How to Manage Investors in a Down Market

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published on BNET.com 1/09/2009

How do you inspire investor confidence when the entire economy is in the tank? There's no magic bullet for nationwide panic, but successfully managing investor expectations can be the difference between survival and disaster in uncertain times. For public companies, that means being as transparent as possible while complying with SEC regulations. For privately held firms, your response should be tailored to the disclosure expectations of your investors, whether they are institutions or individuals. In either case, the key is to be proactive: create a comprehensive plan that shows that your company is prepared for the volatility of the marketplace. Sound complicated? It doesn't have to be. Here's how to put your IR strategy on the offensive and your investors at ease — or at least off the warpath.

Things you will need:

- **Travel budget:** Prepare to cover overtime and emergency travel as necessary.
  Technology budget: Minor changes to your investor relations (IR) microsite might set you back a few hundred bucks, but major redesigns can cost up to $4,000, depending on the size of the project.
- **Time:** Short-term strategies can be designed and implemented within a few days. Managing investor relationships over a longer horizon is a year-round process.
- **Knowledge of Regulation FD:** This 2000 SEC ruling contains strict guidelines on how public companies can disclose information to investors. Management should also be familiar with the legal requirements governing forward-looking statements and disclosures over the Web.
- **Rapid-response communication tools:** The quicker you can reply to investors, the more confident they will be in your ability to respond to changes in the marketplace.
- **Steadfast ethics:** Credibility is your most important asset. Protect it at all costs.

step 1

Take Inventory of the Damage

Goal: Understand how the economy is affecting your organization.

Tailoring investor relations to a slow economy begins with one question: How exactly is the downturn affecting your business? Whether your company is relatively recession-proof or has been hard-hit by the downturn, you need to gain a comprehensive understanding of the situation before developing a plan. Vague comments and ambiguous statements will only earn you distrust from investors — now more than ever, all explanations must be grounded in cold, hard fact.

Robert Berick, a managing director at Dix & Eaton who leads the firm's IR practice, suggests establishing an internal risk assessment committee to determine the specifics of how the economy has impacted your business. Large organizations may want to nominate a complete task force, but smaller companies can scale down the idea and charge one or two individuals with such an evaluation.

For the sake of efficiency, narrow down the scope of the assessment to a few key questions:

- How has the economy impacted your company's balance sheet?
- What is your company's exposure to troubled financial institutions and what will happen if these organizations fail?
- Will layoffs be necessary in the near future?
- What will likely happen if the economy continues to decline?
- How will the downturn affect your customers/clients?
- How is your company faring relative to your competitors?

Answering these questions will require a coordinated dialogue between multiple departments, and the results of the assessment should be circulated internally to upper management. Doing so ensures that the company speaks with one voice, avoiding inconsistencies in communications with both investors and the general public.

Big Idea

The Four Tenets of Good IR

Tough times call for tough tactics, but the fundamentals of good IR remain the same regardless of your company's outlook. The National Investor Relations Institute identifies these core values as the gold standard for investor communication:

Consistency: Mixed messages create confusion and dilute credibility. To ensure that your company presents a unified front, create a single point of contact for all IR-related questions and announcements. Work can be delegated to multiple individuals as necessary, but investors should be able to point to one person as their primary source of information. Documented policies and procedures can also encourage consistency by outlining a standardized approach to communication.

Responsiveness: If consistency is an important part of investor relations, then flexibility is an absolute essential. There are two types of responsiveness to keep in mind: responsiveness to individual requests, and responsiveness to changes in the marketplace. The first is simply good customer service — your investors gave you their money, so give them the information they request in a timely and professional manner. The latter is a key component of long-term success, since IR teams that can anticipate and respond to internal and external change will be more likely to earn investor confidence.

Transparency: This hot-button concept may seem like a nuisance, but the bottom line is that transparency is one of the primary responsibilities of every IR professional. On-site visits, access to management, and regulatory filings are all aimed at providing the investment community with the information they need to create a fair valuation of a company.

Credibility: Without credibility, even the most promising organizations are destined for failure. The fundamental goal of the other core principles listed here is to promote the integrity of the IR team, and by extension, the company as a whole. Do whatever is necessary to eliminate any impropriety — or even the appearance of impropriety — because once a reputation is tarnished it can't be restored.

step 2

Re-Think Your Message

Goal: Position your company as a proactive player in a turbulent marketplace.

Now that you have a grasp of your company's status and expectations for the future, the next step is to tailor that message for the investment community. Don't be surprised if the picture isn't overwhelmingly positive — few businesses are thriving in the current economic climate, and odds are that your competitors are hurting too. "Everyone is affected by this crisis," says Jeffrey Morgan, president and CEO of the National Investor Relations Institute. "If you go out there and pretend that everything is rosy, you're going to look out of sync."

Instead, develop a message that acknowledges the challenges of the downturn while demonstrating a proactive strategy for dealing with them. Starbucks did just that in December, unveiling a plan to cut $400 million in costs by reducing labor expenses and streamlining the supply chain. The announcement was made the month before the company was scheduled to release its first-quarter results, preempting analyst grumbles about what Starbucks has warned will be a disappointing performance.

Don't forget to compare your company to its peers if it is outperforming them in nearly any arena. Highlight the ways in which your business is uniquely qualified to navigate the ups and downs of the market, and be sure to mention past resilience during economic downturns if applicable.

As necessary as it is to respond to the slowdown, Morgan warns against becoming overly reactive to short-term problems at the price of sacrificing long-term strategy. The scope and course of the current financial upheaval are not yet clear, so it is unwise to develop an outlook that cannot be easily adjusted for new developments in the macroeconomic climate.

Danger! Danger! Danger!

Avoid Bunker Mentality

Also known as Ostrich Syndrome, Bunker Mentality occurs when companies avoid communicating with investors at the first sign of trouble. As tempting as it may be to adopt this attitude, it's important to remember that investors often assume that no news is bad news, particularly in the current economic climate. Unexplained silence from IR teams is easily interpreted as a sign of a major crisis, and investors end up relying on third parties or their own assumptions to determine the extent to which a company is struggling.

step 3

Make Your Case

Goal: Communicate with investors to update them on your company's strategy.

With a carefully composed strategy in hand, it's time to communicate your message via an updated microsite (see box) as well as face-to-face meetings with investors. IR consultant Marilyn Lattin says that teams should try to spend one extra day on the road meeting with investors if the company budget will allow it. "At the end of the day, IR is essentially a marketing job," says Lattin. "You've got to be out there talking to investors frequently in order to maintain a good relationship."

After the visit, be sure to share feedback from investors with management. Their comments can be useful when reevaluating both IR strategy and the company strategy as a whole.

Hot Tip

Build a Killer IR Microsite

The Investor Relations page of a company Web site is a vital — and often undervalued — component of any IR strategy. Robert Berick suggests positioning your site as a 24-hour call center that can offer investors relevant information when the rest of the team is unavailable — a comforting prospect in volatile times. He recommends incorporating the following elements into your microsite:

- The landing page should link to at least three categories of information: historical (regulatory filings, management presentations), forward-looking (goals and guidance), and a section to discuss value drivers like business strategy and quality of management.
- Don't just populate the site with press releases or regurgitated boilerplates. Put yourself in the investor's shoes — what sort of information would create a compelling story? Include clear, accessible descriptions of your company's product lines or services, and create separate pages for institutional and individual investors.

- Above all, be sure to include the name, e-mail address, and phone number of the primary IR contact in an easily visible location. The resulting increase in calls will be minimal compared to the benefits of demonstrating your company's commitment to transparency.