company.

In their comment, the anonymous respondent says "online annual reports are a waste of money, especially when your investor base is institutional."

What they're probably saying is that institutional investors don't use online annual reports as a primary source of information because the information in the report is stale by the time it's published. That's true.

And they're probably also saying that a PDF is fine for an institutional investor audience because they have the experience, resources and equipment to use and print the report if they want it. That's true, too.

But those two facts alone do not render full HTML online annual reports a "waste of money." There is more to the story.



### ***Myth #1: The Info in Annual Reports is "Old"***

First, information in online annual reports is only "old" for investors, analysts and business journalists who actually know and follow a particular company. In most cases, that's a tiny group of people.

Only a small segment of the institutional investor population owns stock in a typical company. The rest are *potential* investors.



***So, for the vast majorities of the institutional investor audience who do not own your stock or follow your company, the information in the annual report is indeed "new."***

On most companies' websites, annual reports are extremely important when prospective investors arrive on the site to find out more about the company. Surveys with investors consistently put annual reports in the top three most important resources on IR websites.

But it's important to recognize that prospective investors typically have very low levels of motivation. They're not inclined to endure difficulty accessing your company's information. Because they don't have a stake in the company yet, and because there are many other companies competing for their attention, they have little incentive to waste time with companies that can't be bothered to provide a good user experience.

***An annual report that is provided only in PDF or image-based format is not the best option for people who have low levels of interest in your company. Even if they do download the document, the PDF format is inherently less usable and slower than HTML. PDF documents most often also have much less communication value because print documents typically aren't designed for onscreen "reading" requirements.***



In other words, a person given only a PDF document is going to consume less information in the same time as someone who has access to a well-designed HTML annual report. That reduces your company's chances of piquing their interest enough that they don't leave the site for one of the thousands of other companies vying for their attention.

In that sense, annual reports provided only in PDF can be obstacles to your company attracting new investors. I don't think it makes sense to put obstacles in the way of people who could potentially have millions of dollars to invest for the sake of saving a few thousand bucks on a basic HTML annual report.

Yet, we see this at 90% of companies whose sites we review. In some cases, companies put more effort into providing a good user experience for customers

buying \$10 widgets than they do for investors looking to make investments worth millions.



***Myth #2: Analysts and Institutional Investors Do Not Need Annual Reports***

The second point I want to make is that even investors and analysts who *do* know and follow your company will still benefit from having access to a good HTML annual report.

Yes, in most cases, analysts and institutional investors who follow a company closely are not going to rush to review its annual report as a way to glean new price-sensitive information. Most often all price-sensitive information is probably already public. It has been released during the Q4 earnings release, regulatory filings, investor presentations and other communications issued between year-end and the posting of the annual report on the Web.

However, while annual reports are not generally timely disclosure documents, they are vitally important reference resources. Institutional investors, analysts and business journalists view annual reports as reliable, authoritative and audited reference sources.

In other words, you can expect them to refer to your company's annual report when they want to verify or locate a specific piece of information that isn't readily accessible elsewhere, or when they need the assurance of the audit.

***Under these "reference motivated" visits, a PDF or image-based document is much less usable than a well-designed, searchable, easily "extractable" and "copyable" HTML annual report.***

Someone who wants to retrieve a single sentence from the footnotes shouldn't have to download a large PDF document to do it. It is much quicker and easier for them to do the same thing in HTML.

A key point here is that reference motivated visits will occur *throughout the life of the online annual report*, even beyond one year — but only if the report is in a convenient and highly usable format.

An investor, analyst or journalist who has a good experience retrieving information from a company's website will be more inclined to use the site again when they need information. And each of those visits is an opportunity for the company to *connect with, engage and reinforce its relationship* with the user.



*So yes, if you think of annual reports only as timely disclosure documents, they're a waste of money and time. But that's not their main purpose. For institutional investors, analysts and journalists, online annual reports are vital resources for reference and for discovering more about a company they are unfamiliar with.*

I should point out, however, that there are instances where online annual reports are indeed timely disclosure documents. Leading corporate reporters in our survey post their online annual reports simultaneously to their Q4 results. In those cases, annual reports are hugely valuable disclosures to everyone.

And, of course, we haven't yet factored in the value of a good online annual report as a relationship tool for a company to recognize its long-term retail shareholders, its employees and other stakeholders. Nor have we addressed how good online annual reports can be a tangible demonstration of management's accountability to shareholders.



*The only time that HTML annual reports are a waste of money is when they are not done properly or when companies spend too much money on features that add little or no value. But that's a topic beyond the scope of this post.*



**Source: <http://www.irwebreport.com/daily/2007/11/20/are-online-annual-reports-a-waste-of-money/>**