Case study Jarvis plc.

Jarvis plc. is a business that had high growth potential and that easily attracts capital. From its humble beginnings as a £10 million turnover construction company, Jarvis quickly expanded into the railways - refurbishment and maintenance, road maintenance and highways products - and bought significant stakes in three major London Underground lines. When the offer of public and private sector construction projects in the UK came along, Jarvis saw this area as an opportunity for growth. In 2002 the company increased its annual turnover to £1.1bn, while the share price rose to £575 per share.

However, in the spring of 2004, it was a different story for Jarvis. A rail accident raised questions about the quality of its service. The construction division began to sink into loss. Producing brand new road building materials, it tried to make up the loss and at least make rent, only the cost of the new headquarters was almost double the current market rent. The owner decided to change the management of the company. By the time Steve Norris, the former British Transport Secretary, was elected as a director, the company was fully in default on its loans, it was an average of 60 days overdue even in paying its suppliers, there was little money in the bank. Annual operating losses were £189 million and the share price had fallen to £79 per share. Norris recognised that dramatic change was necessary to ensure the company's survival. In June 2004, after interviewing several potential firms for help, he chose AlixPartners, a well-known restructuring firm headed by Eric Simons. While most firms were strategizing how to gain more market share, Jarvis needed a leader who knew how to to lead in a time of deep crisis.

At this stage, it needed to be done immediately:

In collaboration with the firm's investment bankers, identify the core business around which the new company would be focused, determine a plan to liquidate the rest;

Ensure the timeliness and reliability of cash flow forecasting and management; and

Open communication with corporate stakeholders - their customers, creditors, business partners and employees - to give them confidence as to the future direction of the company.

Within 45 days, significant progress was made in addressing these challenges. The lenders agreed to provide a £25,000,000 operating loan. Further progress has been made in meeting these defined tasks. In addition, over the next 90 days the company has used the loan provided sufficiently to complete nine contracts. Over the same period, £24,000,000 of operating costs were removed. An analysis of the Company's assets has commenced to confirm their future viability.

And so in October - just four months after AlixPartners' involvement - progress was made in the form of a new vision for the company, a new future and a plan to get there. For the next few months, the focus was on three activities of the new critical effort:

Removing a further £30 million of operating costs for the company's future in its forecast;

Raising shareholders' stakes to £120 million of new funds to meet the forecast and cover the shortfall in the remaining 14 major contracts. Without this funding they were likely to be delayed.

At the time, the Jarvis story was not entirely finished by the crisis manager alone. Work remained on completing the restructuring of non-core operations and continuing to build a future for the core business. In addition, the share debts were likely to be deferred until later in 2005.

In a relatively short period of time, AlixPartners stabilized operations for additional customers, suppliers and employees, restructured the company's balance sheet and cost structure, secured a stronger economic platform to provide additional goods and services. Ancillary operations were terminated in an economically responsible manner for customers, suppliers and employees, or sold to competitors. Creditors and shareholders, facing an economic outlook for their investments, were more optimistic than they had been in the traditional insolvency or liquidation scenario, which was offered only 7 months into the crisis manager's tenure.

From the perspective of stakeholders - customers, suppliers, employees, creditors and shareholders - what value will a crisis manager bring?