

Case 8-1

Steelcase, Inc.

Perry Grueber sat at his desk at Steelcase, Inc., on a bright day in July 2000, thinking about the work that lay ahead for him. Grueber had just joined Steelcase, a maker of office furnishings and workspace solutions, as director of investor relations. Steelcase was dedicated to improving IR at the company and had promised Grueber the resources he required to make the department an effective tool for communicating to key constituencies.

When Grueber accepted his job in May, Steelcase was trading at \$11.56 per share, just above its all-time low of \$10.38 per share and down 70 percent from a high of \$37.94. Steelcase's operating performance was mostly to blame for the declining share price; however, the company's communications with its investors also had played a role. The company had high turnover in its institutional shareholder base and, since the time of its IPO, had not actively marketed itself to sell-side analysts. These analysts, in return, expressed little interest in the company. At the same time, insider sales were increasing, sending more shares into the market amid soft demand. Grueber needed a new IR strategy to help Steelcase turn its situation around. As he settled into his new office at the company's headquarters in Grand Rapids, Michigan, he began to assess the challenge that lay before him objectively.

HISTORY OF STEELCASE, INC.

Steelcase was founded in 1912 by Peter Wege, Henry Idema, and 12 other investors under the name Metal Office Furniture. Wege hoped to capitalize on the benefits of metal furniture

over its more flammable wooden counterparts. This original vision found success early on, as government architects began to specify metal in their designs and turned quickly to Metal Office Furniture to fill their demand. Early company successes included the development of the metal wastebasket and the later invention of the suspension cabinet, which became the foundation for all modern filing cabinets.

Company sales in 1913, the first full year of operations, were \$76,000. As revenues began to increase, Metal Office Furniture hired a media consultant, who created the trademark Steelcase name in 1921. World War II and the resulting war material contracts benefited the company, and the boom years of the 1950s and 1960s catapulted Steelcase further forward in terms of revenues and profits. By the late 1960s, Steelcase had become the largest manufacturer in the office furniture industry. It retained that status through the year 2001, when the company reported revenues of \$4.1 billion.

Steelcase's founder, Peter Wege Sr., died in 1947. Wege's partner Henry Idema died four years later in 1951, and control of the company fell to Henry Idema's son Walter. The Idemas began a tradition of family stewardship over the company that continued when Walter Idema's son-in-law Robert Pew II assumed leadership in 1966. Pew became executive chairman in 1974 and retained that title until his retirement in 1999, although James P. Hackett became president and CEO in 1994. By 2000, Steelcase as a company retained the imprint of the vision and the direction it had received through the founding families' descendents.

IDENTITY, VISION, AND REPUTATION

Steelcase built its image from the set of values held by founders Peter Wege and Henry Idema,

Source: This case was prepared by Thomas Darling under the supervision of Professor Paul A. Argenti at the Tuck School of Business at Dartmouth. Information was gathered from public and corporate sources, including interviews with Perry Grueber at Steelcase in May 2002.

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clearly articulated in its organizational goals: "Steelcase aspires to transform the ways people work . . . to help them work more effectively than they ever thought they could."¹ Every employee read the company's core values statement:

"At Steelcase, We:
Act with integrity
Tell the Truth
Keep commitments
Treat people with dignity and respect
Promote positive relationships
Protect the environment
Excel"²

Steelcase had a history of "putting people before profits"³ and dealing fairly with its employees. As Grueber explained, "There is very much a family atmosphere . . . I've never seen a better benefits package and it is not just executive benefits; it's all the way down the line." Tenure with the firm averaged nearly 18 years. The values embodied in Steelcase's treatment of its employees applied to other constituencies as well, including dealers, vendors, and the communities in which Steelcase operated.

As Grueber described it, Steelcase prided itself in "communicat[ing] values through actions. It's not just the corporate line." For example, shortly after becoming CEO, James Hackett voiced his concern that Steelcase's offices did not communicate the company's goal of transforming the way people work to be more effective. Outdated headquarters designs from the 1960s and 1970s isolated executives in their offices. When company management wanted to conduct brainstorming or other creative sessions, they often "fled headquarters."⁴

James Hackett challenged senior management to trade their traditional offices for a new

office environment one floor below. This office overcame the existing separation and used a quarter less space. The offer contained an escape clause, allowing management to move back to the traditional offices after a trial period. But the redesigned offices proved to be an unmitigated success, increasing workplace effectiveness and becoming the prototype for a new line of systems furniture called Pathways.⁵

Internally, all members of Steelcase acted in a way that reinforced the company's message of open communication at every level. As Grueber explained, "Executives all have an open-door policy. If you came to visit our offices, you would see that our senior executives reside in an open-plan environment. They don't have enclosed offices and so, we go to great lengths to live our vision."

Externally Steelcase's strong values helped create a dealership network that was the envy of the industry and demonstrated the extent to which Steelcase's values shaped its business. Steelcase relied heavily on its dealers to support its "made to order" business model and made a point of treating them with respect, as primary purchasers of their products and as fellow businesspeople whose own businesses would prosper as Steelcase's had prospered.

THE INITIAL PUBLIC OFFERING

During its time as a private company, Steelcase had developed a much-admired reputation stemming from its well-articulated identity, vision, strategy, and culture. Although Steelcase intended to continue its focus as defined by the original families into the future, the company also believed that it had reached a point where it would benefit from a changeover to public ownership. This change would provide increased liquidity to the company's founding families and give them the ability to diversify their holdings. As the list of Steelcase heirs grew, liquidity became more important to these private owners. Many of the family

¹ Steelcase, Inc., website, "Our Company: Overview," <http://www.steelcase.com/servlet/OurCompany>.

² Ibid.

³ Conversation with Perry Grueber.

⁴ Marc Spiegler, "Changing the Game," *Metropolis Feature*, July 1998, <http://www.metropolismag.com/html/content/0798/j198game.htm>.

⁵ Ibid.

members wanted to diversify their long-term holdings and allow for distributions to charities and other philanthropic activities. During its 90 years as a private company, Steelcase had grown to become a member of the *Fortune* 500 and the largest manufacturer of office solutions in the United States. By 1998, the private ownership structure for this organization was simply too inflexible.

The economic environment at the end of the 1990s was prime for Steelcase's initial public offering. Data from the Business and Industrial Furniture Manufacturer's Association (BIFMA) forecast double-digit increases in office furniture shipments throughout the first three quarters of 1997.⁶ Steelcase was the leader in this growing furniture shipment industry, which was already worth \$10 billion in 1996. Furthermore, the U.S. economy overall was still growing at an impressive pace (though the Asian crisis had sparked some doubt in late 1997), white-collar job growth remained strong, and companies were flush with cash from the booming stock market.

Steelcase came to market on February 18, 1998, with a 9.4-million-share offering priced at \$28 per share; the proceeds went entirely to family stakeholders. The offering proved very popular with money managers and was oversubscribed to such a degree that the number of shares was increased from 9.4 million to 12.5 million and the IPO price quickly exceeded the originally projected range of \$23–\$26 per share. On the first day of trading, Steelcase shares rose from the opening offer to close at \$33.63, up approximately 20 percent.

After the IPO, 156 million total shares were outstanding, with 12.5 million in public hands, and the balance owned by the founding family. Employees received a gift of 10 shares each and options allowing them to purchase shares at below-market rates. One-third of the IPO shares went to employees. Institutions were the largest

purchasers of the 12.5 million shares sold to the public.

STEELCASE AS A PUBLIC COMPANY (IPO TO JUNE 2000)

Steelcase hit an all-time closing high of \$37.94 per share on March 13, 1998, less than one month after the IPO. Almost everything that followed with respect to the company's stock price, however, was disappointing. Uncertainty caused by the 1997 Asian crisis and the 1998 Russian default significantly disturbed many companies' capital expenditures. In addition, as the year 2000 approached and "Y2K" fears loomed, corporate spending was focused almost solely on technology and information systems. Although traditional indicators of furniture system demand remained strong, those indicators did not translate into end demand for Steelcase's products.

In 1999, just as the company's profitability started to weaken, Steelcase purchased the remaining 50 percent of Strafor, a previous joint venture interest in Europe and Africa with annual sales of \$500 million. Because the two companies concentrated on different aspects of the furniture business, the addition of Strafor's business to the balance sheet had a material effect on several of Steelcase's financial ratios. All of Steelcase's products were "made to order." This business model had allowed it to carry only a small amount of inventory, and Steelcase's dealers typically paid for purchases in less than 30 days. Strafor did not have the same inventory constraints. Also, many of Strafor's customers were accustomed to paying closer to 90 days after receiving an order. With the Strafor acquisition, inventory at Steelcase rose and inventory turnover fell. At the same time, however, a new customer base increased Steelcase's collection risk. The softness in the balance sheet reinforced investor concerns over deteriorating earnings performance.

Steelcase performance in 1999–2000 was mediocre. Sales slumped or, at best, remained flat.

⁶ Mahua Dutta, "Steelcase Builds IPO," *IPO Reporter*, February 16, 1998.

Cost control initiatives and a cut in bonuses brought earnings up in 1999, but gains were erased by a significant fall in earnings reported in 2000.⁷ Steelcase had expected a certain amount of business in 1999 that never materialized, throwing off the company's cost structure and causing the gross margins to drop.

Sagging sales turned into a flood of orders in early 2000, coming in from companies that had delayed renovation projects until after Y2K. Investors expected Steelcase to bounce back quickly. Unfortunately, the company had underestimated the costs associated with serving a rush of new orders. According to Grueber, "As the surge in business came in 2000, when our system should have been there to meet the needs without any difficulty, the customer service requirements were so rigorous in terms of delivering product, getting it there on time, and the pricing environment so tough that we had further erosion of our gross margins and operating margins." Profitability and operating margins continued to slump.

At the time of the IPO, Steelcase had no debt on its balance sheet. It had positive earnings of \$1.40 per share (including shares issued through the IPO) and an overall strong demand for its product. Two years later, Steelcase faced increasing volatility in end demand and a weaker balance sheet. The company was unsure of what strategy to communicate to investors. "The market just didn't understand what was happening," said Grueber, "and we were not in a position to articulate a great strategy."

THE INVESTOR RELATIONS EFFORT (1998–2000)

STRUCTURE

Because of its large size and market-leading position, Steelcase had the potential to be a credible, attractive investment for multiple types

of institutional investors. But institutions didn't flock to Steelcase shares. The company was large enough to be included on several indices; however, its percentage weighting was often adjusted to reflect its small float (the number of shares owned by the public, not including insiders). Many institutional investors chose to steer clear because of its relative illiquidity. SEC filings showed only 28 institutional holders of Steelcase in 2000, representing between 5 and 8 percent of the shares available to the public. With the exception of several small index players, turnover among institutions was well over 50 percent, meaning that the institutional shareholder base changed every two years.

When Perry Grueber arrived at the company to take over as director of investor relations, he replaced Gary Malburg, who was both the vice president of finance and treasurer and head of IR. Malburg had been responsible for communicating with investors, answering questions, and assisting with the financial statements. However, because of significant and growing responsibilities in the Treasury department, only about a quarter of his time was available for investor relations activities. The company's corporate communications director, Allan Smith—who reported to the vice president of global marketing and communications, Georgia Everse—also assisted the IR effort, crafting and disseminating press releases and creating the company's annual report. The staff in these two divisions had few formal channels for interaction. Steelcase's internal structure lacked a clear conduit for IR staff to respond to the concerns of its shareholders.

Although IR had not been a priority at Steelcase, the company had not remained inactive in its attempts to communicate with existing shareholders following its IPO. It engaged the services of Genesis, Inc., a highly respected investor relations consulting company. According to Deborah Kelly, a partner at Genesis, "The good news was that Steelcase was widely respected by its core constituencies as the dominant force in the office furniture

⁷ Note that Steelcase operates on a fiscal year ending in February, and all references to financial statements are for the year ending in February.

industry and as being guided by people with strategic vision and a solid grasp of trends."⁸ Nonetheless, she continued, "there was frustration among investment analysts regarding performance."

Genesis's main responsibility was advising Steelcase in the creation of the company's annual report. Genesis also helped plan Steelcase's first "analyst day" in November 1999, an event hosted by the company for buy- and sell-side analysts and portfolio managers. Leading up to this "analyst day," Steelcase hired another outside consultant to perform a perception study of investors' opinions about company communications. The report produced from the study, according to Kelly, revealed that "investors were looking for a more proactive IR program that could help them better understand strategic objectives and they wanted to have greater access to management, so they could get more than just the phone answered." Analyst day helped open up the decision-making process to many analysts and portfolio managers, but this important first step lacked the vital follow-up that additional proactive communications might have provided. As he entered the company, Grueber had the opportunity to launch a renewed and sustained effort to implement strong IR strategies at Steelcase.

GUIDANCE AND REPORTING

In some ways, Steelcase resembled a public company even before its IPO in 1998; it had a board of directors, audited financial statements, and a large shareholder base. Once Steelcase became a public company, however, the previous shareholder makeup led to an "inner circle" mentality that proved difficult to change. Management was not used to the additional requests for information and sometimes assumed a defensive posture toward inquisitive analysts or investors. "Once we had come public," said Grueber, "we were providing

the required elements but not a great deal of insight into decision making at the company or the strategic direction of the company."

Steelcase's reluctance to share publicly its inner decision-making processes extended a company approach to communications that had developed during its decades of heavy reliance on the controlling families' leadership. The families chose board members as their representatives, who then hired and supervised the management team. The company under this system earned a strong level of trust both in its direction and in the quality of the reported information. Very little information was ever questioned or requested by non-board members. Along with this trust, though, came a highly conservative outlook from company leadership with regard to the amount of information shared and prospective statements regarding business performance.

In each earnings release, Steelcase typically disclosed very specific guidance for the upcoming year or quarter. Grueber noted, "The company, due to its conservative nature, has been very cautious about selective disclosure throughout its public life. The way they communicated to the Street was through a press release." Due to advice from internal counsel and a desire to prevent selective disclosure, management never "walked the Street up or down" with its estimates.⁹ Another major factor in Steelcase's conservative approach to its disclosures after it became public was the lack of incentives to develop a strong quarterly forecasting discipline during its years as a private company. In addition, the company did not strive to build and maintain relationships with its analysts, so when it came time to disseminate information, it didn't have a receptive ear through the sell-side analysts.

⁹ "Walking the street" is a practice that includes providing material information to analysts during conversations, making excessive statements concerning future earnings prospects, or blatantly encouraging analysts to raise a lower earnings estimate. Some of these tactics have since been prohibited through the Regulations for Fair Disclosure, enacted in 2000.

⁸ This and all quotes are from interviews with Deborah Kelly in May 2002.

Steelcase's inexperience with releasing company information to the analyst community cost it credibility in the years immediately following its IPO. Press releases assumed relatively high importance at Steelcase in a company environment that both lacked a strong channel for adjusting guidance and reflected the company's inherently conservative attitude toward providing information to outside parties. Unfortunately, if the information published in a current press release was inconsistent with earlier guidance, Steelcase could do very little to minimize the surprise the information caused investors. Several pre-announcements in 1998 and 1999 damaged Steelcase's reputation with investors and increased the perceived risks associated with owning the stock. As Genesis's Deborah Kelly explained, "They kept missing quarters and it was an unusually large number. For a company that has just gone public, usually you want to have 4-5 quarters in the bag. . . . Not here."

NEXT STEPS FOR STEELCASE

Overall, Steelcase put a tremendous amount of effort into its IPO and into readying itself for the rigor of being a public company. Unfortunately, assumptions about public company communications that Steelcase made based upon past experiences as a private company often led to disappointment for investors. In addition, the equity markets entered into an extremely turbulent period after the IPO, which caused significant shocks to equity values and corporate capital spending and also created a harsh environment for a newly public company to develop its investor relations acumen. Deborah Kelly summed up Steelcase's situation as follows:

I think they put a lot of effort into getting a grasp for what being a public company meant from a

communications perspective. They are such good people. They are a terrific management team in terms of doing the right thing, integrity, and caring about what happens. The shock was that they had spent so many years communicating with owners that I don't think they realized there might be a difference when you go public. It was kind of a shock that you had to do things a little differently and have a different sensitivity with this group.

As part of Steelcase's effort to readdress its corporate communication to investors, the company had hired Grueber, and now it was up to him to outline his goals and strategy for the IR department.

CASE QUESTIONS

1. As part of creating the full-time IR position, Steelcase had to decide where to place Grueber in the company hierarchy. Given the issues facing Steelcase when Grueber arrived, what are the strengths and weaknesses of placing Grueber under the CFO versus the corporate communication department?
2. What resources should Grueber ask for? How should he organize the function (reporting lines, internal staff versus agencies, etc.)?
3. What investor constituencies should Steelcase try to interest in the company's stock? What channels should Grueber use to attract them? What message would Steelcase deliver to them?
4. What mistakes did Steelcase make in its past IR efforts?
5. What are the biggest challenges facing Steelcase in mid-2000 and beyond? How would you position the IR function to handle those challenges?
6. What can you learn about Steelcase today through an online search of its website?