

PERSPECTIVE

Constructing success: it's all about relationships

Probuild's beginnings were tough but the experience paved the way to success.

Story Mathew Dunckley

It was early 1986 and Phil Mehrten was in hell. His friend and mentor, Aldo Dujela, had been killed in a car crash only weeks after the pair had gone into business together.

Their first project, a \$20 million job for the Gandel family, was in its infancy. It had been Dujela who had forged the relationship with the Gandels — one of the most powerful families in Australian property — on his previous construction job.

"That was three months into the job. I was 26 and all we had was a couple of carpenters from Numurkah helping us," Mehrten says. "I thought 'what am I going to do?'"

He considered getting out and there were offers to take the work off his hands. But after talking it through with his wife, he took the plunge and turned his energies as many do in the face of such terrible tragedies — to building something lasting.

Today the privately owned company, known as Probuild, is involved in more than \$1 billion worth of projects around the country, has more than 450 direct employees, and has a heavyweight backer in South African powerhouse WBHO.

The trauma of that early experience shaped much of what has happened since, the good and the bad.

After Dujela died, Mehrten found himself alone in a business renowned for its ruthlessness, terrifyingly fine margins and behaviour that often stretched legal boundaries. He learned immediately just how demanding it could be. That his first job extending the Altona Gate Shopping Centre was finished at all is fairly remarkable.

Starting at 6.30 each morning, the day crew worked outside. Then when the shoppers went home, Mehrten moved inside with the night crew and carried on until midnight.

"A lot of that was, I suppose, for Aldo. There was a lot of adrenalin. I thought if nothing else I will finish this job for him, it was a very personal, emotional thing, he says.

"And then there were the threats. 'We had people threatening subcontractors who came to work for us saying 'you won't get work with us', he says.

The job was completed on time, on budget and to the required standard. Not only did it keep Mehrten's business afloat, it kept alive his relationship with the Gandels. And it is this relationship that has sustained the business. Since that initial project, Probuild has completed more than \$600 million worth of work for Gandel companies.

"I look back now and think, probably from one of the greatest tragedies I have experienced in my life, also came the greatest opportunity," he says.

"This business turned into what it is today from that."

So frequently did Probuild win work from Gandel over the years that Mehrten says he has frequently had to hose down rumours the family had an interest in his company.

When Gandel presented an opportunity to work on an extension of Chadstone Shopping Centre, Mehrten realised he could not continue on his own and, following advice from others, approached Wayne Judson about joining the business.

"The only thing I knew about him was he played in the back pocket for St Kilda," Mehrten says of Judson, who was working at Lustig & Moar at the time.

Another step forward, another relationship that would pay off.

"We are two very different people in a lot of ways but very similar in others. We are both very strong-willed and hard-headed, says Mehrten.

Then came Daimaru. It was 1989 and Japanese money was super-charging Australian property.

Daimaru came to Melbourne with a plan for a high-end department store. Probuild won the job to build it.

Perhaps most importantly, the \$40 million Daimaru contract helped bankroll the still fledgling company in the dark days of the recession of the early 1990s.

"We had this Daimaru job and a half a dozen other jobs around the place," says Mehrten.

It was at this time that Mehrten met Ted Yencken. Compared with plain-speaking raconteur Mehrten, his now co-director Yencken wears the tie in the relationship.

Back then, as a manager for Costain, Yencken was untangling property industry wreckage in the early 1990s. Acting on instructions from administrators to complete projects, Yencken awarded a number of jobs to Probuild.

"I wanted to find a hard-nosed contractor who could deal with unions and ... subcontractors, Yencken says.

In the short term, nothing more came of it. As the 1990s came to a close, the industry and Probuild began to steam along again. For a



Phil Mehrten, right, and co-director Ted Yencken: joining the big league. Photo Paul Jones

pair of raw builders, administration was becoming a problem. Yencken had since gone into business as a project manager with two partners and, after some soul-searching about leaving his own business, came on board with Probuild. "I liked them as individuals and I liked their work. We clearly had a very similar idea of how the industry should operate," Yencken says.

He says he decided to buy into the business "for a lot of money". "For next to nothing," Mehrten shoots straight back and they both laugh. Instantly, it is clear the two very different men have a very good understanding of each other and their own strengths.

Probuild had by now developed a retail building specialisation but as the apartment boom began, it became clear there was an opportunity to diversify.

Suburban apartment developments were followed by office projects, yet Probuild was still seen as a retail builder. Only signature projects could change that image and they came in the shape of Fairfax Media's new production centre at Tullamarine and the new member's stand at the Flemington Racecourse.

"It would be another turning point for us," says Mehrten.

I wanted to find a hard-nosed contractor who could deal with unions and subcontractors.
Probuild director Ted Yencken

"It ... put the runs on the board that these guys would be able to do other jobs than just retail.

The contracts were fixed-price and high-profile, upping the stakes for Probuild. "If we hadn't have finished that grandstand by spring carnival, the damages were frightening, we might as well have got on a plane to Brazil and never come back," Mehrten says.

Once again, Probuild found they were on someone else's turf.

"We were now swinging with the big gorillas," says Yencken.

"There were rumours that we had taken on too much and we were going to go broke.

This sort of mischief clearly wrangles with Yencken given his black-and-white view of cash-flow management.

"We have continued to improve our cash reserves and have no debt," he says. "Building done properly should be cash-flow positive.

"You should be able to plan ahead of your actual costs and run cash-flow positive.

Probuild was now a serious player in the second tier of projects up to about \$100 million. To take on the top rung, it needed a healthier balance sheet.

At the same time, Judson decided it was time to go after

GALLERY DAVID ROWE

(Iguanidae Bosca)



RELATIVITIES DEIRDRE MACKEN

Nothing will ever be the same

When you spend a wintry long weekend holed up at home because high petrol prices have made a trip along roads less travelled too expensive, you get the impression that the future will be a lot like the past, except slower.

Those who spent a wet long weekend over a Scrabble board might conclude that today feels a bit 1950ish, which was the last time that a trip in the car was confined to a Sunday outing, a plane ride was a pipe dream and a seven-letter word on a triple word score a middle-class aspiration. The daily spikes in petrol prices might be the stuff of headlines but the inexorable rise is more insidious, affecting scores of daily decisions we make about our movements. It takes a while to filter through, but one day we discover that we just aren't doing things the way we used to and, what's more, we doubt we'll ever do them again.

According to a study in the *Journal of Transport Economics and Policy*, petrol price rises have a long tail. A 10 per cent rise in the cost of fuel reduces demand by only 3 per cent in the short term but it cuts demand 6 to 8 per cent in the long term. And that study was only based on a 10 per cent increase.

It's only when the headlines have faded that we start to question the way we run our lives. Do you take the car up the road to get a litre of milk? How far has that eggplant travelled? Should I get a lower-paid job close to home? Is this four-wheel drive ever going to feel the dust beneath its tyres again?

It's enough to give you cabin fever. And that's not the sort of fever you'll get in an economy-

class cabin, because air travel is bound to be the first of our travel experiences to be grounded.

It's easy to believe we've already passed the era of affordable air travel. Certainly air travel is unpleasant enough and you don't need to be caught in a Captain's Lounge riot to realise that ageing planes mean frequent flight delays and cancellations as engineers staple things together for the next flight. Then there are the extra charges that accumulate on the advertised price like ice on a wing: the government charges that tax our escape, the pay-for-luggage proposals, \$10 for a half-frozen sandwich and the inevitable

As we head back to the 1950s, we will be confined to the big island at the bottom of the globe.

carbon taxes that will come. And perhaps the pay-per-passenger-weight proposal by Derrie-Air (see www.flyderrieair.com) isn't such a spoof after all.

The chatter around London at the moment is all about the end of the European weekend. Ryanair et al might have made a weekend in Brussels cheaper than a night out in Chelsea, but British Airways chief executive Willie Walsh has just declared the end of cheap air travel. And remember, the English only have to cross the Channel to get away, whereas we have to travel halfway across the globe.

But the biggest impost might be on the psyche. How are we going to justify air travel to ourselves and our social circle when the planet's warming up, the fuel is disappearing and all the canapés in the Captain's Lounge have been eaten by rioters. You can hear the

neighbours comments clearly. "Oh, you're travelling overseas. In a plane! Must be an important meeting. Is it an eco-conference? Or are you going to visit an ill relative, a gravely ill relative, perhaps? Your frequent flyer points will be a source of shame when friends begin preparing for their travel by tucking their trousers into their socks.

Already the travel industry is providing travellers with enough excuses to fill the back page of a brochure. Resorts boast that they are carbon neutral (as long as you arrive on foot). Cruise ships boast a lighter carbon footprint than air travel (as long as you help hoist sail) and adventure tour groups give travellers a nudge to offset their carbon emissions when they present the bill. It's a little like the excuses you make when you emerge from the cake shop with a box full of pastries.

As we head back to the 50s, an era renowned mainly for the size of the backyard, we will be confined to the big island at the bottom of the globe. And that doesn't mean we'll be travelling around that continent unless it's on a bike or a sailing boat.

The horizons are closing in fast. Just a week ago, our chances of getting to the Gold Coast, Uluru and China grew slimmer when Qantas cut back flights.

If London seems a distant destination now, so too does the Gold Coast and auntie's farm. All roads lead back to home. Brussels one day, the backyard the next.

Our only option is to do what we do whenever we contemplate going on a diet or giving up smoking. Do as much travel as possible now because tomorrow your horizon may be limited to the edges of a Scrabble board.

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talking about a down-shift for many years.

Mehrten insists the departure was entirely amicable but it presented another headache for the business as Judson would need to be paid out his share of a now sizeable enterprise.

PricewaterhouseCoopers was appointed to advise them and brokered a meeting with South African powerhouse WBHO.

The Johannesburg-listed company was turning over \$1 billion a year and was the second-largest contractor in the republic. It had conducted due diligence on seven Australian companies before settling on a relationship with Probuild.

WBHO would buy in, Judson would be paid out and the group, now backed by the kind of financial muscle required by seriously large clients, was set to attack top-flight projects.

Although WBHO holds two positions on the company's board, it is otherwise a passive investor, and it leaves the running of the business to its Australian-based duo.

Interstate expansion and sheer workload meant Mehrten had to get used to the idea of losing some of his hands-on control of projects.

It wasn't easy. Mehrten admits driving past projects at night just to check on them.

If you go ahead and build on time, on budget, to quality, you don't have too many problems.

"I love building. I love getting out there and pouring the grey stuff in the ground," he says. "But the only reason we are any good is because we experienced a lot at a young age. It helps you make measured decisions when you are confronted with those situations again.

"If you are going to grow the business, you have to plan to delegate, divest and have confidence in the next level of management.

Strangely enough, it was now that Mehrten and Yencken realised the organisation which was founded on relationships was failing its people. Badly.

A confidential survey of the staff and their partners revealed some uncomfortable truths about Probuild's culture.

"We had a reputation for being a bit mad. There was no limit to the hours we would work, it was whatever it took," Mehrten says.

"We worked seven days a week for the first seven or eight years. I never took holidays, we were paying ourselves carpenters wages. We just kept ploughing everything back into the business.

Set this kind of example, staff felt guilty if they were not working at 10pm on a Saturday, and were sitting at their computers surfing the web just to be seen at their post.

"Having been one of the main drivers of that pretty nasty, but essential and successful, culture in those early days I was also one of the strongest people saying we've got to change," Mehrten admits.

"There are other things happening out there in the world

... we had to think about how we treat our people. People were starting to realise that work wasn't their life and their families took priority.

An entirely new approach was crafted. For example, while construction site staff operate under an enterprise bargaining agreement which provides a 36-hour work week and includes 26 rostered days off per year, office staff got no such benefit.

The response was to give the office workers six extra days on top of their annual leave. Just so there was no ambiguity about the purpose, they were called Probuild productivity leisure days.

Female staff get four weeks paid maternity leave and a lump sum payment equivalent to four weeks leave when they come back to work.

Paternity leave, a rarity in the industry, has just been established, with male employees entitled to take up to one paid week off and potentially more if he is primary care-giver.

It was a timely epiphany. Resources, particularly people, are extremely hard to come by and little things can tip the scales when candidates choose their employer.

"The response within the organisation has absolutely floored me. The way it has worked and what it has done for the business. We want to be an employer of choice. It has worked," says Mehrten.

An illustration of just how far this change has come sits on the mantelpiece in company's foyer.

Beside a string of awards from the Master Builders Association sits a plaque recognising Probuild's Rising Star accolade at last year's ACCI/BCA National Work & Family Awards.

Mehrten is no soft touch quite the opposite, he is a construction man straight out of central casting who did an apprenticeship in carpentry but he also recently received a qualification from Harvard Business School after a successful three-year course of study.

The repeat business, the enduring management partnership and the compact with the staff and their families all bear testament to the importance placed on relationships at Probuild.

There is another relationship worth mentioning: Probuild has never been involved in a legal dispute with a client. Ever.

"That is a rare thing," says Mehrten. "If you do the right thing by people, they will do the right thing by you.

Mehrten admits it sounds naive and says that, recently, his view of human behaviour has become less optimistic.

Yencken of course saw plenty of legal fisticuffs in the 1990s.

"I saw the amount of money that got spent," he says.

It is also possible the sense of a handshake deal stems from long-lasting and positive relationships with the likes of the Gandels.

"It is very rare that a builder is still working for the client 20 years down the track," Mehrten says.

"Probuild is extremely proactive, we just want to go in and build. If you go ahead and build on time, on budget, to quality, you don't have too many problems.

Sounds so easy.