

# Q&A with Frank Roach, CEO, Ferguson

An MDM Exclusive Interview

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## *Executive Summary*

During a call to discuss Wolseley's fiscal year 2016 results, CEO John Martin called attention to the success of Ferguson, the company's U.S. business. While the entire group reported like-for-like sales of only 2.4 percent year-over-year, Ferguson nearly doubled that, posting like-for-like gains of 4.1 percent.

Specifically, Martin pointed out Ferguson's "progressive improvement culture" as a key to its success.

Ferguson CEO Frank Roach recently spoke with MDM Editor Jenel Stelton-Holtmeier about the company's success in a difficult market and how the culture helps drive growth throughout the organization.

### **Key takeaways:**

- Ongoing investment in people is critical to weathering tough conditions.
  - Distributors need to understand the priorities of millennials and build that into the company culture.
  - Recognize that opportunities to learn are everywhere.
  - The strongest growth comes from a multifaceted approach.
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*This is the full transcript of an MDM exclusive interview with Frank Roach, CEO, Ferguson.*

**MDM:** How is business going?

**Frank Roach:** Business is going well. We had very good growth year-on-year. We've improved in all categories year-on-year. All of our businesses outperformed the market.

In particular, we're very pleased with our like-for-like, or same-store sales, growth of over 4 percent. This is against a backdrop of pretty high deflation numbers and the economy still chugging along at a slow growth pace.

**MDM:** One of the things that Wolseley mentioned in its investor call is that Ferguson is, compared to the rest of the company, doing great. Why do you think you are doing so well comparatively?

**Roach:** Well, I think it's a number of reasons. Probably the biggest one is the fact that we're in a different market, different climate. And while we have slow growth here, if you look at a lot of the markets where we participate today, it's just a different type of economy and growth.

If you look at the UK, for example, and the distractions that were attached not only to a slow growth market, but also Brexit, it is just a different environment. That creates different trajectories among all of our businesses.

If you look at Ferguson, we've been pretty good at sticking to consistent strategies of growth and improvement. For us the big difference is our ongoing investment in people: recruiting, retaining and developing leadership. This distinguishes us from the other companies in our group and other companies in general.

**MDM:** On the topic of investing in people, I know that's been a challenge that we keep hearing from our audience, across the board. How are you successfully meeting this challenge of recruiting in this industry?

**Roach:** It's not a one-size-fits-all approach. It's our value proposition.

How are we going to train and help you perform at the highest level? What are the tools we're going

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**Publisher**  
Thomas P. Gale  
tom@mdm.com

**Editor**  
Jenel Stelton-Holtmeier  
jenel@mdm.com

**Associate Publisher**  
Craig Riley  
craig@mdm.com

**Associate Editor**  
Eric Smith  
eric@mdm.com

### Contact Information

Questions, comments, article proposals, address changes or subscription service to:

Gale Media, Inc.  
2569 Park Lane, Suite 200 Lafayette, CO 80026  
Tel: 303-443-5060  
Website: <http://www.mdm.com>

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to give you as an organization? And, what is your career path?

We want people to make a lifetime commitment, and we're going to make a lifetime investment in helping people succeed. Our value proposition to new associates, associates coming in from acquisitions as well as local hires, is we're a growth-oriented company. That's defined our history. We provide opportunity, and this is where you really want to be.

**MDM:** Are you seeing any difference in the expectations and the methods for recruiting required for this next generation that we keep hearing so much about?

**Roach:** The process is essentially still the same. But there are things that we emphasize more than we did in the past. We've always done things around community involvement and the environment; that's very important to millennials.

But, like all companies, we have four generations that work in this organization. And we actually like that, because that challenges the status quo, requires us to be agile, adapt and make sure what's core to us remains the same.

But we also have to understand that the needs and aspirations of each generation is different. We not only want to make sure that the young new recruits feel optimistic about the future and the opportunities, we want everyone who's with us to have that same feeling of "This is the company where I can grow."

**MDM:** Are there any particular differences that you've seen about their needs and aspirations?

**Roach:** No, not really. Their focus is on the balance between work and home. They want to know what your social commitments are as an organization and what you do in the community.

It's not really having to change anything. It's just reminding everyone that we have been, and are doing, these things.

**MDM:** In the investor call, when John Martin was talking about Ferguson in particular, he mentions that you have a progressive improvement culture. Can you talk a little bit about what he meant there?

**Roach:** If you look at our history, it's been punctuated by milestones and/or transformational events. We tend to focus on world class performance – and a lot of that may be in our industry and a lot of it may be outside. We don't take a myopic view of what's best in class.

When we look at logistics, who's the best at logistics in the world? Who's the best around HR? Actually, we think we rank very highly in technology and specifically e-commerce. It challenges us to improve. In the absence of us providing these services, others will.

I think we also do a very good job of listening to our customers and responding to their needs, so we never think that their needs will not change. Their expectations do change, and we try to be at the forefront of that.

**MDM:** What is the company's focus for the next fiscal year? Are there any new initiatives that you're announcing?

**Roach:** There are no new initiatives. There are heightened investments. And there are two areas that are getting a lot of attention and support as we look at this fiscal year.

The first one is MRO, which is a very large market. It's a very fragmented industry, and we think there are great opportunities for us as an adjacent business, a business that complements what we do already. It's about relationships and people, our technology, our e-commerce offering and our overall supply chain approach. That allows us to really transition nicely into this business, so we're bringing more focus, structure and investment.

And then e-commerce: Almost 20 percent of our sales now is in e-commerce. We started investing in this space in 2007. Listening to our customers, responding to their needs, making sure we're giving them options that they expect from a good partner – we want to make sure we continue to invest and provide a world class e-commerce experience.

**MDM:** Are there any particular challenges that you've seen with investing in e-commerce or in getting your customers on board?

**Roach:** They become less and less each day because our customer base is very sophisticated and technology is not solely the purview of their business relationship. It's what they do at home. It's what they do day in and day out. Regardless of the size of customer or business that we serve, they are very tech savvy and they expect it.

Our fastest growing channel is the mobile site and mobile technology. Increasing the ease of acquiring products, goods, services and information is what our customer's expecting.

The challenge is making sure that we don't forget that the change in the space is significantly higher than other ar-

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eas, and we need to make sure that we continue to invest.

**MDM:** I know a few years ago, Ian Meakins said that Wolseley just views Amazon as another competitor. Are you changing your perspective at Ferguson about how you think of Amazon or is it, as he said, just another competitor?

**Roach:** We view all companies as competitors, and we have a great deal of respect for our competition. We try to learn from them, try to find where opportunities are for us. We do not take our business for granted nor do we take their ability to provide, to be a new entrant in our space, for granted.

A lot of this drives change and improvement within our organization. What can we do to learn from them? What are they doing that we're not?

**MDM:** Just like last year, Ferguson completed 13 acquisitions. Is this a pace that you plan to continue or that you can expect to continue?

**Roach:** We have no specific goals or numbers around how many acquisitions we intend to do during a particular year. The strategy remains the same, but when asked what are your goals around how many you're going to acquire this year, my answer is, it's whatever number is we end up with. That's a good number.

We feel like if we put specific goals around acquisitions it might drive the wrong behavior. When they occur, in what businesses they occur, really is based on and a result of a long process of getting to know the companies, understanding their culture, allowing them time to understand ours. And some of these conversations, and ultimately the decision, can take a number of years. We don't put pressure on acquisition candidates to move quickly. We want it to be a good fit for them, and we want them to be very comfortable with the process.

I don't know what the number's going to end up being this year. But, we have a very robust and active search for companies. And it's really not companies saying they're for sale; it's really companies that we think are a good cultural fit. Because, it is about people, and not bricks and mortar, and the relationships they retain in the marketplace and their ability to demonstrate sustainability no matter what the economy throws at us and them.

**MDM:** One of the acquisitions this year was an e-commerce business. What was the motivation behind that and what did you gain out of that?

**Roach:** Well, it's interesting, because, with e-commerce acquisitions, you think it's about acquiring technology, but it's about creative people who are doing unique and creative things online and who bring this innovative quality to our organization.

It also gives us product expansion. It allows us to leverage our DC network and our supply chain. It fills product and category expansion objectives that we have online. So we're creating quite a group here, now, that we can put folks inside, incubate and come up with new approaches to the market.

The innovation piece in e-commerce is critical. And leveraging our existing bricks and mortar because we do see compatibility there really makes it work well. It's a great value proposition for us and for them.

**MDM:** Are you looking at all to expand through greenfields in new locations? Or do you pretty much look for acquisition targets that have a firm base already?

**Roach:** We do both. We opened 32 locations last year. A lot of them are in existing geographies. And we acquired 26 through acquisitions. We like to balance it. Obviously, entering a market, we look for the leaders in the market to partner up with; that would be the preference. In the absence of that, we will continue to open stores to continue to grow market share.

**MDM:** What are your goals for the next fiscal year for the company?

**Roach:** It's grow and improve. And it's to make sure that we don't forget what's important for our customers. One of the nonfinancial indicators that's very, very important to us is our customer NPS (Net Promoter Score) – how they value what we're doing and if there are areas for improvement, be it in a market or business, we want to make sure to provide real-time change and improvement.

We take nothing for we do granted. Once we introduce new things, we're very quick to measure the sentiment among our customer base to make sure we're on track with what they're expecting.

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