

# The *OPEN* Perception Study™

## Proposal

from Peter J. Firestein

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## **HIGHLIGHTS OF THE “OPEN” PERCEPTION STUDY**

- All the benefits of a traditional Perception Study – plus an approach that detects new and unforeseen corporate risks.
- Delivery in half the usual time or less.
- Complete Flexibility. Variants include:
  - **Full Perception Study** – Comprehensive coverage of issues. Delivery time: Three weeks.
  - ***Fast-track Perception Study*** -- Addresses the most critical issues in 8-10 interviews. Delivery time: One week.
  - **Urgent Market Assessment** – Addresses one or two immediate issues in as many as five interviews. Delivery time: Hours to a few days.
  - **Post-Event Analysis** – In-depth followup to conference calls, analysts’ meetings, roadshows, etc. Delivery time: One week.
- Cost at or below consulting company norms.

## INTRODUCTION

My name is Peter Firestein. I am an investor relations and communications advisor of considerable experience and have helped global companies in many industries communicate value to U.S. markets. (My business bio appears at the end of this proposal.)

The purpose of the proposal is to make available to you a critical risk management tool that will help you develop intelligence on attitudes across the entire span of your financial and, if you wish, non-financial stakeholders. As companies become subject to tighter regulation and scrutiny from more diverse groups, many managements find the collection of such intelligence essential to sustainability. One process by which it is acquired is the Perception Study, yet the kind of Perception Study I offer is fundamentally different in ways that will become apparent as you read this proposal.

As a long-time advisor to senior managements and a writer on companies and markets, I am conversant with virtually the entire corporate environment. I am also extremely curious, and these elements result in a particular kind of Perception Study interview with analysts and portfolio managers. The interview becomes a dialogue of equals.

This means that a response to a questionnaire item can become the prelude to a larger conversation that encompasses the entire range of the respondent's views, opinions and convictions. Such an un-boundaried approach can elicit surprising insights on matters that may not have been considered in drafting the questionnaire. So, in addition to bringing all the value usually associated with Perception Studies, I offer you a new predictive resource for identifying issues before they become problems. That's what makes this an important risk management tool.

In addition to depth of analysis, I bring a broad flexibility in report configurations, time-lines, and prices.

Because of the unrestricted interview and flexibility in the service, I call this the *Open* Perception Study. I would hope you find the following proposal worth discussing, and that we might do so at a time of mutual convenience.

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# PROPOSAL

## STARTING POINT:

Any proposal for a Perception Study must begin with an assumption of the basics:

- The practitioner's immersion in issues surrounding the client company.
- Close cooperation with the client in developing the questionnaire.
- Consultation on the call list.
- Agreement on configuration of the report, date of delivery and other details.

## THE PROCESS AND THE REPORT:

The Open Perception Study is not a product with a set template. It is a service that is completely adaptable to render greatest value to a specific client at a particular moment. This means it is re-designed at each use, and its design results from close cooperation with the client.

## SCENARIOS:

There is very little that limits the methodology or makeup of the final report. The following examples indicate a range of elements from which I can build the service for you. Please consider them a point of departure for your thinking about how your needs can best be met.

### The "Full" Perception Study.

- May be as long as 150 pages (with transcripts), include 25 interviews or more, cover a dozen subjects, and offer both a generalized overview and highly compartmentalized analysis of the market intelligence developed. The final report may include:
  - Executive Summary.
  - Recommendations.
  - Findings:
    - Information broken down by general subject and sub-divided for specific issues.
    - Special section on matters raised that did not appear on the questionnaire.
  - Results of each questionnaire item.
  - List of participants.
  - Interview transcripts, if requested.
- Time of delivery: Three weeks.

### The *Fast-track Perception Study*.

- Furnishes in-depth analysis of a few specific issues on an expedited basis. Can include as many as 10 interviews.
- Time of delivery: One week or less.

### The *Urgent Market Assessment*.

- Even faster than Fast-track, it generally addresses one or two urgent issues in interviews with a small number of crucial analysts / investors. Results can be sent by e-mail on the day the interviews take place.
- Time of delivery: Hours to a few days.

### ALSO:

### Post-Event Analysis.

- Conducted after a conference call, analysts' meeting, or roadshow to elicit immediate reaction, comment, and insight. Configuration and other details subject to consultation with the client, but generally resembles the Fast-track Perception Study.
- Time of delivery: One week or less.

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## A FEW THINGS TO CONSIDER:

### Interim Reports.

You don't have to wait for the final report to hit your desk before you know what's in it. To the extent you wish, I will keep you updated throughout the process. If something interesting comes up, you will know about it as soon as I am through with the interview in which it occurs.

### The Report: Configuration, Clarity, Accessibility.

#### Configuration:

Upon initiation of work, I will consult fully on content and design of the report. Information will be classified and arranged exactly as you need it.

#### Clarity and Accessibility:

Each report is written with the understanding that it may be read by multiple constituencies within the client company. The information is therefore prepared in a comprehensive way to be accessible to all readers, regardless of their beginning frame of reference. The report is produced with the awareness that it is an instrument of the IR Officer, or other executive, in his or her role as a conduit of market intelligence to senior management. It is produced in all respects to support the executive in that role.

### Follow-up Support.

The Open Perception Study is a living document. This means its value is determined by its usefulness to you in applying the results to a constructive internal dialogue within your company. To the extent you view it as helpful, I will continue to consult with you after delivery about the implications of the report and how it might be translated into communications strategy and other action. I am also happy to explain my findings and suggestions in formal internal presentations and remain available to you in any way you deem useful.

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### A New Era of Risk.

In the last year or so, U.S. institutional investors and equity analysts have begun to realize what their UK and European counterparts have known for some time – that corporate risk extends well beyond the content of financial models and the traditional terms of capital markets valuation. Risk now encompasses areas that a short time ago were thought to be esoteric and “soft.” These include corporate governance, corporate social responsibility, and shareholder activism.

#### Corporate Governance

In a remarkably brief period, corporate governance has become an issue of intense interest. A thought pattern has emerged that traces much corporate failing back to governance issues. These have become the focus of attitudes around trust and responsibility, particularly in the financial press. With the Sarbanes-Oxley Act, Congress recognized the need to address the deficit of confidence – both among the public and the markets. MCI, to demonstrate distance from its predecessor, WorldCom, positioned its new corporate governance regime as the signature of its transformation. For any company, attitudes towards its corporate governance practices offer a window on the fundamentals of its reputation. (Also see Addendum II to this proposal: “Reputation Assessment.”)

#### Corporate Social Responsibility and Non-Financial Stakeholders:

Every company of size today confronts a host of energetic constituencies. They include NGO’s who look at environmental and labor issues, community groups who scrutinize the local impact of the company’s operations, and shareholder activists of all stripes. These stakeholders and others have become true players and can directly impact any company’s sustainability. I have deep experience in these areas and am now writing a book on relationships among corporations and their stakeholders. I can easily include these elements in the perception work.

#### Shareholder Initiatives:

It is worth noting that, in the current environment of increased regulation and virtually unprecedented mistrust of corporations, shareholder initiatives are taking

on importance as never before. Pension funds and other investors have established a new independence of mind in deciding how to vote their proxies. As a consequence, companies increasingly recognize the importance of understanding how their largest institutional shareholders are likely to vote on specific proposals.

Conversations with portfolio managers, such as those carried out in a Perception Study, afford the opportunity to access fund officials responsible for proxy voting. This is a line of strategic action that has been severely under-utilized, but could greatly benefit the client company. If handled well, perception work is an excellent vehicle for developing an understanding of voting tendencies among large shareholders.

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### Highly Sensitive Issues.

There are times when companies wish to assess market attitudes on matters that cannot be revealed. Potential mergers, acquisitions and divestments are typical of such issues. Certain techniques can be applied in gathering opinions on these highly confidential subjects without disclosing them. Readers of this proposal are free to advise whether they wish to pursue further conversations on this subject.

### The Third-Party Advantage.

In addition to candor in reporting what is heard in a Perception Study, candor is also important in Perception Study respondents. In the post-Enron era, which at times seems characterized by a brutal frankness, companies getting tough feedback from the market often believe they have the whole story from their analysts. But no matter how candid the analysts seem, there is often a gap between what they tell you and everything they think – and therefore what they may be privately telling their clients. This becomes evident on the frequent occasions when analysts, before offering comments on a Perception Study, double check for assurance that their statements will remain unattributed. They are all too aware that their livelihood depends on access to the company, and some can be reluctant to take chances.

One of the benefits of a Perception Study carried out by a third party is that it can be structured to protect respondents who want cover while still delivering their unvarnished views. A list of participants included in the report gives you the names of those who have contributed, yet none is connected to any specific comment. So, you get the full story, and analysts get the security they need to feel comfortable coming back to talk to you another day.

Candor.

I promise to deliver the straight news. I am not a consultant on retainer and have nothing to protect but my reputation for delivering value.

Confidentiality.

All information will be held in strictest confidence and will not be revealed to anyone else or used for any other purpose. There is no time limit on this commitment.

At the same time, I would hope that the details of my approach, concepts and methodologies – as well as this proposal – would not be shared with other members of the consulting profession. Be assured, however, that my pledge of confidentiality to you is absolutely unconditional and not dependent on your fulfillment of this request or on any other factor.

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## FIXED-INCOME INVESTOR RELATIONS AND PERCEPTION STUDY

While investor relations has traditionally focused on equity, many companies are recognizing the value of communicating with debt investors.

Corporate bond prices affect the cost of capital as directly as equity prices. But the investor relations profession has paid less attention to bonds for a number of reasons. First of all, the rating agencies are thought to cover much of the valuation analysis process. And bond investors focus on a different aspect of the corporate story: The fundamental sustainability of the company, rather than the broad and seemingly more complex issues of business growth that characterize equity analysis.

There is more to be gained from an active communication program with bond investors than might be supposed. Any observer knows that debt issues which may be identical in their technical details – such as rating, tenor, industry, etc. – can vary significantly in the prices at which they trade in secondary markets. The implication of these price differences is important, as a bond's performance within its peer group can affect the issue price of the company's subsequent debt, and therefore its future cost of capital.

Because there is no technical reason for such divergences in secondary-market price, they must be attributed to investor opinion about the company. And where price differences are the result of opinion, there is significant opportunity to affect the company's future cost of capital through communication. (This was the basis on which Peter Firestein, at the time a Managing Director at Thomson Financial, initiated that firm's fixed-income IR consulting business in 2000 and 2001. The program is now a going concern.)

Any investor communication program – whether in equity or debt – must be founded on an understanding of investor sentiment. And the principles of the perception study, described in an equity context throughout this proposal, can be applied as easily and effectively in the fixed-income universe.

## **PETER J. FIRESTEIN**

Peter Firestein is President of Global Strategic Communications. He is known internationally as an expert advisor in the management of corporate relationships with financial and non-financial stakeholders. His advice is based in the conviction that corporate actions and communication must be informed by careful listening to all constituencies. This, he believes, must be the fundamental approach to risk management.

Peter has designed and implemented strategic communications programs for companies throughout the world in helping them negotiate U.S. markets. He specializes in complex situations. Peter served as communications advisor to Brazil's Communications Ministry and Telebrás in that company's historic privatization, which resulted in the listing of 12 companies on the NYSE in a single day. Among more than 100 mandates in the course of his career, he has served as investor relations counsel to Telefónica S.A. and its six listed global affiliates. He was head of global investor relations at Georgeson & Co., and, as Managing Director of Thomson Financial / Carson, he built the largest investor relations consulting practice in Latin America. He also founded that group's global fixed-income consulting practice.

Peter's additional specialties include crisis communications, disclosure standards, and regulatory issues. He has been active in privatizations, reputation management, mergers and acquisitions, and capital-raising activities, including IPO's. His experience spans most major industry sectors, including telecommunications, energy, media, technology, banking and finance, pharmaceuticals, manufacturing, mining, retail, and construction and infrastructure. He has published extensively on international economic issues.

Peter is a former advisory board member of the International Advisory Group. He has spoken before many large U.S. and international groups, including the Conference Board, on issues relating to the interplay between corporations and their constituencies.

He has also served as Director of Marketing for the Council of the Americas. Founded by David Rockefeller, the Council is a forum for communication between major U.S. corporations and senior officials, including chiefs of state, throughout the hemisphere.

Peter is founder, publisher and editor of *Market Bias*, a newsletter for investment professionals that analyzes the dynamics by which equities markets process news. Developed as a means of tracking investor sentiment, *Market Bias* has been cited in the major financial media, including *Barron's*.

He also served as Vice President of Marketing at Drexel Burnham Lambert where he was instrumental in developing media and other marketing support for financial products such as high yield bond offerings and mutual funds in debt, equity, and commodities.

Peter received an A.B. in English Literature from Stanford University and an M.A. from San Francisco State University. He is a licensed pilot and *aficionado* of classical music.