The Investor Journey

White Paper

Synopsis:

As investors decide whether to buy a company's shares (or not) they start with little knowledge and go on a journey of discovery and decision, A successful outcome of the journey for an investee company is a committed long term shareholder who will recommend the investment to others. There is abundant research which shows that investors rely heavily on online media to make their decisions.

This white paper explores and explains the investor journey, wonders what the stages of the journey are, looks at behaviour of investors as they make the journey, and considers a number of issues that are relevant to an online investor relations strategy that effectively relates to investors at different stages of the journey.

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1 Executive Summary

Investors take a personal and individual journey as they make investment decisions. Their decisions are influenced by emotion as well as facts.

There is a high propensity for investors to rely on online information as they progress through the journey.

Companies that understand and relate well to the investor journey will have higher success rates in influencing investors to buy and hold their stock, even where entirely rational thought and analysis would lead to a different investment decision.

This paper discusses the concept of the investor journey, and maps out what the components of the journey might be.

Investors progress through the journey by making a decision to move to the next stage. Each decision to progress can be called a progression rate. By thinking about how to maximise the progression rates at each stage, we maximise the investor journey outcome.

This thinking leads to a discussion of the touchpoints that investors use to gather the information and feelings that are input to their decisions at each stage of the journey, and the success factors to maximise progression rates. These two subjects are explored in more detail in separate white papers ("Touchpoints" and "Success Factors"), accessible from the IRM website at www.irmau.com .

At IRM, we are online investor communications specialists. We understand the investor journey, the touchpoints and the success factors.

Of course, each company needs a good story and good messaging. IRM helps to best deliver this information to the touchpoints that investors are using at the time that they need to see them.

In a summer edition of Listed@ASX magazine, IRM CEO Martin Spry discussed the investor journey and the resulting ten principles for online communication. Read more about the Listed@ASX article in this IRMatters blog post.

If you would like to chat about this with Martin Spry, be cautious – it's his favourite subject, and the conversation might not be short! He does coffee on the subject, and can be reached by email on martin.spry@irmau.com, or by phone on | +61 2 8705 5444.

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2 The Investor Journey – explored and explained

Consumers who are buying a product go through stages as they reach their buy decision. The customer journey (or customer experience) is well understood by marketers.

Listed companies should assume the same principles apply to the buying process for investors.

In this white paper we explore how the consumer buying experience might apply to investors as they decide to buy shares in a company, or not, and hold onto them after the initial purchase.

The investor journey commences with a (potential) investor who does not really know anything about the company or the investment proposition of the company. The investor (they know they are an investor) might not even know the company exists, its name or ticker code. However, the investor knows that there is a potential to invest some money in a company of a particular profile. The profile may be defined rigidly in a particular investment mandate, or may only be a vague idea or preference of the likely style of the investment.

From this identified set of “needs” of the investor, a process occurs whereby information is gathered and a decision is made to invest in a particular company at a particular time.

The investor journey does not stop with a purchase of shares. It continues over time from there, involving a series of continuous decisions to hold and become a committed long term shareholder.

The journey may continue to a decision to sell some or all of the shares. Even then, however, the investor journey never really ends while ever the mandate and funds are available. There is always the potential to re-invest at a later date.

Each investor’s journey is personal and each is different. Some investors make progress quickly through the stages; some dawdle, some loop around through buy and sell stages, while others never make much progress at all.

3 Investor and Consumer journeys

Why is an investor journey similar to a regular consumer buying process?

As listed companies we’re continually marketing a product – our shares – to a largely unknown audience of potential investors through a largely online process, worldwide. Share trades are the immediate and direct daily results of the ongoing investor marketing. Marginal trades set the price.

Every listed company is continually marketing its product – its shares – to potential investors.

It’s a daily competition, it’s a worldwide online competition, and there are plenty of other choices for investors.

Those companies that do this job better and more consistently will likely achieve more interest in their stock, more competition for it, and a better share price.

4 Who are “investors”

The thrust of this white paper is that the company’s investor communication strategy needs to relate to investors as they make their journey. But who or what is an investor?

The IR community talks about retail and institutional investors, conveniently classifying the whole world into two boxes. Some rules exist defining who are professional investors – based on investible assets and income for individuals.

Where does the self-managed superannuation fund fit? Are these institutional or retail? Are they professional investors?

How do advisers fit? Accountants? Financial planners? Not at all? Are they a different category? Sell side analysts? Buy side analysts who are employees of investment funds?

For institutions, it’s the investment fund that has the mandate. Is the fund the investor, or the licensed entity managing the fund?

What about shareholders – the subset of investors who are the current holders of the shares. Are they different somehow?

Our view is that it’s none of these.

Companies cannot make decisions, only the people in them can make the decisions. When people move around, in and out of companies, the decisions made by that company will change.

So the investor is always an individual, a person, a human being.

People can have many roles – the holder of the personal wealth that is being invested, an executive in a company managing a fund with a particular mandate, a stock broker or financial planner adviser, a journalist, a buy or sell side analyst, a trustee of an SMSF, or even a mate who makes a comment at a barbecue.

All of these people can visit and touch a company through many touchpoints and hold or express some opinion on the company as an investment proposition.

All these people are “investors”. An investor is any person who has or may have some direct or indirect influence on a decision-making process which leads to an investment action.

5 Irrational Investors

If investors always made totally rational decisions the market as a whole would always move rationally and individual companies’ shares would relate to one another in a structured and rational way. This is not quite what really happens!

So investors as a whole are not rational, and even individually they are not (always) rational.

Human biochemistry indicates that when there is a conflict between the emotional brain and the rational brain, the emotional brain wins.

Sean Dougherty of Ticker Media Group explores this subject some more in his post “Irrational Investors, Rational Marketing”.

Sean says:

> *"With that in mind, what do you think is more important for attracting investors? Filings and financials or telling a good story?*
>
> *Business 101 would have us believe that numbers and data are the holy grail and little else matters, but the fact is it's a good story that gets investors to hit the "buy" button.*
>
> *Because that's where you can connect emotionally and as stated all things being equal emotion generally outweighs logic.*
>
> *Don't get me wrong, this isn't to say your balance sheet has no effect, but a good balance sheet that isn't explained well to the investor is about as effective as a bad balance sheet when it comes to earning investments.*
>
> *Investors don't invest in "what" they invest in "why".*
>
> *So when you're marketing to investors don't get caught up in telling them "what" you are, help them see "why" you're great. Don't sell the feature, sell the benefit.*
>
> *This is the most rational way to deal with irrational investors."*

The irrational investor concept means that the investments that are made will be decided primarily by how investors feel. Yet typically company behaviour towards investors has been to communicate with them like robots, provide them with numbers and data, and rely on the rational brain to make the right decision.

In this post "Why Behavioural Finance Matters", Mark McKelvie of CEO Investor Testing explains this idea more as he analyses the problem with communicating with investors like robots. His conclusion:

> *"Skip the data dumps. For investors to become shareholders, first they must like you. Make it easy for them. Connect with them, help them feel smart, help them see why you matter. Important to remember when it comes time for your next press release or website update."*

6 Relating the Investor Journey to the online IR strategy

There's plenty of research about the propensity of investors to access company data online before looking to offline means. If we include newspapers, for example, as a predominately online medium these days, there's little dispute.

While offline methods – calls, meetings etc – are extremely valuable at different times of the journey, when they happen, we generally know who the people are and where they are in the journey. So almost the entire focus should be on how the *online* IR strategy fits with the investor journey. The offline parts will fit within the broader online program.

Key to success with online IR is understanding the components of the investor journey, and delivering factual and emotional messages to investors at each stage.

The online communication strategy needs to do this without definitively knowing what stage of the journey each investor is at, or which touchpoint they will choose to use to receive the messages.

7 Stages of the Investor Journey

Because no two investors will take exactly the same journey, and we can't explain exactly what the journey might be, we are left to address the generic concept as a base for the online IR strategy.

The starting point for a journey is someone who has or can influence funds to invest, where there is a mandate (or potential mandate or preference) that could include our particular stock.

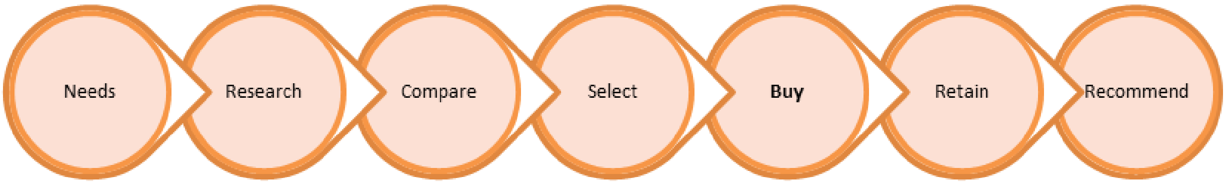
We don't know who these people are, and they might not know who we are. We just know that there are people out there with a potential *need* to invest in our stock.

So the investor journey starts with Needs.

At the other end of the spectrum, we have a subset of our existing shareholders who are committed long term investors and happily recommend the stock to others. So the final stage of the investor journey is *Recommend*.

The stages in between are similar to a normal consumer buying cycle, and might be something like this:

The Investor Journey



Shareholders (investors at the "retain" or "recommend" stages) may decide to sell some or all of their shares. They are still investors we need to address, but have just moved back to an earlier stage of the journey.

8 Making the Investor Journey

In practice, the world is never so simple or regimented.

Investors will wander back and forth through the journey or find side tracks to take, which may lead to dead ends or they get lost.

Investors also make decisions to progress to the next buying stage.

At each stage of the investor journey, some will decide not to continue on the journey with us. These are lost sales, lost investors. The remainder progress to the next stage.

Clearly, the more investors we can find in the Needs stage, and the better the progression rates between stages, the more will eventually find their way to the final Recommend stage.

It's a numbers game.

9 Progression Rates

Using the concept of progression rates, it is clear that the more investors we can reach in the initial stage of the investor journey, the more will become shareholders.

To illustrate the effect, and being incredibly simplistic (which the journey is not) we can look at the numerical effect of applying a progression rate to each stage in a simple model.

When we touch investors at the *Needs* stage, only some will decide to do *Research*. From there, only some will move to the *Compare* stage with our stock still in focus.

At each stage, similar considerations apply. For five phases from *Needs* to *Buy*, there's four progression rates.

If each progression rate is 1 in 10, that's 1 "*Buy*" per 10,000 with "*Needs*". Scary. If the messages delivered at the touchpoints at each stage are doing well, maybe the progression rates get to 1 in 5. That's one per 625. A 16-fold improvement.

If the progression rates can be reduced to one in four or one in three, the numbers of investors making it to the *Buy* stage are much higher. (One in 256 or one in 81).

So from an initial 10,000 possible investors with needs, do we want one buy decision? Or 16? Or 40, or 125?

The proposition is simple. With *best* practice at each touchpoint, for each stage, we get the *best* chance of recruiting and retaining investors.

10 The ASX Announcement

In Australia, the key document that carries investor messages is the ASX Announcement. The ASX dictates that this is a PDF document – an online version of a printed document.

The ASX Announcement is "released" by the ASX, and published on their website and through their distribution channels. None of this distribution is under the company's control.

For larger companies there are many people in the media and sell side analysts watching and waiting for ASX Announcements, particularly results and other announcements that have been telegraphed in advance. They will put their own spin on it and package the company's message to their part of the investor audience in a way that they choose.

Companies attempt to assist and influence this process by providing commentary, making executives available for interview, providing webcasts and audio commentary, presentation material and other supplementary information to influence the publication of the announcement.

Typically, there are then investor roadshows to present the information again, perhaps in a slightly different format, online and offline, with a subsequent announcement containing the presentation material.

Smaller companies have a different problem. They are not covered by media, or analysts. Few investors will come to their roadshows (if they can afford to run them). There are about 400 ASX Announcements every day. Theirs is lost in the hubbub of everyday trading.

These companies must try to identify their potential investors themselves, engage with them and communicate directly wherever possible.

Fortunately, there are plenty of online tools to enable smaller companies to do this quickly and effectively, so they can compete more effectively with their big company cousins, who in turn are using similar methods to keep ahead.

11 Impact of Technology

All of this is happening against a rapidly evolving technological background.

Back in the day, there were few corporate websites. Now every company must not only have one, but must have a good one (else the impression created is that the company doesn't care). Great websites then are more ordinary now.

The printed media – and in Australia, a small number or reputable newspapers – were the major source of financial advice years ago. Brokers' newsletters were distributed through snail mail. All these are now predominately online media. Online broker websites now carry information and recommendations, not under the company's control.

Back then, there were few companies keeping in touch with investors by email. Now it's common.

Few investors expected information delivered on their mobile phones in the past. Now, any company that does not do that well is sending an undesirable emotional message.

Years ago, in Australia, few companies used Twitter to communicate announcements to investors. Now Twitter usage is pervasive for businesses.

In times to come, there will be new ways to reach investors at different stages in the buying cycle.

As investors adopt the new technologies, so companies must change their messages and delivery mechanisms to find them there and reach them through another touchpoint.

12 Messages and Touchpoints

Each decision to progress or not is made based on some information given in company messaging, which is collected somehow through a touchpoint.

Online touchpoints include the company's investor website and third-party online sources (e.g., the ASX website, broker websites, online media and many more). Social media has become more widely used for investor purposes. Email alerts sent by the company are a useful touchpoint for the middle stages of the investor journey.

Online touchpoints are desktop and mobile, phone or tablet, at the investors' choice. We need to be effective at all of them to improve progression rates.

The messages delivered at each touchpoint can be via text, images, voice, video, ASX Announcements, tables, reports and many more. Short tweets or long detailed explanation and analysis. Each message carries facts and conveys impressions. Logic and emotion.

Investors at different stages at different touchpoints will expect – or simply prefer - different delivery mechanisms for the messages. The wrong format of message for that particular stage might cause a loss.

An effective online IR strategy delivers the messages in the medium investors want using the touchpoints they choose.

A fuller discussion of touchpoints is presented on the IRM website here, and in another IRMatters post here.

13 Success Factors

What does all this mean for an online IR strategy?

Success is when the IR communications strategy delivers the appropriate messages through the right touchpoints to suit the investors' needs for their current stage of the investor journey.

In this page on our website, and in more detail in a separate IRMatters post we present IRM's views on the ten best practice principles.

14 IRM and the Investor Journey

At IRM, we are online investor communications specialists. We understand the investor journey and how the touchpoints work, particularly the online touchpoints.

Of course, the company needs a good story and good messages. IRM helps deliver them to the touchpoints that investors are using at the time that they need to see them.

Visit IRM at www.irmau.com, or contact us via email contact@irmau.com or phone +61 2 8705 5444.

IRM regularly assists listed companies with assessing the gaps in their online investor relations strategies. If you would benefit from a discussion on this topic for your business, please contact Martin Spry by email on martin.spry@irmau.com, or by phone on +61 2 8705 5444.