CMR CATALYST GROUPS

This is an example case study based on an actual Catalyst Group formed. Because of confidentiality issues (the group was subsequently sold to a larger group) the identities of the companies involved have been changed.

The start point for the whole project was the purchase of Company A from the Receiver - the company having gone bust largely because of having an erratic cash flow and difficult trading conditions. Whilst the primary reasons were corrected by the purchaser, it was apparent to him that the company was still in a semi-marginal state and needed to achieve a greater critical mass if it was to prosper. The company was involved in providing engineering services to airports - particularly Heathrow and Gatwick for baggage and cargo handling systems. It was also apparent that there were many other smallish companies serving the airports who were also operating on a fairly marginal basis.

In conjunction with CMR the decision was taken to investigate forming a Catalyst Group involving Company A and a number of other companies also serving the airports. In conjunction with the carry-over management of Company A, a list of potentially suitable partners was constructed - the guiding principle was to create a group of companies that addressed the same broad market sector albeit from different product/ service angles, and which together could provide a far more comprehensive one-stop service to the customer base – the airlines and BAA.

The overall preferred structure for the group was determined in this way, and the identities of possible partner companies established. CMR operating in a highly confidential way, then made contact with the owners of the first rank of potential partners. The initial conversation was more to do with explaining the concepts involved rather than the specifics of this particular Catalyst Group.

Perhaps surprisingly all the companies approached readily agreed to having the meeting and all became enthusiastic about becoming involved. The enthusiasm could perhaps be explained because all of the companies were struggling to some degree, and could see that this was a way of moving themselves from being a small, marginal company into being part of a group that had far more substance and more clout in the marketplace.

There were a total of five companies brought together - each having a different service/ product but all selling mainly to the same customer groups.

All parties understood that the first stage in forming the Catalyst Group was the establishment of a Group Board which operated only in an advisory and cooperative basis - each company remained exactly as they were, with no transfers of shareholding or control. The MDs of each company were members of the Group Board, with the independent Group Chairman coming from CMR. During this stage, when of course everyone was getting used to each other, the main topics of discussion were:

a) How to cooperate in marketing to customers, and in the cross-reference of customers to other members of the Group.
b) The use of Group members to supply products and services needed for customers - whereas before they would have used external suppliers.
c) Looking at procurement savings that could be made by pooling purchasing power.

d) Looking at how to reduce fixed costs together - although the real benefits from this would have to wait until the formal Group was formed.

During this period that lasted for about five months, those involved got to know each other and a real rapport started to grow, as each could see that this was the way forward to stop being a small marginal business and to be part of a far more viable group.

The Group therefore moved to the next phase where 51% of each company's shareholding was exchanged for shares in the Group. By agreement an independent firm of Chartered Accountants was commissioned to establish the current value of each company and therefore the share each should get in the Group. CMR was allocated 25% of the Group's shareholding for its role in bringing the group together.

From that point onwards the companies became formal subsidiaries of the Group and the Group's Board now exercised full control over the business, subject of course to the minority interests.

The Group went on to market all products and services under the group name, which also allowed it to become a main contractor to customers rather than just sub-contractors as each company was before. It had a real and very beneficial effect on business levels and profitability.

The Group was also able to centralise many admin and procurement activities, achieving good cost savings as a result.

After about two years the Group's operations attracted the attention of a much larger group who made an offer to acquire. After much negotiation a price was agreed, and before completion the remaining 49% of shares were exchanged for Group shares on the same basis as before. All were offered service contracts with the acquiring group, although several decided to retire with a required part-time consultancy contract for a period of time.