Where Has Retail Gone, and Why Should You Care?

By Pamela Styles

Percent of shares held by individual retail investors has dwindled significantly over the past 20 years and so has the attention of IR professionals to this class of investors. Whatever happened to the garden-variety retail investor, and what about those currently invested in your company's stock? Why should you care?

IR practitioners have been spending untold hours monitoring rapid changes in market structures, trading practices and the regulatory landscape, mostly focused on institutional investors. But "Notice and Access" and the more recent NYSE Rule 452 amendment have renewed consideration of individual investors. I asked my Senior Roundtable colleagues to share their experience and thoughts about retail investors to demonstrate why IR practitioners may wish to rediscover cost-effective and efficient means of maintaining productive relations with any remaining retail investor base.

Overview

Do you fall into the category of IR practitioner who perceives retail investors as simply expensive and a drain on precious time? Senior IR practitioners remember when we actually spoke with retail investors on occasion. Making sure retail investors simply feel a connection rather than a sense of disfranchisement can go a long way to assuage proxy voting concerns. I am not advocating opening the floodgates of retail phone calls, but rather I believe we can treat Rule 452 as a catalyst for renewing consideration of our retail investor constituent base.

Rule 452

You may be inclined to believe that Rule 452 is irrelevant in your situation because retail investors hold a very small percentage of your company's total equity. This may be the case under "normal" circumstances, but if you have ever been in a proxy fight for board control or have been in other applicable situations, you may realize there is a reason to review your IR practices regularly as related to retail investors.

Rule 452 became effective in January. It prohibits brokers from voting for their clients without instructions on 18 nonroutine items, including board elections. The September 2009 *IR Update* article "NYSE's Rule 452 in a Nutshell," by corporate and securities lawyer Lois Yurow, provides practical considerations regarding electronic delivery, expenses, investor education, quorum, majority voting, influence of proxy advisors and influence of activists. (*See the links for full Rule text and article.)

• "Rule 452 isn't anything to be alarmed about, but IR practitioners should pay attention to it, particularly as shareholder democracy movements continue to grow. It is part of a regulatory policy that will likely continue to evolve. Retail investors will have more of a say going forward, particularly for companies that are going through significant change. When it comes to proxy fights, every vote counts. The retail vote is something companies are going to have to start focusing on again, and IROs will want to pay attention to these relationships." *– Keith Mabee, Vice Chairman, Dix & Eaton (Years in IR: 30)*

• "If a company has been exhibiting good IR practices all along, Rule 452 shouldn't be a huge concern. Companies that habitually underperform or change strategies a lot may invite contentious situations and need to be more concerned." *– John Chevalier, Director of IR, The Procter & Gamble Company (Years in IR: 9)*

Of course, generalizations invite exceptions. You might surmise that the more retail ownership in your company, the more you need to worry about Rule 452, and the less retail, the less concern. If your company has lower retail ownership, you might think you are safe and might be among the many who are not paying much attention to this Rule. But many factors can lead to contention and proxy fights. Proxy solicitors are used to encourage votes (including retail) in a proxy fight, but if you have no relationship with retail investors, they can just as easily be swayed by the opposition.

Different Approaches

There is no right or wrong approach. A very interesting result of my inquiries and conversations that you might not expect is that, while many IR programs largely discontinued any wholesale proactive outreach to retail in the past few years, several in fact revamped and renewed efforts pertaining to retail investor relations. Regardless of the degree of active retail outreach, most have made sure that their IR Web sites are robust and show accessibility to the investor relations department.

• "We have evolved our retail investor outreach significantly over the years and consciously made trade-offs. Instead of communications specific to retail shareholders, we are now creating an "IR Focus Series" on our Web site geared toward institutional investors but available to all investors. We have also reinforced the importance of customer service, requiring our representatives to respond to all phone and e-mail inquiries within 24 hours. This sort of IR program discipline is important to maintain a good company reputation across all investor groups and to avoid poor marks on influential surveys." *– Scott Cunningham, VP IR, Edison International (Years in IR: 11)*

• "When representing a publicly traded company, I have never overtly sought out retail investors but found that I still needed to communicate with them. We did not spend a lot of time or money on retail, but we occasionally attended some individual investor conferences. We always learned a lot from listening to their questions, and they really appreciated the attention. It is in IR's best interest to try to make sure the retail investors are educated on your company, which hopefully increases the chance of them being active and supportive voters." *– Tania Jernigan, VP IR, Core Realty Holdings, LLC (Years in IR: 13)*

• "Many do not appreciate the value of retail. It is the eccentrics that give retail a bad name. We have proven that owners of our stock are our best consumers. Our Web site specifically provides and prioritizes contact information for individual shareholders to contact IR. " *– John Chevalier*

Words of Wisdom From Senior Practitioners

- **Benefits of proactive and responsive retail investor relations include:** a source for a different perspective; a great training ground for junior IR practitioners; reduced proxy voting concerns; and, potentially, a mitigating influence in overall stock price volatility.
- **Contemporary tools provide greater time and cost efficiencies to reach retail investors.** A strong company IR Web site is critical and is the first line of defense. There are also many other modern communications tools and media you can use to reach retail investors with minimal strain on IR resources.
- **Company IR Web sites need to be robust and show accessibility to IR.** The pendulum is swinging back to provide individual IR representative names and contact information on the site for retail investors to reach the company's IR department directly.
- **Don't forget about your transfer agent.** Make sure they are up to speed on appropriate information to effectively respond to investor inquiries.

• "We take retail investors seriously. It makes sense for a consumer products stock like ours to have an active IR effort toward retail, and we include it in our long-range plan. The debate for IR in general has been the cost to reach individual shareholders. But here the Web is your friend—you can use your Web site to answer the first line of common questions. Look to other portals and use contemporary media channels to cost effectively get your story out to retail. Web sites like Morningstar and shows like CNBC's Mad Money profile stocks with retail investor appeal." – *Kris Wenker, VP IR, General Mills, Inc. (Years in IR: 30)*

• "Pending rules and regulations may make it easier for activist shareholders to launch proxy fights, with greater access to retail shareholders. It is important for companies to reassess IR communications and relationship strategies with all investors—particularly retail investors. IR must respond to retail investor inquiries, which will create an added burden on IROs. But you can mitigate this by fully utilizing the IR Web site and by anticipating issues." – *Keith Mabee*

Referenced Links

*NYSE Rule 452 – http://rules.nyse.com/nyse/help/map/rules-sys468.html

*"NYSE's Rule 452 in a Nutshell," by Lois Yurow (September 2009 *IR Update*) – http://www.niri.org/IRUpdates/LYurow-Sep-09.aspx

I cannot quote every Senior Roundtable member nor include specific comments from every conversation I have had in the process of writing this column. I leave you with some composite words of wisdom, found in the sidebar. IRU

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