

Project picking

An engineering group plans to move forward by picking only the jobs it can add value to. By Noel Dyson

VDM has had a hand in the creation of the mining camp at CITIC Pacific Mining's Sino Iron project.

This sounds like a commonsense approach for an engineering firm. Sadly, it has not always been the case. More than a few engineering firms have stumbled after taking on projects that either were too big or they had no real skill set in.

That is one area VDM Group chief executive Ken Perry wants to avoid.

With the ink barely dry on his business card, the former Brandrill managing director has already embarked on a strategy to boost the engineering firm's profitability. He also has been visiting the company's various divisional offices on Australia's east and west coasts.

He sees boosting margins and managing completion risk as the two biggest items on his list for managing the business. That, and making sure the company only takes on projects it can add value to.

As Perry points out, get that bit right and the margin boosting and managing completion risk points take care of themselves.

Admittedly, Perry has found this company in a lot better shape than his last one. When he took over Brandrill it was in dire straits. Perry managed to steer the listed drill and blast specialist out of administration and, after several healthy years, into a merger with another major drilling player, Ausdrill.

As a businessman Perry makes an interesting fit with VDM. The former Department of Mines chief and Rio Tinto executive also has sat on the board of the WA Ballet.

He jokingly described his new role to *Australia's Mining Monthly* as a "match made in heaven" with his predecessor and company founder Jim van der Meer.

"We're both about the same height," he chortles. "Jim loves engineering and hates management while I love management

and know diddly squat about engineering."

That aside though, Perry has been quick to size up the company's strength in the engineering field and his willingness to look at jobs where the company can add value is commendable.

"My impression was VDM was a loose collection of good businesses that needed to be pulled together in some form," he said. "To use a tired phrase, the whole is greater than the sum of the parts."

Perry's statement also belies van der Meer's management record. He took the reins at VDM last April and made some of the tough decisions that helped the company come through the global financial crisis in pretty good shape.

However, his love of engineering is immediately apparent and quite infectious. When *AMM* encountered him at the company's non-descript headquarters in Herdsman, Western Australia, he bemoaned the fact that his company was not recognised for the 400 technical people it had at its disposal. He then promptly raced off to come back with a folder of one of his latest engineering coups – a lifting frame to help position the massive ball mills at CITIC Pacific Mining's Cape Preston project.

A quick look at VDM's half-yearly results shows a bit of a dip in revenue in the second half of 2009. Of course, it would have been no orphan there thanks to the GFC. But it is the company's margins that are of greatest concern to Perry.

VDM's margin percentage on divisional earnings before interest and tax across its three divisions of contracting, consulting and construction all suffered.

Perry reckons the company's revenue is right at the moment. He just wants to get a better return from it.

"Bringing those margins back will have an enormous impact on the bottom line," he said.

In the first half of 2010, the company had an operating EBIT margin of just over 4%. Lift that to 10% on revenue for the period of \$242.8 million and that is a before-tax return of \$24 million, rather than the \$10.5 million VDM actually recorded.

Perry admitted he had not been around long enough to get a true grasp on the company's costs but believed there were costs that could be cut in any business.

He anticipates much of the immediate margin boost will come from integrating the disparate businesses within the VDM Group.

Since the engineer listed in 2006 it has been an aggressive acquirer, adding businesses such as Wylie & Skene and Malavoca to its stable.

As well as offices on the east and west coasts of Australia, the group has representation in both Vietnam and Dubai.

VDM has three core business areas – consulting, construction, and resources and infrastructure. In Australia its west coast business is mostly involved with resources while the east coast largely works on civil projects.

Outsiders will say that any manager worth their salt should have integrated the businesses sooner but Perry points out that this was not as easy as it sounds.

"With a lot of these businesses their former owners were on earn-out contracts," he explained.

"These guys are not going to be terribly interested about what's happening on the east coast if their business is in the west."

The bulk of those earn-outs are pretty much completed.

With that in hand, Perry wants to be very

Keeping everything on track

KEEPING a handle on documents can be the bane of any company's life.

As part of its integration process, VDM Group introduced VantageKey's VBM business information and data management system across 14 separate VDM Consulting sites. VDM Consulting chief operating officer Bob Gregg has a vision of positioning the division for the upswing likely to come in the resources sector.

"Our main motivator for investing in a new information management system was improving our collaboration capabilities and delivering better business outcomes through standardisation and greater efficiencies," he said. "It has empowered the consulting division to control our information and intellectual property and allowed us to immediately raise the bar when it comes to client service and delivery."

VantageKey managing director Dee Broadmore said service companies around

the world were under mounting pressure to ensure their information management systems were fully auditable and trackable and that simple storage and retrieval email facilities were no longer appropriate.

"The legal compliance requirements on large, complex projects both here and overseas are huge and so are the risks associated with the loss of intellectual property," she said.

"VBM works on existing software systems and has a range of built-in unique features including automated transmittals, create, import and export facilities, advanced email, linking and document tracking capabilities.

"It delivers a common platform for all users, state-of-the-art information management without the need for separate layers of technology, and is user friendly at all levels of an organisation as opposed to requiring in-house IT experts to manage the system."

choosy about the projects the company takes on. Jobs that VDM can add value to and make a healthy profit on are what he wants.

Moving into more long-term work is

another thing. With its consulting arm, VDM's longest jobs would probably go for three months. For its construction and contracting businesses it is rare for a job to

last longer than a year. Those timeframes are fine when the market is roaring but not when things get tight.

"We're looking at taking on more maintenance work and perhaps setting up a division to do that," he said.

Resources also will be a much bigger focus for the group. It has done a fair few resources projects but also has been involved with the civil side. It even has consulted on building projects such as WSP Group's Tall Tower project on the Dubai waterfront. With an upswing in the resources sector, a focus on these sort of projects makes sense.

Managing completion risk also is going to be an issue, which will largely be due to the skills shortage the industry is likely to face in the not too distant future.

"The biggest risk for us in the services industry is to not be able to deliver," Perry said.

"That means we have to select the project where we think we have an edge and can deliver safely for the client."

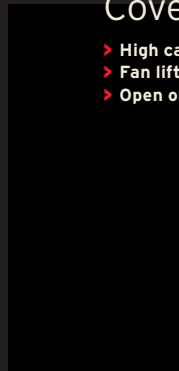
Safety is another big issue for Perry. He is a strong advocate for building a healthy safety culture at any of the businesses he is involved with – a culture where people are always thinking about safety, rather than just ticking a few boxes on a checklist and reckoning they are being safe enough. **AMM**

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