

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

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.

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