# Best practice in narrative reporting 2009

## An international perspective

Key learning and recommendations from a research project into narrative reporting by international consumer-facing companies

IPA

Promoting the value of agencies

# Foreword

The recent crisis in the financial markets has increased the focus on corporate governance and its shortcomings. As we now know, too many contracts were bought and sold without any real appreciation of the true nature of the customer relationships being traded, or indeed their actual value.

In this context we believe that boards of companies need far greater and more regular insight into the opportunities and risks associated with their customers – after all it is they who generate the company's present and future cash flows.

The company's relationship with its customers can be summarised in the strength (or weakness) of its corporate, product, or service brand reputation, so it's essential to appreciate the value of the brands the company owns, and to ensure they are being properly managed.

This is why the IPA has a long-standing commitment to the improvement of reporting in annual reports as a vehicle for demonstrating sound stewardship and management of company assets, both tangible and intangible.

For the last four years (2005-2009) we have focused our research in this area on FTSE 350 companies particularly the FTSE 100, and, in association with UK IR Magazine, have sponsored an award for Best Narrative Reporting.

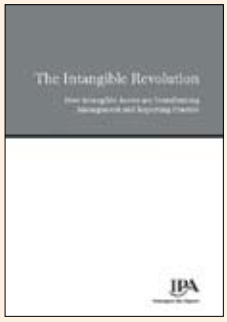
This year, for the first time, we have taken our research global. Given that our main interest is the reporting of intangibles, and within that, giving proper attention to explaining marketing investment in brands, it made sense to review those companies that are most involved in consumer marketing.

We hope that this global perspective will provide new insights, hints and tips for all preparers of annual reports, who seek to offer better quality in their communication with stakeholders and convey the full intangible value of their brands.

In addition, we hope it will inspire more CMOs and marketing directors to engage with financial reporting practices and to ensure that their voice is heard within the board room.

Hamish Pringle
IPA Director General

# Past IPA research into narrative, marketing and brand reporting




## The Intangible Revolution

How intangible assets are transforming management and reporting practice

## Best practice in narrative reporting

A review of FTSE 350 listed companies

## KPIs for Marketing Reporting

A framework for effective marketing disclosure

## Best practice in narrative reporting 2008

# Contents

**The approach** **5**

**Overview by continent** **7**

Europe 7

UK 11

USA 13

Asia 15

**Detailed highlights** **18**

**Additional reading** **28**

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## Why narrative reporting matters

There is a correlation between how a company talks about its business and how it runs its business. The disclosure equation explains the benefits of a structured approach to communicating this, and the ultimate outcome, business performance:

DISCLOSURE → TRANSPARENCY → ACCOUNTABILITY → CONFIDENCE → TRUST → REPUTATION

In other words, it is not possible to generate the necessary levels of support from members of the investing community, and other stakeholders, unless a company has a clear disclosure policy, the aim of which is to persuade the target audience(s) that the company is well run and will achieve its objectives. The narrative in the annual report is one of the key building blocks of a company's disclosure platform.

## Why brand reporting matters within narrative reporting

Every company has a brand, or a suite of brands, which determines and shapes the relationship between itself, its customers and other key partners. The concept of brand is directly linked to customers and revenues, through values, behaviours and reputation. Describing a company's activities without painting a picture of these relationships leaves a gap in the reader's understanding of how value is created inside a company, and how the company plans to guarantee future revenues.

The stronger the role played by brand in generating a company's revenues, the more important it is for there to be appropriate disclosure on the role of brand in developing and delivering the value proposition – from the strategic objectives identified at the outset, through the execution, to the eventual outcome. Best-practice disclosure on brand reassures business-critical stakeholder constituencies that this part of the value chain is being properly managed.

The reports assessed in the following pages are those of the biggest media spenders in the world; those companies who invest the most in marketing, and whose business model is in part based around the successful maintenance and development of brands. In assessing disclosure through the narrative in their annual reports, the analysis seeks to understand whether the chosen companies have sufficiently communicated the role played by brand in their value chains, whether more could be done to increase levels of confidence among business-critical stakeholders that organisational processes for managing and creating value are effective, and whether companies' disclosure practices are affected, at least in part, by cultural differences.

# The approach

## Introduction

This report is the product of extensive research by IPA analysts into the narrative reporting of the top global spenders on media advertising, within their annual reports. It does not attempt to offer a complete framework for reporting, and stops well short of dictating how a company should write or structure its narrative report. It simply offers a compilation of practical examples and ideas, based on the brightest and best narrative reports from consumer-facing companies around the world.

## Rationale for focusing on listed group company annual reports

The required content of the Operating and Financial Review was enhanced by the Companies Act 2006 so that the need to explain the main trends and factors in UK listed companies' performance is now well established, in common with other OECD group companies subject to International Accounting Standards. How well such companies fulfill this obligation is the purpose of this review. By highlighting what represents the best practice found in these reports, this paper aims to encourage a wider use of the narrative report as an opportunity to gain investor and supplier confidence in the sound management of corporate assets, both tangible and intangible.

## Topics for comparison and commentary

Using research from previous reports and studies, the following five topics were selected to guide evaluation, comparison, and commentary:

1. **CEO and chairmen messages**
   What do they reveal about the culture and ethos?
2. **Narrative structure**
   Does it coherently explain how brands fit the business model?
3. **Differentiating material**
   Are there any items of narrative which stand out?
4. **Intelligent data**
   Does it use Key Performance Indicators (KPIs) effectively to track performance?
5. **Marketing narrative**
   Does it give a sense of the quality of marketing and brand management?

There was also the opportunity to offer an overview of different reporting styles by continent and to highlight anything else of particular note or interest.

## Criteria for selection: top media spenders globally

The majority of the reports for analysis have been compiled from the list appearing in the Top 100 Global Marketers' Report, in US publication Advertising Age in November 2008 (the 22nd Annual Report). The rankings for the top 100 were collated from 86 countries, on the basis of data provided by media monitoring services; primarily Nielsen, TNS, Ibope, PARC, Steadman, Sigma, and Ifat.

For the purposes of this study, the top 10 spenders from the USA, Europe and Asia have been chosen for analysis. A further 20 UK reports, representing top media spenders in the UK (not featured in the global list) have also been assessed. In total 50 reports have been analysed. The reports included represent the latest report released by each company by April 2009.

## A summary of the reports analysed

| USA: Top 10 | Europe: Top 10 | Asia: Top 10 |
|---|---|---|
| Procter & Gamble | Unilever – London | Toyota – Japan |
| General Motors | L'Oréal – Paris | Honda – Japan |
| Ford Motor | Nestlé – Switzerland | Sony – Japan |
| Johnson & Johnson | Reckitt Benckiser – UK | Nissan – Japan |
| Coca-Cola | GlaxoSmithKline – UK | Panasonic – Japan |
| Time Warner | Volkswagen – Germany | Hyundai – Korea |
| Kraft Foods | Danone – Paris | Canon – Japan |
| McDonald's | PSA Peugeot Citroën – Paris | Kao – Japan |
| Walt Disney Co. | Maxingvest – Germany | Samsung – Korea |
| PepsiCo | Henkel – Germany | Suzuki – Japan |

**UK: additional 20**

| | | |
|---|---|---|
| Aviva | Home Retail Group | Royal Dutch Shell |
| Barclays | HSBC | SABMiller |
| BP | InterContinental Hotels | Tesco |
| BT Group | ITV | Vodafone Group |
| Cadbury | Lloyds TSB Group | Wm Morrison Supermarket |
| Carphone Warehouse Group | Marks & Spencer Group | |
| Diageo | Next | |
| | Royal Bank of Scotland Group | |

Source: Top 100 Global Marketers' Report, Advertising Age, November 2008/IPA

# Overview by continent

The reports from different regions provide different ideas and examples on how companies can attempt to provide the investor and shareholder with a full and motivating account of their company's business model and branding opportunities, thus inspiring confidence and belief in their future business position and plans.

## Europe (mainland)

Relative to other continents, European reports can be characterised overall as:

- focusing most on corporate social responsibility, of all the intangible values of their organisation
- putting effort into developing narrative cohesion linked to the business strategy of the organisation and the role of brands
- providing relatively more quantitative measures in their narrative than other continents (although by no means having yet reached their full potential)
- using anecdotal case examples of consumer brand experience to lighten the tone and create an impression of being customer-focused and strong on consumer insight.

> Corporate social responsibility is the intangible value given most focus

European reports tend to have a greater social, international development and environmental focus (occasionally collectively referred to as 'ethical' considerations) than reports from other continents. This was especially true in how they justified and opened their reports; for instance, Citroën call their report a "sustainable development and annual report".

This focus on 'ethical' issues manifested itself in two main ways. Firstly, it meant that the European reports gave far more space to providing information about their 'ethical' activities and values.

An example of this is **Danone**, whose report splits into three main sections; science (R&D and clinical trials), society (environment and people), and business. The 'society' section is given equal weight to the other sections and provides numerous anecdotes about how the company has conducted sustainable development around the world. This ethical attitude also carries over into business benefits. They:

- describe their ethical attitude toward employees, using interviews and descriptions of best practice
- explain how they attract talent online
- provide information about both health and safety practices, and professional development in leadership skills

All of which leaves the impression that they develop the best staff in the best way.

Secondly, many of the European reports incorporated their 'ethical values' into their overall business model and strategy, making it a core part of their business operations.

This is best highlighted by **L'Oréal**, whose narrative report describes how the company has developed what is called a 'continuity of values'. The report goes on to explain how they wanted to "look far beyond economic performance and make sure that the group is increasingly rooted in the heart of countries and of society". This manifested itself in 'respect for the environment, high ethical standards, diversity in our teams and everyday commitment to the communities in which we operate', and was described not as a side consideration, but a key part of their business strategy – which is to make 'beauty accessible to everyone'.

Another company focused on 'ethical values' is **Nestlé**. They state that "creating shared value is a principle for doing business, founded on the conviction that shareholder interests and the interests of society must be aligned in order to achieve long-term business success".

> An exposition of business strategy underpins and gives structural coherence to European reports

European reports tend to be better at tying their entire narrative report into a core belief system or an initial structural framework of advantages/strengths/aims. This helps to make their reports easier to get to grips with, because their thinking is joined-up. This is key to developing a useful and insightful report. As a causal relationship, it also seems to enable companies to better express their personality, by drawing out the thoughts behind their results and actions.

**Nestlé** sets a great example here, again. Its entire narrative report is based around its "4 x 4 x 4 roadmap" which provides a rigorous structure to the report, and creates an impression of a high level of joined-up thinking within Nestlé.

Unlike Nestlé, however, some reports do fall into the trap of developing a core belief that lacks clarity and specific meaning, and thus fail to improve their overall narrative. An example of this was Volkswagen, which chose the slogan "Driving Ideas" to bring everything together, but failed to explain how, in a real business sense, this controlled their activity and informed their strategy.

The mainland European reports are generally strong at giving financial data, and in accordance with this section's first point, ethical and environmental data. However, they are weaker when it comes to providing softer measurements that can help highlight their business performance, their sustainable business value and how they may perform in the future.

> There is evidence of increased usage of Key Performance Indicators (KPIs) but there is still room for improvement, particularly in the area of intangibles

For instance, there is generally a lack of quantitative metrics which help explain intangible value; such as metrics to explain the performance of their brands, the motivation levels of their employees or the satisfaction levels of their customers.

In addition, where data is provided it would benefit, in most cases, from being set over longer periods of time in order to provide insights into the company's business trends, helping to set a context for current results and a route to more accurately predicting, and justifying, future results.

Where KPIs fall short, the gap is sometimes filled to effect by anecdotal references

Some of the mainland European reports use personal stories to explain information.

Both Volkswagen and Danone did this with varying degrees of success. In this area the key distinction between useful personal stories and ineffectual personal stories was the perceived purpose behind their usage. Personal stories could add insight, personality and flesh to strategic and analytical points that had already been made; adding a specific and human face to detail could sometimes bring it alive and explain it to the reader. Personal stories came across as weak, however, when they were used as a primary source for explaining information. In this circumstance, they appeared lightweight and, in certain instances, even manipulative.

# My first time

UP AND AWAY WITH THE BEETLE – BY PETER ZOLLING

**Sommer 1974.** A year before the final school exams. An exciting time. A group of friends on their first trip to the South of France and Spain – with a VW Beetle borrowed from generous parents. All the proud owners of brand-new driving licenses, some only passed the second time round. For this contemporary witness (pictured front right), the Beetle was always a reliable four-wheeled friend, right from early childhood. Inextricably linked to unforgettable experiences. And a few hair-raising moments, such as when a horse's head peered through the open window when crossing the border to Italy, the Germans' holiday paradise, at the end of the 1950s, temporarily shrouding everything in darkness. Although the exams were looming, we didn't let that get us down. After all, the Beetle won the trust of generation after generation – as a faithful transporter at home and abroad, and as a sturdy refuge when the tents failed to withstand the summer storms on the Bay of Biscay. With the rear bench removed, the stove, gas cylinders and provisions looked more like stocking up for hard times. But there was no chance of that. For four weeks, the friends traveled through the shimmering heat of Spain, sun and sea on their skin, the sound of the Doors and Barry White in their ears, and sangria and paella on their tongues. And the Beetle got everyone home safely, with its engine still in pristine condition. Purring merrily away, it puts up with all the things that boys get up to when they get behind the wheel of a car for the first time. Or rather, of the car – as we felt back then – a car whose success story is being continued by the Golf and the up! today.

Veteran SPIEGEL contributor Peter Zolling lives in Hamburg, where he works as a journalist and writer. The new and updated edition of his book "German history from 1871 to the present day – how Germany became what it is" was published at the end of last year.

Most of the reports from mainland Europe forming part of this study stated in general terms that brands were a key part of their success; that they were very proud of the history of their brands, and the reputation they provide. However, almost none support this with real evidence or analysis; using brands, instead, as an opportunity to add colour and iconic images to the reports.

> Regrettably, most brand reporting is remarkably superficial

# The UK within Europe

Companies within the UK, especially consumer goods companies, excelled in the way in which they outlined their overall strategy, and then incorporated other areas of the reporting in that – for instance their brand and employment culture. There were, however, different lessons that could be learnt for different sectors and companies.

## Some UK reports are much stronger in coherent brand reporting

**Diageo** performed strongly in the way in which it reported its business value, giving a great deal of coverage to the way in which its market share changed as a result of its marketing and advertising campaigns. This is a great example of a company linking its information together in a joined-up way, explaining how performance in one area leads into performance in another.

**Reckitt Benckiser** distinguished itself by its use of KPIs to explore its branding strategy. It had KPIs, over two years, on its media investment (media investment as percent of net revenues), on its brand positions (percent of net revenues in No.1 or No.2 brand positions), and the revenue from its top branded products. These KPIs offered metrics that provided strong factual support to the rest of the brand reporting narrative.

Reckitt Benckiser also distinguished itself by giving a great deal of coverage to its brand outlook and the strategies it has adopted to develop and exploit its numerous brands and sub-brands. These strategies are brilliantly linked into the company's overall strategy as well, bringing innovation, marketing and total growth together.

**SABMiller** were exceptionally good at reporting their brand. They gave a lot of attention to the role of their brands, and their specific efforts at branding each of their products. This fed into their overall strategy, which was well communicated.

SABMiller also excelled by linking their brand message into their business model and brand programmes; explaining the way in which their branded products were developing in emerging markets, and how they had tailored

their marketing campaigns towards different consumer groups, and product specifics, in order to take advantage of market segmentation.

The financial services sector lags behind consumer staples in explaining their reputation and brand

Everyone knows that the banking sector has undergone the most severe upheaval in recent times, and that there are many important parts to its recovery as a sector. One key area for improvement is the current reputation most banks have among their customers and the general population. This needs to be addressed, as current narrative reporting on the topic is below standard. Many banks give extensive coverage to their brand in a general sense, but fail to offer much in the way of substantive commentary or analysis, especially on the specific ways in which their brand helps drive the company forward.

Retail brands reveal surprisingly different levels of understanding about their customer base

This is an area of opportunity as banks seek to re-inspire confidence in their companies going forward. Numerous banks stated that their brand was one of the key reasons they would succeed in expanding into foreign markets, and rebound from the worst of the credit crunch-induced market turmoil, without explaining, or justifying, how.

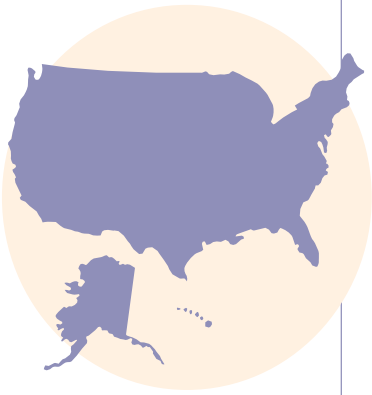
A specific consideration for the retail sector is that a number of companies appeared to give little focus to understanding consumers, who are the key to their business. Those that did either failed to utilise that understanding in the best way (not linking it into the rest of the document; detailing how meeting customer needs influenced the operations in the other areas of the business), or failed to go into any genuine depth about their customers, instead relying upon clichés and platitudes.

In this context **Marks & Spencer** distinguished itself by reporting thorough customer data in its narrative report, for instance, giving information on its mystery shopper scores over the course of the year, and explaining how its focus on its consumers would keep it ahead of the competition; “The challenge for M&S marketing is how we stay ahead of the competition, by responding to the things that matter the most to our customers”. However, although this area was very strong, they could improve it by explicitly linking their data into their strategy throughout the document.

**Tesco** were also a leading light in focusing upon their customers, especially in reference to the expanding of their operations into the US, and creating five key promises to consumers; prices are good, I can get what I want, the aisles are clear, I don’t queue, and the staff are great. This is important as it showed how their focus upon their customers was dictating their business operations. However, considering this, their actual analysis of their consumers was poor; they explained how they analysed their consumers, and what they did to

keep their consumers happy, but not what their consumers actually thought, or think. They, along with other retailers, need to use a mixture of data, and genuine consumer insight, to explain how they have met their customer's needs, and how they will continue to meet them in the future.

# USA



American reports differ slightly from European reports in their overall approach. Generally, they nominate a yearly theme or phrase around which to base their report. These are more of a cover design feature than a framework for structuring the report narrative, and are intended to give an insight into the company's character or ideology.

When done well it makes the company more personal and does accurately portray their character to a potential investor. However, when done poorly, it can come across as a cheap marketing trick, designed to impress, rather then accurately explain the company and its beliefs.

The US reports have the strongest focus on providing purely financial data. They tend to ignore softer economic factors which might impact on their company's future performance, and explain some of their past results. As such they come across as generally serious and financially focused, which can be a strong and authoritative impression to give, but fail to fully explain all aspects of their business to the reader and investment community.

> US reports generally focus on financials rather than non-financials

Generally, US reports also fail to use KPIs and intelligent data to explain company performance, meaning that although they are often strong in other areas, especially direct communication from the board, they are let down by this serious area of weakness.

> However, there are some prime examples of integrated marketing narrative

Some US companies, however, offer really good examples of an integrated marketing narrative; marketing analysis peppers the entire report, highlighting how it serves the entire business, and how its success has fed into the success of the company.

Examples of this include **Procter & Gamble**, where the marketing strategy is incorporated throughout the report into the overall strategy and the Chairman's message. For example, they explain how their concentration on innovation, and understanding of their consumers' needs for paper towels have enabled them to create a flexible product and brand in Bounty, which offers sub-brands for different needs (cost, absorbency), each of which can then be successfully marketed to different groups.

"We also tailor marketing and communications to specific consumer needs. Bounty Basic consumers aren't persuaded by television advertising; they get all the brand communication they need at the store shelf. Other consumers are receptive to information about our brands at different times and places, and we respond with communication and marketing plans tailored to their desires and preferences."

Perhaps the best US example however is **Coca-Cola**. Brands are included in their opening mission statement: "To inspire moments of optimism through our brands and our actions" linking how they play a key part in their business aims, as well as their business model. They then go on, throughout the report, to explain how their brands are key to achieving their business objectives, especially in terms of their continued relationship with the consumer.

The Coca-Cola report offers an exceptional analysis of their consumer base, offering insights into how it is changing (provided with data and intuitive explanations) and, even more significantly, how their company is adapting to take full advantage of these consumer trends ("Changing demographics are driving significant conversion to NARTD beverages"). The company also links its marketing activity to its initial mission statement, and states how it believes that its marketing can have a positive social impact, providing moments of joy for society, as well as a positive business outcome for the company.

For example they state that "New platforms, such as 'The Coke Side of Life,' are reaching consumers with advertisements, online experiences and other programs that reflect the optimism and hope that have historically characterized our brands and company".

Despite this excellent reporting, even Coca-Cola can still improve. Where it falls down is where most US reports fall down; in their use of KPIs and data to bring rigour and trend information to their analysis of non-financials.

"Video Game," a commercial from "The Coke Side of Life," won the prestigious Gold Lion Award at the International Cannes Advertising Festival in 2007 and was featured in *USA Today*'s recap of 2007 Best Ads.

Beyond these excellent examples, few other US companies explain their marketing strategies, even though many of them state the importance of their brand to their business model. Considering the key importance of brands to these companies, this is an area with room for improvement.

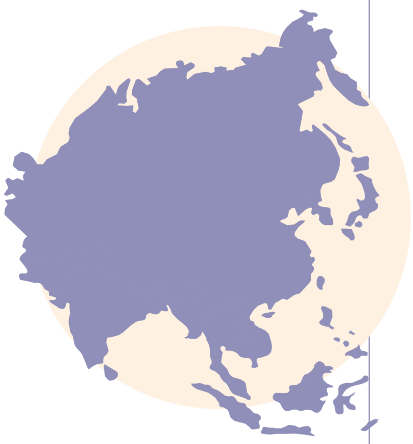
A small number of US reports were merely compliance documents that provided the necessary material in a specific compliance form, with no further information. These documents read less well, in most cases.

Some leading US companies still treat their annual report as a compliance document

Finally, it should be noted that the American reports used an effective system of question and answer sections with their board to help explain strategic decisions they had made and results they had achieved. This style of information delivery will be further analysed in the 'Detailed Highlights' section.

Q&A is a feature of US reports generally

# Asia



Research and development (R&D) is the main focus of intangible reporting for Asian companies

The Asian reports were very strong at reporting in the area of R&D. This partly reflects the nature of their most successful companies, but also creates a perception of cultural devotion to innovation and development. Kao, Toyota and Samsung are prime examples.

This focus on R&D reporting demonstrates a strong commitment to a long-term business model and business plan. It also helps give an insight into the future direction of the company.

The Asian reports are particularly strong when it comes to the organisation of their information. Their narrative reports are generally organised in a very efficient manner that provides the information in a logical and structured way – making it relevant and accessible.

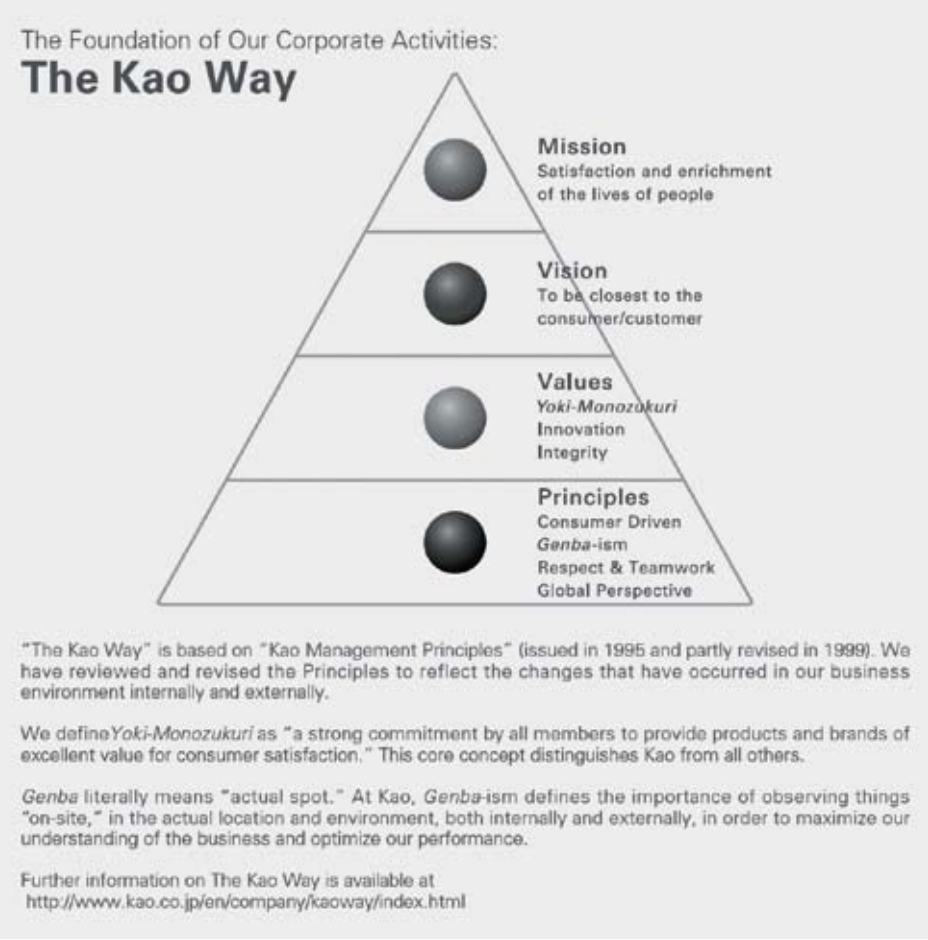
Joined up thinking characterises Asian narrative reporting

A good example of this is **Canon**, who defined their five key strategies clearly and then applied insight and analysis to investigate each of them in turn; making important efforts to link them together and explain how they would feed into the future success of the business.

The best companies, however, don't just explain their organisational structure, but base the information in their report around this structure.

An excellent example of this is **Kao**. Their report opened with a strong business statement, based on a pyramid model of their mission, vision, values and principles. They then went on to support this with clear factual

information; including a clear timeline, a detailed explanation of R&D activity and a strong graphical representation of trends.




Asian reports generally adopt a more emotive style

The Asian reports also seemed to capture the greatest feeling of excitement about the future. This is difficult to analyse, but as a group, the Asian reports created a strong sense of optimism and enthusiasm about the future, and the part that their company will play in it. This enthusiasm came across in the Chairman's message, the interviews, and the general narrative.

A good example of this is **Hyundai**. The start of their report is very personal and conversational, with monologues, descriptions of cars and individual stories. This continues up to page 30 of the report.

This approach can be learnt from, though it can contain several risks. The direct emotive communication does provide an insight into the company's views and culture, and the personal stories can bring the products to life in the eyes of the shareholder. However, this approach needs to be considered, and limited. Hyundai go too far and devote too much time and space to this approach, causing them to appear slightly lightweight, missing out vital information, and making important information difficult to find. A number

We're so glad you joined us. We are passionate about the time we share with you. You understand how to make every moment count. We recognize the changes in you because you are forever changing. These days you look great – refined and confident. But you've changed somehow. You look wiser, refreshed and invigorated. It's obvious you're ready for the road ahead.

As always there will be many others traveling with us and even more will join us along the way. All our familiar friends will be here as well as some new ones you may not have met yet. Rest easy. We each have our individual goals and destinations but we know how to work together and arrive as one.

Check the plans. Got everything covered and we're ready for the open road. We know our route as we've planned every step of the journey and if the road should change we will navigate each new direction with confidence.

It's going to be great. The sky above is clear, the air is sweet and we leave no tracks in our wake. The future's bright ... can't wait to get there.

of other companies were more effective at using interviews and emotive communication to convey their personalities.

One of the best exponents of this approach was **Sony**, where every section is analysed by an appropriate person, or persons, answering questions on their area. Often interviewed in pairs, these would have a page devoted to explaining who they were and what job function they fulfilled, before explaining the operations of their department.

Using this approach allowed Sony to offer a personal and insightful view into their company. It enabled them to explain key parts of the company's operations in detail and the passages came across as trustworthy and full of desire for the future. It left an impression of a strong and committed workforce with a respect and involvement in the corporate brand.

# Detailed highlights

## Best practice

This section highlights key areas of strength, which might serve as inspiration for others.

### Integrating the business model

Some companies were very effective at putting business models into their narrative reports. For example, **Kao** opened with a very strong business model, into which all of their information then tied. This allowed them to then provide other unusual but relevant information, such as a timeline of all their products that they released and key activities, as well as a concise and relevant analysis of R&D, explaining how it links into the company and future growth.

### Justifying bad results

**General Motors** have an interesting report, illustrating how a company can justify bad results. This forces them to concentrate on their business model, suggesting that all companies should do this during a recession, when they will be struggling. Honda also respond to difficulty in a highly interesting way; on page 36 of their report they devote themselves to preparing for the future, and as such they lay out the key areas that they will improve to survive the economic downturn. This section benefits from being clear and simple in how it approaches difficult market problems. Compared to some reports this is very refreshing and actually helps inspire confidence in how they will tackle upcoming economic difficulties.

### Branding the corporate philosophy

**Canon** opened with their corporate philosophy, Kyosei, which gave a concise definition to their company's culture, and how it directly effected their business operations.

### Identifying future growth prospects

**Toyota** clearly and specifically lay out their plans for future growth. This is explained in a section entitled "Solid Foundations for Future Growth," which provides explicit and clear information on how they will achieve high performance going forward. This is important as it reassures the reader about their future prospects, as well as justifying their previous results.

### Sustainable development

**Danone** provide faces and stories to highlight their actions, helping them bring their work to life, and justify the ethical considerations of the company. Danone also devote a lot of time to the intangible of people, describing how they treat their workers. This analysis is excelled by an excellent survey of their staff's beliefs about the company, which will be followed up with by another survey in the future, allowing for trends in staff

attitudes to be recorded. They also provide data, interviews, descriptions of best practice, information on attracting talent online, safety information, and leadership examples.

### Focus on ethics

**L'Oréal** is unusual in its concentration on the human and ethical side of its business, which can be best highlighted by the following quote:

> "The globalisation of cosmetics consumption is only just beginning. For L'Oréal, this is an opportunity. And responsibility. As the world leader in beauty, L'Oréal has a duty to satisfy all the desires and all the needs of consumers across the world, by driving the scientific innovation which forges the excellence of its products, and by cultivating the diversity of its brand portfolio and its distribution channels to make beauty accessible to everyone."

### Linking marketing strategy to corporate strategy

**SABMiller** excelled by linking their brand message into their internal business model and future plans. They clearly linked their specific brand programmes into their wider business strategy, covering the way in which their branded products were developing in emerging markets, and how they had tailored their marketing campaigns towards different consumer groups, and product specifics, in order to take advantage of market segmentation.

### Market context

Even though **Ford**'s report is relatively dry, it has some very interesting and important information, providing one of the best reports for looking at overall market and economic forces and linking them into the company and then into trends and strategies. Although long to read, it does provide an effective and genuine insight into how the business decisions about the company's direction have been taken.

### Community involvement

**Johnson & Johnson** have a long selection of stories about the difference they make to communities, showing that US reports can rival European reports for emotive narrative reporting. This can be shown by two snippets from their stories:

> "When Archana Aggarwal and her feverish baby, Shreya, returned from the paediatric clinic in Delhi, she clicked on BabyCenter® India and saw messages from three moms asking if everything had gone OK."
>
> "When Renato Wakimoto reads to his 4-year-old daughter before bed, they like to point to pictures of her favourite birds in the rainforest. 'We shouldn't destroy the forest,' he tells Natalia."

### Innovation

**Procter & Gamble** have one of the best explanations and justifications of innovation, linking into their history of innovation, listing all of their innovations and explaining how they approach innovation as an entire company. They explain this well, stating their five key rules to innovation:

1. We define innovation broadly.
2. We invest in innovation at industry-leading levels.
3. We manage innovation with discipline.
4. We deliver innovation that builds consumer trust and loyalty over time.
5. We lead innovation with global brands and an outstanding team of innovation leaders.

## Use of intelligent data

Companies differed widely in their use of intelligent data to help explain their company's performance, suggest a trend for the future, compare their performance to other companies, and provide data and hard information to their intangible assets. Though nearly all of the companies could improve in this area, especially in their use of non financial KPIs, some companies did excel in some areas.

### Media investment trends

**Reckitt Benckiser** distinguished itself by its use of KPIs to explore its branding strategy. These KPIs offered a key insight into the performance of its brand and marketing strategy, and gave strong factual support to the rest of the brand reporting narrative. They can be viewed in the next section, Strategic marketing and brand reporting.

### Competitive rankings

**Canon** were able to use data to highlight some impressive achievements:

External Ratings

- Financial Times Global 500 (June 30/July 1, 2007 issue)
  Market value ranking: 100
  (7th in the Technology Hardware and Equipment category)
- FORTUNE Global 500 (July 23, 2007 issue)
  Revenues ranking: 182
  (6th in the Computers, Office Equipment category)
  Profits ranking: 124
  (3rd in the Computers, Office Equipment category)
- BusinessWeek 'Best Global Brands' of 2007 (August 6, 2007 issue)
  Ranking: 36
  (4th among all Japanese companies)

### Market share data

**Nissan** showed how using data in a market context can help explain your results. For example:

> "In Japan, sales reached 721,000 units. Although that represented a 2.5 percent decrease, the industry as a whole was down 5.3 percent, so Nissan's market share actually increased to 13.6 percent."

### Market share data over time

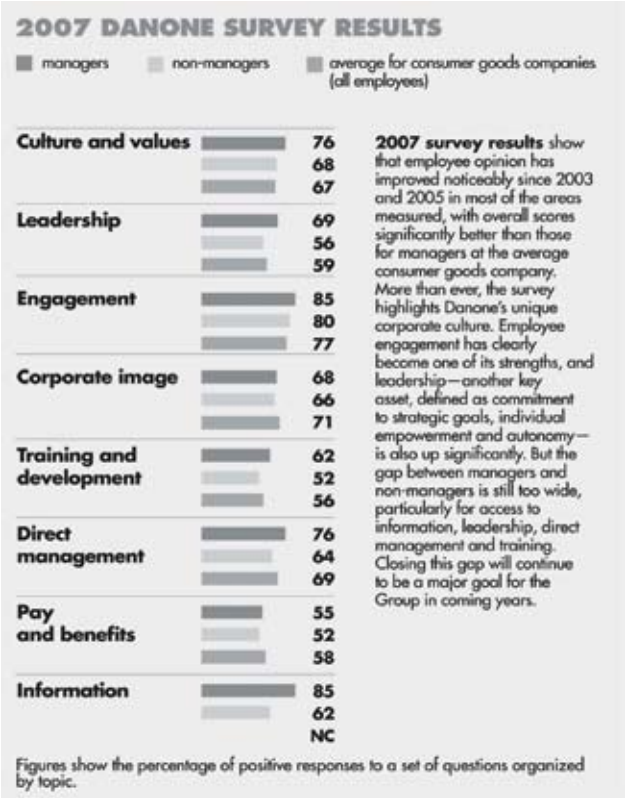
Even more impressively, market share KPIs were used by **Marks & Spencer** for its clothes and food industries, showing how they had grown over time.

### Financial KPIs

**Citroën** have a lot of KPIs for their share performance, sales performance, employees and environmental performance. These offer a broader perspective on the companies performance, and offer explicit results for more intangible areas of the business.

### Employee satisfaction

**Danone** record data on their employee's beliefs about culture and values, leadership, engagement, corporate image, training and development, direct management, and pay and benefits. This helps them back up their statements about employee satisfaction, and employee attitudes, stopping them from appearing to be just empty words – an appearance that some other companies can't help but give.



### Environmental reporting

**L'Oréal** have the best statistics on ethical issues such as $CO_2$ emission and injuries as a result of work. However, it is not the statistics themselves that are important but how seriously L'Oréal seems to take them. Nestlé also provide interesting data in this area, concentrating on what they call "Creating Shared Value".

### Consumer data

**Coca-Cola** have some really interesting data on demographics which suggests growth of their market. This is interesting and intelligent analysis of their market beyond the simply economic, and helps effectively assure the reader about Coke's future business success. However, this excellent use of data is not carried over into brand and marketing information. This is a shame as Coke displays one of the strongest understandings of its brand, yet it fails to back this up with any KPIs or specifically brand-related data, weakening its reporting in this area massively.

### Analysing the success of advertising campaigns

**Marks & Spencer** are excellent at reviewing the advertisements that they have used during the year. They highlight data they have on specific campaigns and explain how their ads have progressed to new messages, as old ones have become absorbed by the public.

## Building our brand

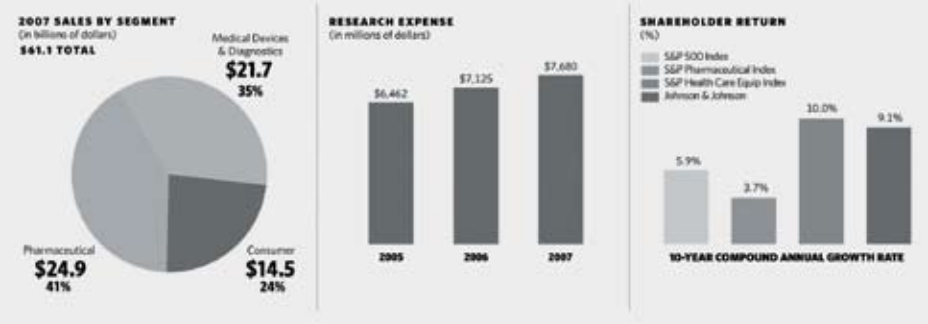
**One way we've responded to this challenge is by evolving our well-loved and successful food and womenswear advertising campaigns.**

**In food, we've retained the same broad approach, but we've started to respond to the issues we know our customers care about. Everyone knows that our food tastes good, so our new 'manifesto' campaign now goes a step further by introducing powerful messages on provenance and healthy eating. For example, our 'mellow yellow' ad showcased our commitment to using only free range eggs in all of our food, and 'true colours' told the story of how all our food is now 100% free of artificial colours and flavourings.**

**Our womenswear ads – which feature the famous faces of Twiggy, Erin O'Connor, Lizzie Jagger, Noémie Lenoir, Laura Bailey and Myleene Klass (and at Christmas, special guest Antonio Banderas) – change with the seasons, featuring new soundtracks and locations. As with the food ads, we survey shoppers each month, and we're encouraged by the customer feedback we've received. Figures from Adwatch (who analyse the impact of company advertising), show more than half of our food ads rated within the top five, and our womenswear ads continue to lead at number one.**

### Market share and sales trends, segmentation analysis

**Johnson & Johnson** show sales and share information by year. This is an excellent technique for highlighting trends and also highlighting percent changes – which is highly useful and clearly shows what is happening to the company's key business results. They also have a good use of pie charts to show the business pipelines and the company by business segments.




| | 2007 | 2006 | 2005 | % CHANGE 2007 | % CHANGE 2006 |
|---|---|---|---|---|---|
| Sales to customers (*in millions*) | $61,095 | $53,324 | $50,514 | 14.6% | 5.6% |
| Net earnings (*in millions*) | $10,576 | $11,053 | $10,060 | (4.3%) | 9.9% |
| Percent return on average shareholders' equity | 25.6% | 28.3% | 28.2% | – | – |
| Diluted net earnings per share | $3.63 | $3.73 | $3.35 | (2.7%) | 11.3% |
| Cash dividends paid per share | $1.620 | $1.455 | $1.275 | 11.3% | 14.1% |
| Market price (year-end close) | $67.38 | $66.02 | $60.10 | 2.1% | 9.9% |

### Use of independent audit data

**Procter & Gamble** have very strong evidence which also shows that data does not have to be entirely numerate, but can instead comprise a clever use of studies and facts that can effectively support an annual report when used honestly and intelligently. This example highlights how, added into the text, data can sometimes make a convincing argument.

> "The best proof of our innovation capability is the number of top-selling new products that come from P&G. The IRI Pacesetters study tracks and ranks the most successful new consumer products introduced in the U.S. For the past 13 years, one-third of the most successful Pacesetter products, on average, have come from P&G and Gillette — more than our top six competitors combined."

## Strategic marketing and brand reporting

This is a key area in which many companies could improve their narrative reporting. Marketing and brands are key to all of the companies analysed in this report. In recognition of this, most of the companies state the importance of their brand to their company and their company's success, and even their company's strategy. However, after this they fail to provide enough information or analysis on how or why their brands are successful. Even more importantly, they fail to explain how they will continue to make their brands successful in the future.

One specific trend is for companies to discuss their marketing and brands in their CEO and chairman messages. Many chairmen and CEOs state how important their brand is to their company's success and strategy; however this is not then backed up or justified by relevant analysis within the report.

Examples of this include Henkel, who claim to have 'globally trusted brands' that exist around the world and epitomise their company but fail to analyse how this is true, and L'Oréal, who state the importance of brands to their overall strategy, but similarly fail to analyse how they guarantee its success in the future. When analysis is given about brands, it is often overly descriptive and lacking in needed specifics and appropriate metrics.

Examples of this include Citroën who say a lot about their two-brand strategy (having two different brands exploiting different parts of the market but relying upon the same business synergies), but fail to explain how they will differentiate the brands, and especially how they will successfully give each brand 'its own personality'. They also fail to provide a means of recording and measuring the success of this strategy. Another example is Nestlé who fit their marketing and brand into their '4x4x4 roadmap' structure, offering an effective integration of branding into the strategy, but failing to highlight the real performance of their brand strategy, either through the use of brand metrics or considered analysis.

The best performing companies were Procter & Gamble and Reckitt Benckiser.

**Procter & Gamble** offer an excellent example of how to explain brand strategy by a company that is managing a large number of brands

> "We're making our brand portfolio more productive by focusing even more on our largest leading brands — the 44 brands with sales of $500 million or more that represent 85% of sales and more than 90% of profits. We're getting more disciplined about how to manage the remaining brands in P&G's portfolio, investing in small brands that have potential to become billion-dollar brands of the future, supporting brands that may not have global potential but are local jewels in some markets, and consolidating or divesting underperforming brands. And, we're seizing even more

opportunities to leverage P&G scale by eliminating duplicative activities, centralizing more functional support, and consolidating some small countries into regional hubs."

They also explain how they keep and create customer loyalty through innovation and marketing, and then justify the strategy with specific and relevant data.

"Always has also delivered a steady stream of meaningful commercial innovation. The brand's school education programs teach girls about puberty, and introduce them to the category and our brands. Another commercial innovation, from both Always and Tampax, is beinggirl.com, a unique website that enables teens to get information in a safe, discreet environment and to interact with peers facing similar life-stage issues. This combination of disruptive, sustaining and commercial innovation keeps a brand like Always growing year after year. Always has grown in 21 of the 24 years since launch and has increased its U.S. market share from 14% to 48%, and today has a global share of 31%. There are examples like Always throughout P&G's brand portfolio."

They also explain how their brands give them reach into every home, and through this explain their deep understanding of the customers who ultimately buy their products.

"The diversity of P&G's brand portfolio gives us the opportunity to innovate in more aspects of consumers' lives than nearly any other company. P&G brands are in every room of the house, at virtually every hour of the day. As a result, we get to see more of consumers' needs than other companies. This helps us spot more problems P&G innovation can help solve and more aspirations P&G brands can help achieve."

**Reckitt Benckiser** distinguished itself by its use of KPIs to explore its branding strategy. It had KPIs, over two years, on its media investment (media investment as percent of net revenues) on its brand positions (percent of net revenues in No.1 or No.2 brand positions), and the revenue from its top branded products. These KPIs offered a key insight into the performance of its brand and marketing strategy, and gave strong factual support to the rest of the brand reporting narrative. Reckitt Benckiser also distinguished itself by giving a great deal of coverage to the specific programmes and campaigns that it has adopted over the course of the year in support of its numerous brands and sub-brands. These campaigns are brilliantly linked into the companies overall strategy as well, linking innovation, marketing and total growth together.

KEY PERFORMANCE INDICATORS

The Board and the Executive Committee have identified a number of Key Performance Indicators (KPIs) that are most relevant to the Company and are used to measure performance.

| KPI | 2006 | 2007 | Comments |
|---|---|---|---|
| Net Revenue growth<br>% like-for-like growth of net revenues at constant exchange | +7% | +9% | Measures the increase in sales of the Company |
| Power Brands<br>% of net revenue from top 18 brands | 58% | 61% | Measures the growth and importance of the Company's flagship brands |
| Gross Margin %<br>gross profit as % of net revenues | 56.7% | 58.3% | Measures the resources available for reinvestment or profit growth |
| Media Investment<br>media investment as % of net revenues | 11.9% | 12.4% | Measures the rate of reinvestment in the Company's brands |
| Operating Margin %*<br>Operating profit as % of net revenues | 21.5% | 22.6% | Measures the profitability of the Company |
| EPS (fully diluted)*<br>% change in EPS (fully diluted)* | 107.1p<br>+19% | 123.4p<br>+15% | Measures the increase in profit per share of the Company |
| Net Cash Flow £m<br>See page 31 | £953m<br>+26% | £861m<br>-10% | Measures how the Company converts its profits into cash |
| Net Working Capital Ratio<br>(defined as inventories, short-term receivables and short-term liabilities excluding borrowings and provisions) as % of net revenue | -£728m<br>-14.8% | -£826m<br>-15.7% | Measures the ability of the Company to finance its expansion and release cash from working capital |
| Management Turnover | 9.2% | 10.1% | % of T400 management that has left the Company |
| % of Net Revenues in No.1 or No.2 Brand Positions | 76% | 77% | Measures the health of the Company's brand market positions |

*Adjusted to exclude the impact of exceptional items.

## Tactical marketing and brand reporting

To conclude, it is interesting to note some of the unusual approaches that companies took in their narrative and marketing reporting.

**Volkswagen** used product and brand stories to give a sense of the brand and the consumer's relationship with them, and the importance of the brand to the company. For instance, they use four pages explaining the development of Lamborghini and where it fits into the consumer's mind. They also explain their Skoda brand, and its brand slogan, by analysing the history of Skoda and how its ideals stem from the Czech Republic.

**PepsiCo**, interestingly, highlight the ethical nature of their advertising. Most of their marketing information is about how they plan to market ethically to consumers and what they have done to ensure that they follow this principle. This is slightly unnecessary in detail, but could become increasingly relevant to companies in the food and beverages industry.

**Sony** has a specific message from their CFO which enabled them to purposefully tackle the upcoming economic downturn in the narrative report.

**Nestlé** capture the need for many of their high marketing expenditure companies to focus on understanding their consumers, and how this specifically informs their strategy. For example they state that their:

> "60/40+ initiative is unique in ensuring that nutritionally-enhanced products always meet consumers' taste preferences. 60/40+ is accelerating growth, driving innovation and renovation, and is at the heart of our ambition to be recognized as the leading Nutrition, Health and Wellness company. It works in two ways. First it measures a product's taste performance against its key competitors – our aim is to win by at least a 60 to 40 preference. Second, it measures nutritional superiority, the '+'. It is the largest initiative of its kind."

This stems from their view that their job is to fully understand their consumers, or as they say, 'achieve deeper levels of consumer understanding than our competitors'.

The **Kraft** annual report was limited, but they extended their reach by directing their readers to a dedicated website where shareholders can navigate around a number of areas offering information on the company. One interesting aspect of this website is the opportunity it allows for shareholder engagement and discussion. For instance, there is a section where shareholders can watch, judge and comment on the advertising that has been developed by Kraft and their agencies.

# Additional reading

## IPA publications

KPIs for Marketing Reporting: A framework for effective market disclosure, IPA, 2008

Best Practice in Narrative Reporting 2008: Key learning and recommendations from the IR Magazine UK Award judging process, IPA, 2008

Best Practice in Narrative Reporting: A review of FTSE 350 listed companies, IPA, 2007

How Analysts View Marketing: An IPA study of City opinion, IPA, 2006

The Development of Intangible Reporting: How intangible assets are transforming management and reporting practice, IPA, 2007

## Other

A Review of Narrative Reporting by UK Listed Companies in 2006, Accounting Standards Board, 2007

Narrative Reporting Content in the FTSE 100, Radley Yelder, 2008

Complexity, Relevance and Clarity of Corporate Reporting: The views of CIMA FTSE 350 Directors, Chartered Institute of Management Accountants, 2009

# A summary of the reports analysed

In order to access PDFs of each of the reports analysed in this document, please go to:

**http://www.ipa.co.uk/Content/Narrative-reporting-2009-Reports-analysed**

### USA: Top 10

Procter & Gamble
General Motors
Ford Motor
Johnson & Johnson
Coca-Cola
Time Warner
Kraft Foods
McDonald's
Walt Disney Co.
PepsiCo

### Europe: Top 10

Unilever – London
L'Oréal – Paris
Nestlé – Switzerland
Reckitt Benckiser – UK
GlaxoSmithKline – UK
Volkswagen – Germany
Danone – Paris
PSA Peugeot Citroën – Paris
Maxingvest – Germany
Henkel – Germany

### Asia: Top 10

Toyota – Japan
Honda – Japan
Sony – Japan
Nissan – Japan
Panasonic – Japan
Hyundai – Korea
Canon – Japan
Kao – Japan
Samsung – Korea
Suzuki – Japan

### UK: Additional 20

Aviva
Barclays
BP
BT Group
Cadbury
Carphone Warehouse Group
Diageo
Home Retail Group
HSBC
InterContinental Hotels Group
ITV
Lloyds TSB Group
Marks & Spencer Group
Next
Royal Bank of Scotland Group
Royal Dutch Shell
SABMiller
Tesco
Vodafone Group
Wm Morrison Supermarket

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