

➤ The Annual Report: A Legal Document That You Should Read at Regular Intervals

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More than 80% of the information needed by companies can be found in published form and only 20% is protected. In our experience, of this 20% no more than 4% of the information ($20\% \times 20\%$) can be considered as critical to the organization. This renders the systemic search for illegal sources too risky to be of any benefit to the company whenever a competitiveness problem becomes inescapable. If you are looking for an innocuous means of obtaining information from legal sources published and updated annually by your competitors, why not try their Annual Report? Yes, forget about illegal listening devices, unauthorized use of computers, or paying workers to obtain secrets. Take your car, park it at your competitor's main gate. You will be invited to step forward. Your invitation card is nothing else than their Annual Report. Show it and you will be asked in and invited to visit their board of executives, listen to their chairman, talk to authorized strategic managers who will tell you much about their strategy and their product portfolio while wandering through their production facilities. Their Annual Report can be the ticket to your competitor's magic and secret world. Always keep it in mind. Besides, if you prove how interested you are in your competitor's development and compare what they include in their Annual Report each year, you will get the extra bonus of a dynamic view of their policy. Isn't this a fascinating exercise that you can obtain free of charge? Go ahead, bring your intuitive sense born of your own experience and your competence to the logical analysis of all sorts of information and let us take a look at this legal document proudly distributed by your rivals.

First of all we must identify the competitive advantage that we want to evaluate. The Annual Report can quickly deliver so much information that you could hardly find your way unless you clearly limit your search to strategic questions.

If we had to choose, I would strongly recommend taking a close look at six different functional areas, the so-called "top-watch items":

1. Research and development
2. Production
3. Marketing
4. Personnel
5. Finance
6. Management

For each item we determine five factors which must be chosen jointly with the end users if you want to avoid the "all theory trap." Each factor should be flexible enough to cover and adapt to the company's needs and the competitor's specificity. As you can see in Table 1, each parameter will be classified in one of three groups: "strong," "average," or "weak."

Since what is not quantified can seldom be correctly assessed or improved, we suggest rating +2 for strong, +1 for average, and +0 for weak.

In Table 2 we propose five different factors of practical interest in assessing the competitor's research and development field. These parameters can be modified and adapted according to your specific activity. You are asked to add new factors or shift to new priorities. In doing so, never forget that you must answer your end user's question and formulate your answer in a practical, comprehensive, and "actionable" fashion.

The goal in analyzing the Annual Report is to focus on a particular parameter and make sure that you are focusing on the right information. Thus, when trying to understand the opponent's industrial facilities, you must select the most valuable criteria to be monitored in the production field. Be flexible enough to adapt your parameters to the ongoing restructuring or downsizing program. This will enable you to learn where

Table 1. Parameter Rating Chart

Top-Watch Items	Competitive Advantage		
	Strong	Average	Weak
1. Parameter 1	2	1	0
2. Parameter 2	2	1	0
3. Parameter 3	2	1	0
4. Parameter 4	2	1	0
5. Parameter 5	2	1	0
Maximum	10		

Table 2. Example of R and D Rating

Research & Development	Competitive Advantage		
	Strong	Average	Weak
1. Equipment			
2. Financial resources			
3. Number of patents			
4. New products			
5. Product improvement development new processes			

Table 3. Example of Production Rating

Production	Competitive Advantage		
	Strong	Average	Weak
1. Facilities and capacity of utilization			
2. Labor			
3. Degree of automation			
4. Raw material availability and transformation			
5. Environmental protection			

your organization stands against the competition: their facilities, labor effectiveness, degree of automation, environmental risks, availability of raw material, etc. (Table 3).

Marketing strategy and customer responsiveness can also be evaluated in terms of customer satisfaction with your products or services, appraisals of delivery times,

price policy, and market shares. The classical four P's of marketing—product, price, promotion, and position—can be reviewed according to your knowledge of how your market is changing and how others are improving and becoming more future-oriented than yourselves.

Table 4 rates five parameters that you might consider in evaluating your competitive advantage.

Table 4. Example of Marketing Rating

Marketing	Competitive Advantage		
	Strong	Average	Weak
1. Product line			
2. Price competitiveness			
3. Service and biodistribution effectiveness			
4. Response to customers' needs			
5. Market shares			

Table 5. *Personnel Policy Through Rating*

Personnel	Competitive Advantage		
	Strong	Average	Weak
1. Total staff			
2. Turnover and flexibility			
3. Centralized or decentralized			
4. Social advantages			
5. Rationalization of organizational structure			

Table 6. *Finance Policy Through Rating*

Finance	Competitive Advantage		
	Strong	Average	Weak
1. Debt/equity ration			
2. Net income			
3. Share price			
4. Cash flow			
5. Earnings per share			

In the Annual Report, you will also find the expected role every employee, no matter what his or her job function, plays within the corporate culture. What are the personnel policy and social advantages allocated to competitor's employees, and do they translate the organiza-

tional strategy aimed at liberating their potential rather than controlling it? Does the managerial system encourage innovation and creativity? What else do you want to know about their personnel policy (recruitment, turn over, flexibility, etc.)? (Table 5)

Table 7. *Management Success Indicators*

Management	Competitive Advantage		
	Strong	Average	Weak
1. Corporate image			
2. Total quality			
3. Synergy between culture and strategy			
4. Diversification, alliances, licensing in, licensing out			
5. Influence of corporate management of outside the company			

Table 8. Assessment of Six Key Factors

	Competitive Advantage										
	0	1	2	3	4	5	6	7	8	9	10
1. R&D											
2. Production											
3. Marketing											
4. Personnel											
5. Finance											
6. Management											

Table 9. Year-by-Year Divisional Assessment: The Dynamic Approach

	Competitive Advantage										Year
	0	1	2	3	4	5	6	7	8	9	10
Research & development											
Production											

Like any company, your competitor finds himself caught up in the pace of change in the industrial environment, intercepting the future and adapting to the new needs and rules expressed by the chaotic market. How

Table 10. Year-by-Year Divisional Assessment: The Dynamic Approach

	Competitive Advantage										Year
	0	1	2	3	4	5	6	7	8	9	10
Marketing											
Personnel											

Table 11. Year-by-Year Divisional Assessment: The Dynamic Approach

	Competitive Advantage										Year
	0	1	2	3	4	5	6	7	8	9	10
Finance											
Management											

successful can his policy be, what are his results, his program to improve return on investment, the capital employed, etc.? Most of the financial coverage, along with main investments, the stockmarket, sales, cash flow, and earnings per share can be found with varying degrees of detail in the Annual Report (Table 6).

Projecting the past into the future is no strategy and cannot lead to intelligent decision making. Both you and your competitor are no exception to this rule. You need to know more about their managerial views and future expectations. The Annual Report gives you the opportunity to read your competitor's strategy, how they view the explosion of technology, how they would adapt their restructuring process or their reengineering experience, and the consequences of their corporate achievements. This gives a clear appreciation of their management performance along with their success indicators. Table 7 lists five parameters that give us a clear insight into the managerial reality and their approaches to management. Again you are free to choose different factors according to the changing nature of your business and your interests.

As previously explained, the Annual Report is an essential tool and we have evaluated six "top-watch items." Each item was studied using five different parameters. As we are free to adapt our criteria to the market, we avoid being prisoners of any given factor. Measuring the performances of our competitors can be done quickly by a synthetic overview of the selected items as shown in Table 8 with an attempt to quantify the competitive advantage rated from 0 to 10.

It makes good sense to study the performance of each competitor through four consecutive years to add a dynamic approach to the evaluation (Tables 9–11).

Conclusion

Always take the opportunity to read the Annual Reports published by your competitors. Read them again and again. Compare what is achieved with what was the rule three or four years before. You can even do the same analysis with your own Annual Reports if you want to know how your competitors view your organization. So, if you attend a professional meeting and you are introduced to someone you never met before, go back to the Annual Report, look at the photograph on the top of page 4, and make sure that this person is not seated next to the Chairman. Again, double-check his position in

your competitor's organization before exchanging your views on where the heart of the future of your industry lies.

About the Author

Pierre Achard, MD, is head of the External Research and coordinator of CI at Guerbet SA, a French company specializing in the synthesis and manufacture of contrast-agents used for diagnostic imaging. Since obtaining his medical degree, he has worked for several pharmaceutical laboratories in the capacity of Medical Director and head of the Medical Representatives salesforce.