



## WHAT ABOUT YOUR ANNUAL REPORT?

Before reading this, reach into your files and withdraw your firm's annual reports for the past five years. Place these reports on your desk and refer to them regularly as you read the following discussion:

The annual report is, and should be, more than just a mandatory house organ to be distributed to stockholders or members every year. In fact, your annual report may represent the most important communications tool available to your firm. For some agribusinesses, it may be the only written document distributed to stockholders or members during the year. Despite its importance, many annual reports fail to adequately achieve their most obvious purpose: to tell the complete story of the firm's activities during the past fiscal year.

Why do many annual reports fail? They fail because of one of two reasons:

- 1) They omit necessary information.
- 2) Information, which is provided, is poorly prepared and presented.

If your annual report is victim to either the sins of commission or omission, the result is usually readership boredom, faulty communication, and poor public relations. The preparation of a good annual report can become an expensive task. However, the costs associated with a poorly prepared annual report can be even more staggering

and longer lasting. The following suggestions may help to improve the quality of your next annual report.

### Money Matters

Generally the backbone of an annual report is a series of financial graphs, charts, and tabulations. It should adequately describe the financial factors affecting the firm's operations in the past fiscal year.

A comparison of the current financial position with those of preceding years permits the reader to focus on trends and identify favorable (or unfavorable) changes. Attempt to concentrate this information into one section of the report whenever possible. Notable financial highlights should be presented early in the annual report and indicate, in percentage form, proportionate changes over the years. If statements of financial position are scattered throughout the report, the reader is likely to overlook some items and fail to understand the linkages between related data.

Profits represent, perhaps, the single most important item in an annual report. To the more serious reader, however, the isolated statement of profits leaves much to be desired. Good annual reports provide supporting information for the profit statement, for example, how increased sales, raw materials prices, and processing cost savings affected earnings. Every agribusiness firm has financial peculiarities, which may obscure the reasons for significant changes in profits. If these peculiarities are persistent enough to demand management's attention,

they also warrant explanation to members and stockholders.

Continual improvement in the firm's competitive status and the maintenance of acceptable cost levels are indicative of aggressive and proficient management. If worthwhile cost-cutting programs have been successfully initiated during the year, their results deserve mention in the annual report.

While most of the material in an annual report pertaining to money matters will relate to past operations, there is some justification for the consideration of the future as well, e.g., profit projections and business outlook. The intelligent reader is aware that profit projections are based on more than hope. They may need to be reminded, however, that management is attempting to isolate and assess several economic factors, which might affect the projections.

Failure to include profit projections and related business outlook information in an annual report can raise questions, e.g., has management failed to consider the future? Does the firm operate only on a day-to-day basis? What is the long-run security of my investment? To alleviate stockholder or member anxiety, the agribusiness must try to relate its operations to their personal interests. For example, one Midwest agribusiness devoted an entire section of its annual report to a discussion of its investors' position over the past ten years. This section was titled, "The Status of Your Interest."

To many readers, financial statements are the least attractive portion of an annual report. This need not be true. To improve readership interest, streamline financial data and remove insignificant and obscure items. Round off figures to the nearest dollar and separately list division accounts. Avoid the use of technical terminology and use footnotes only when they improve the reader's ability to accurately interpret the results. Some financial reports

are so heavily burdened with "conditional" footnotes that some doubt is cast on the validity of the data.

Try listing assets, liabilities, and ownership equity in a straight line for easier reading. Preferred accounting formats often confuse the reader with limited training in this area.

The source of funds statement is often especially important to financial analysts. It should reveal in specific terms both the sources and disposition of acquired funds. If handled properly, this information can also tie together the statement of operations with the statement of financial position. However, if this tie-in proves overly complex, avoid it.

A statement of operations (also called an operational review) is a vital segment of any discussion of money matters. However, in addition to the technical statement, there should be a simplified version written in layman's language. If this informal story of income and expenses is properly prepared, members and stockholders should be able to easily determine what proportion of total business income was distributed to them, to employees, to creditors, to government, and/or retained by the business.<sup>1</sup>

Because of their importance as an asset to many agribusinesses, the reporting of accounts receivable could, perhaps, be expanded and listed separately by classes of debtor, i.e., open accounts, notes, advances to supplies, employee loans, etc. If, in your firm, accounts receivable have proven to be a significant burden on operations, two debt figures should be shown: those debts classified as uncollectibles, and the allocations of funds set aside to absorb uncollectibles next year. If there has been a

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<sup>1</sup> Duff, K.D. "Financial Ratio Analysis: An Aid to Agribusiness Management." Department of Agricultural Economics, W.S.U., November 1968, Appendix I, p. 36.

sharp increase or decrease in these figures over the years, it may deserve explanatory comment.

Other items which should be included in a discussion of money matters are: inventories, capital assets, taxes, profit analysis, inflation, and dividend policies. Inventory turnover is of vital importance to processing and supply firms and should be compared to previous performance by the firm and the industry. The status of a firm's productive facilities (capital assets) can best be described by revealing their age, disposition, and utilization. It may also be important to mention the extent to which assets are insured. Investors often forget how heavily agribusinesses are taxed. The annual report provides a strategic opportunity to remind them of its importance, i.e., cost per share, percentage of income, etc. It may be necessary to exclude selected division data from an annual report for competitive reasons. However, I believe members and stockholders have a right to know which divisions within your firm are failing to carry their weight. A profit analysis of that division may, therefore, be warranted. If inflation causes some distortion in your firm's financial performance, it should be noted. Finally, dividend records should be charted and management should carry the responsibility of forecasting the prospects for future dividend levels.

### Market Matters

Every agribusiness is obligated to provide its members or stockholders with an indication of its market position. One of the best ways is to compare the firm's sales and profits with those of their competitors (an average figure) if this information is available. The percentage earned on investment and share of market sales are two commonly used measurements.

You may wish to convey some information on the vulnerability of your firm to foreign market competition and market erosion due to new product development and technological advancements. This can be accomplished via a discussion of your firm's products, their virtues and diversity. Since members and stockholders may also be potential customers, some promotional fringe benefits may be derived from this policy.

Since the general public is aware of the necessity of advertising and promotion, failure to recognize your firm's efforts in these areas would be a mistake. Discuss these expenditures in terms of percentage of total sales so the reader can develop a greater appreciation of their magnitude. Similar discussions are warranted in regard to expenditures for research and development. This discussion should indicate the kind of exploration under way, its cost, and the past and predicted returns from the endeavor. To provide an even more comprehensive picture requires the preparation of a comparative summary indicating the proportion of total sales resulting from new product development and the time period required to achieve these results, i.e., a so-called product decay curve.

Your resource market is no less important than your product market. Unfortunately, few firms give equal emphasis to the two in their annual reports. In fact, after reading some reports, the reader is almost left with the impression that the product (or service) is self-generating, i.e., raw materials are non-existent. Your annual report should recognize the resource market and take note of any effort by your suppliers to provide quality materials and services on a dependable schedule. A breakdown of percentage purchases from various types and sizes of supplying firms is also helpful.

## Personnel Matters

Has it ever occurred to you that other people besides members and stockholders read your annual report? Your employees probably do. Their interest in the long-run success of your firm is just as sincere as your own. Personnel matters should occupy a portion of your annual report. After all, over dollars, machines, and markets, people represent the most important asset your firm has.

If your firm has a modern and competitive pension plan for its employees, brag about it. Indicate the number of persons drawing pension funds (and the amounts). If your firm has a profit-sharing employee incentive plan, brag about it. Show that management is cognizant of the employee's efforts and provides suitable rewards. Indicate that the firm is willing to reward outstanding employee accomplishments. For example, make note of outstanding employee safety records, suggestions, awards, and citations.

Your annual report should describe the firm's efforts to recruit new talent. Report the number of college graduates interviewed during the year, the number hired, their qualifications and the type of training program they are now involved in. Are employees encouraged to attend management schools and other educational programs? Agribusiness is in an unenviable position. It cannot afford the plight of rural area and lose its talented people to other sectors. At the same time, agribusiness must compete with the big city glamour corporation in the recruitment of talented personnel. Needless to say, our annual report should stress your firm's efforts to win this battle for brains and ability.

The unionization of your employees, if it exists, cannot be forgotten. The potential or occurrence of prolonged strikes within your organization is of vital interest to the readers of your annual report. What were the effects

on business, profits, sales, etc. of a union strike? What is being done to avoid a strike in the future? If your firm employs union labor, include in your annual report an indication of mandays lost because of strikes, work stoppages, grievances received (and settled), and the duration of current union contracts.

Almost all Americans are now aware of the effects of rapidly advancing technology on labor utilization and productivity. To exclude a discussion of labor costs from an annual report may create unsatisfiable doubts in the minds of its leaders. If your firm is experiencing an increase in labor productivity, labor costs (as a percentage of total costs) should be decreasing. Members and stockholders should be informed of this fact (or absence of it). Other items such as the competitiveness of your firm's wages, costs of absenteeism, and effects of employee turnover might be included in this discussion.

Unless you are willing to risk the suspicion that unfavorable trends exist, your annual report must provide information on labor productivity. Again this requires the recognition of increased output per man, high employee moral, and improved working conditions. Here, a picture of a smiling employee operating a more automated machine may be worth a thousand words.

## Management Matters

It has now become traditional (and totally acceptable) that every annual report include a message from the organization's president and/or general manager. Generally, this message should discuss the firm's operations in the broadest of terms and avoid unnecessary detail. It should more-or-less set the tempo for the entire report and encourage the reader to investigate further. In my opinion, the president's (or manager's) message should be brief, clear, and indicative

of his ability to act as a leader and pace-setter for the entire organization.

Obviously the board of directors can not be neglected as they represent the basis for firm policy and sentiment. Besides printing their names, and perhaps their pictures, include a brief resume of their background, training, and interests. Remember, your members and stockholders are entitled to know the qualifications, age, years of service, and attendance record of their representatives. It may seem burdensome to prepare this information every year but, in the minds of the reader, the addition or loss of a single member may be indicative of managerial competence gained or lost.

#### Image Matters

In a highly competitive business environment, it is always to your advantage to openly cite examples of special attention given to the patrons of your firm. Prompt delivery of merchandise, quality control, and expressions of customer satisfaction should be brought to the attention of stockholders. In an attempt to continually improve their public image, some firms even go so far as to print the texts (or excerpts) of letters written to the company president by an appreciative customer. If carried too far, this policy can reach the limits of the absurd. The fact remains, however, that the well-prepared annual report will show a picture of the firm with its best foot forward. For example, an expression of efforts to limit air and water pollution, or hire members of minority groups seems most legitimate. Always be prepared to back up any claims with facts and examples, however, as they represent the dividing line between boastfulness and good public relations.

Litigation, whether justified or not, against a firm can cause massive repercussions in this image conscious age. Some management specialists consider litigation to be indicative of an aggressive management team -- one

which operates up to, if not immediately adjacent to the limits of the law. Others look upon litigation as an inevitable consequence of poor planning. Regardless of your interpretation, it should not be dealt with lightly. Pending litigation, if any, should be explained in the annual report and accompanied by descriptions of past settlements and how they affected the business. If for no other reason, this policy will prove worthwhile through its tendency to squelch inaccurate rumors commonly surrounding matters of litigation.

#### Matters of Presentation

The possibilities for presenting an annual report, which is both attractive and effective, are endless. Despite advise to the contrary, its cover frequently judges an annual report. And don't forget to utilize the back cover either. An index and/or a table of contents can be an obvious convenience to the average reader, particularly if the report is somewhat lengthy. Strategic use of color and text-related pictures will combat monotony. If graphs and charts are used, make sure they are clear and accurately convey the important information. Much reader confusion can be created by complex graphs with labeling that is too small to read. Use double columns in the text so the reader will not have to transverse the entire width of the page. Keep your sentences and paragraphs short, and use simple language whenever possible.

#### Matters of Disclosure

An established policy on the disclosure of selected internal data does not exist in the agribusiness or any other industry. Decisions are normally made in higher levels of management as to whether certain information will be released. More and more, however, the state and national governments (e.g., the Securities Exchange Commission) are setting up mandatory disclosure

minimums.<sup>2</sup> The end result is a tendency to loosen-up on previously established standards. The nature and composition of your business environment may dictate either a free or a tight disclosure policy. Each individual firm should re-evaluate its policies regularly and consider both the advantages and disadvantages of a change. The presentation of responsible information is still the key to preparing a successful annual report.

### **Conclusion**

As you page through your own firm's annual reports, do not become discouraged if all the items mentioned above are not included. All of the items mentioned may not even be applicable to your particular firm.

Remember, however, the preparation of an annual report is not to be taken lightly. It may be the most effective communications tool available to your firm. To utilize this tool most effectively, your annual report should include discussions relating to:

- 1) money matters,
- 2) market matters
- 3) personnel matters,
- 4) management matters, and
- 5) image matters.



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<sup>2</sup> "Corporate Reports Open Wider." Business Week, March 29, 1969, pp. 56-58.