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## Developing Your Strategic Message

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It's a given that communicating strategic messages is the core of the investor relations process. Even so, IR workshops or publications don't have much to say about how messages are formulated. So we're going to tackle that subject right here.

Every company needs four or five key strategic messages - and not just for investor relations purposes. They must support the needs of all your audiences - shareholders, employees, suppliers and customers. In this regard, strategic messaging helps "brand" the stock.

Strategic messaging begins with two processes - internal and external. The first begins with an evaluation of the corporate business plan and looks at the following questions:

1. What are the long-term goals of the company?
2. What are the short-term goals of the company?
3. How will you attain these goals?
4. Does the attainment of these goals involve major or minor shifts or changes to the structure, marketing, philosophy or management of the company?
5. Do you have the resources - physical, human and/or capital - to attain these goals? And if not, how do you gain the necessary resources and knowledge base?

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## 6. How do these goals deliver shareholder value?

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Delivering shareholder value should be the principal mandate of every public company, but it's something that many companies forget.

According to Andrew Black, Philip Wright and John Davies, authors of *In Search of Shareholder Value*, shareholder value is achieved through three basic stages: value creation, value preservation and value realization.

- Value creation involves developing, marketing and production of your products and services at a competitive, yet profitable price so that the company earns a positive net return on capital investments.
- The second stage is the capture of the wealth produced in the first stage. This involves ensuring that there is a cost effective infrastructure in place, that risk is managed properly and that assets are allocated productively – allowing for the capture and retention of revenue.
- The final stage is the maximization of value for the shareholder through capital appreciation. Delivering shareholder value to your investors means communicating the successful strategies that management has used to produce and capture value and how management will continue to do so and grow the business.

Though investors are interested in past revenues and profits, because these numbers reflect on the ability of management to successfully manage the first two stages of value creation, investors buy equities not because of past performance, but because of the prospect of future performance.

### Creating value

The problem is that while investors want to see a clear long-term vision with financial objectives and growth strategies,

they also measure progress on a short-term basis with the expectation that somehow management will deliver both.

So, what drives value creation and growth?

1. Top-line internal (organic) expansion, by broadening product lines and/or geographic markets.
2. External expansion through mergers and acquisitions.
3. Restructuring and divestiture of non-profitable product lines or assets.
4. Cost reductions in terms of human resources, manufacturing processes, marketing costs and infrastructure.
5. Changes in capital structure, such as share buyback programs.

Understanding shareholders

Equally important to the messaging process is a firm understanding of how the Street, and specifically your shareholders value your stock.

Surveillance programs, which we discussed in an earlier column, ([Shareholder Identification: First Step in Investor Targeting](#)) can identify who your institutional investors are. But knowing who invests is only part of the equation. What is more important is to find out why they have invested in you.

For instance, if the company pays a dividend, chances are that part of the reason investors are attracted to your stock is because of the income it generates. And if the board of directors decides to cancel the dividend in order to funnel income into acquisitions to fuel growth, then your shareholder base could change radically and quickly, with a resulting change in valuation of the stock.

Fundamentally, investors ask two questions:

- "Why should I buy this stock?" and
- "What is it worth?"

The Investor Perception Audit

To understand why investors are holding your stock and how

they are valuing the company, IROs\* typically hire third-party consultants to conduct an investor perception audit.

This confidential survey covers such topics as quality of management, corporate strategy, sector performance and expectations, company performance relative to peers and effectiveness of IR and/or communications programs. An audit can also reveal if the buy and sell sides are valuing the company in different ways.

Ultimately, a comprehensive audit will identify any differences between what a company thinks its story is and what the Street thinks the story is – the perception gap.

The market intelligence from the audit can then be combined with existing corporate strategies to produce strategic investor messaging – building on strengths, addressing weaknesses and correcting misunderstandings uncovered during the audit process.

Putting it all together

What can the strategic messages consist of? Obviously it will vary from company to company. But at their simplest, strategic messages cover four areas – competitive advantages, financial and corporate strengths, external factors and growth strategies.

Competitive advantages may include:

- Proprietary techniques, processes or products that are superior to those of competitors
- Cost-effective manufacturing facilities that have ready access to a transportation infrastructure
- Brand name recognition and reliability that results in consumer/customer confidence and attracts the best and brightest new employees
- Dominant market share; and
- Experienced management, production and marketing teams.

Competitive advantages alone do not guarantee positive valuations. The company must also articulate how it will maintain those advantages over time.

Financial/corporate strengths include:

- Strong, visionary, entrepreneurial leadership and a talented, dedicated team to implement the company's business plan;
- Strong financial track record;
- Cash reserves, which enable acquisitions that are accretive to earnings;
- Healthy cash flow; and
- Capable technological infrastructure.

External factors include:

- Overall economic growth patterns or conditions – growth periods, recessions, international affairs that affect consumer trends
- Industry/sector trends
- Or trends within a related industry that affect the market demand for your products and services
- Demographic trends or shifts that affect demand; and
- Changes in consumer buying patterns.

And finally growth strategies, which we discussed earlier centre on internal growth, external growth, divestitures of unprofitable assets, cost reductions and capital restructuring.

As I stated at the beginning of this column, key messages are the core of investor relations. Every time an IRO\* or an executive speaks or writes about the company, they should include one or more of the key strategic messages. Make them short - and make them count.



For further reference: Andrew Black, Philip Wright, John Davies. In Search of Shareholder Value: Managing the Drivers of Performance. 1998, London, Prentice Hall.

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Paul is a senior investor relations consultant. As a hands-on practitioner, he produces corporate speeches, press releases, IR websites, annual reports and investor presentations. He has provided financial communications and strategic planning to a number of small- and large-cap Canadian companies.

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