Build Stronger Partnerships with Distributor Advisory Councils

Best practices and pitfalls for managing a successful DAC

By James D. Hlavacek[1]

About the Author

Chairman and founder of The Corporate Development Institute, a global management development company based in Charlotte, NC, Dr. James D. Hlavacek has helped create and improve distributor advisory councils for a wide range of companies. He has over 40 years' global experience as a management educator and strategy consultant, working with long-term clients including Parker Hannifin, Lockheed-Martin's Skunkworks, 3M, Unilever, Caterpillar, SC Johnson, Timken, Henkel-Loctite, and BASF. In addition, he has served as a board member for Fortune 500 companies and several successful venture capital startups. Previously, he served as chairman of marketing at Case Western Reserve University and director of the Institute for Executive Education at Wake Forest University's graduate school of management. He is the author of six books and more than 50 articles on marketing, innovation, distribution and leadership.

If you've never used or are unfamiliar with a Distributor Advisory Council (DAC), you could be losing more than valuable feedback. You could be sacrificing profits, market share, and crucial customers you can't afford to lose. Annual U.S. sales through marketing intermediaries, specifically distributors, wholesalers, dealers and retailers, were about $5.94 trillion in 2019 and growing annually.[2] These wholesalers/distributors are either publicly held or closely held family companies that in 2019 alone, employed over six million U.S. workers.[3] With the average cost of direct sales calls rapidly escalating, more manufacturers are relying on distributors to serve their key markets, OEMs, and end-use customers. [4]

With a global market reliant on Internet purchasing and the increased cost of direct sales calls, today's digital age requires manufacturers and distributors to team up and align as supply chain partners. Distributors and customers are demanding superior service, and new procurement methods including just-in-time deliveries, digital commerce, and systems contracts that are driving distributors and manufacturers to work much closer together. Furthermore, the increased rate of new product introductions, more frequently changing customer needs, and growing sophistication of doing business electronically, necessitates tighter collaboration between manufacturer and distributor partners.

In the past, the burgeoning size of manufacturing organizations has hindered the open communication and close relationships that help manufacturers grow alongside their typically smaller distributor partners. Every manufacturer who goes to market with distributors or dealers is at least one step

---

[1] Hlavacek, James D. is the Founder and Chairman of The Corporate Development Institute in Charlotte, NC, a global management development company. jhlavacek@corpdevinst.com.

[2] National Association of Wholesale Distributors, Annual Report 2019, Washington D.C., page 1.

[3] IBID, page 2.

[4] Hlavacek, James. D and Mcquisition, Tommy J, "Industrial Distributors—When, Who and How, *Harvard Business Review*, March-April 1983, page 96.

removed from users. Many of these manufacturers tout that they're customer- or market-oriented, but in reality, they continue to be product-driven, pushing goods on users through distributors. They simply sign-up new distributors, load them with inventory, and forget to provide support. Unfortunately, these same manufacturers often lack the mechanisms to formally listen and respond to the needs of distributor partners, OEMs and end-use customers. To bridge the gap, they should access and evaluate information given to and from distributors to better develop, focus and launch their products, services and new programs.

The seriousness of this challenge was stated by the sales manager at the computer printer division of Hewlett Packard (now called Allegiant). "Everyone talks about how important it is to be close to the customer. But, since we sell the vast majority of our products through distributors, we are far removed from the changing requirements of our users. This distance from users hurts us when competitors respond to their needs before we even learn of them. As a result, we often come out with too little too late. If we knew more about end-user requirements and competitive offerings sooner, we could focus our products and services more effectively. Additionally, if we had better market facts, we could provide the support services and marketing assistance that our distributors really need to be successful in their marketplace. What we need to find is an early warning mechanism which will enable us to gather intelligence about customer requirements and the competition; test new product and marketing programs ideas out before they are frozen and implemented; and then improve coordination of all marketing efforts with our distributors."

How Manufacturer-Sponsored Advisory Councils Work

One of the best ways to understand distribution businesses, stay closer to the markets they serve, and collaborate with distributors as true partners is through an effective distributor advisory council. A distributor or dealer advisory council (DAC) is a forum composed of an equal number of individuals from both the manufacturer and its distributor network. Rather than act as a legislative body or negotiating unit that confronts the manufacturer with demands, a DAC openly discusses common matters of importance to users, distributors and manufacturers, as well as presents feedback on a manufacturer's proposed and existing policies. As many small- and medium-size distributors are seriously threatened by nationwide giants such as Amazon, Walmart, Home Depot and Lowes, a DAC can help make both distributors more competitive, uncover underserved market segments, and provide application know-how that many big-box resellers do not provide.

The concept of manufacturer advisory councils is not new or limited to sales and distribution issues. For more than half a century, some of the world's most recognized companies have built their success around distributor advisory councils, underscoring the virtue and longevity of such partnerships. From procurement to after-sales service, manufacturers successfully employ many types of advisory councils, including the following:

1. **Vendor-supplier councils**. Current major suppliers are invited to meetings to discuss productions schedules, new materials, cost savings and product specifications. For example, General Motor's Saginaw Steering Division meets semi-annually to build closer working relationships with suppliers. Delphi Technologies, a division of BorgWarner, meets quarterly with 18 key suppliers, the company's seven-person executive committee, and managers from quality assurance, information technology (IT), accounting, production engineering, sales and materials management.

2. **Quality councils.** Here, a team effort exists between workers, management and other divisions to share performance data, assembly problems, and customer complaints. These groups pose suggestions to continually improve product quality. Inspired by Japanese quality standards, particularly those of Toyota, quality circles have become commonplace at many well-known manufacturer sites.

3. **Labor-management councils**. Issues unresolved through the traditional collective bargaining process are addressed by a Labor Management Council. Topics include plant layout, job-redesign, retraining, productivity measures, benefit programs and gain-sharing plans. Pioneering users of labor management councils include General Dynamics, Procter & Gamble, Eaton and General Foods.

4. **Lead-user councils**. These cutting-edge councils consist of demanding new and existing customers who provide ideas and suggestions for improving products and developing new ones. Allen-Bradly, IBM, Intuit and many software manufacturers have formed lead-user groups on a regional, national, or industry-specific basis to keep pace with rapidly changing customer needs and fast-moving technology.

5. **Logistics and digital commerce councils**. These councils gather individuals from both distributors and manufacturers who have day-to-day operational responsibilities for order entry, inventory management, shipping, after-sales support, and the digitalization of commerce.

Like distributor councils, all the above are non-adversarial bodies that promote collaboration and seek win-win solutions. The successful operation of any manufacturer-sponsored council requires a sharing of information and experiences, open communication, mutual trust, cooperation, and consensus recommendations to the manufacturer. DACs do not have to be costly or necessitate extravagant events.

Several manufacturers reported investments of between $15,000 and $20,000 for each council meeting. Distributors typically pay their travel expenses, and the manufacturer covers hotel, food and beverage costs.

Ten Major Benefits of DACs

After in-depth, field-study interviews with well-known market leaders that extensively utilize distributor advisory councils, 10 common DAC benefits emerged. All of these benefits should inspire manufacturing executives to improve their existing advisory council(s) or consider starting a new one.

1. **Creates two-way trust and communication.**
   Product- or manufacturing-driven companies tend to have top-down programs and communication for distributors and users. In order to encourage two-way communication in an advisory council, manufacturers and distributors must be open and candid about even the most sensitive issues. When the manufacturer establishes a climate of transparency, mutual trust and honesty, the distributor members of the council will openly share their concerns and suggestions.

2. **Develops top-level relationships between manufacturer executives and distributor principals.**
   Every organization depends on people, and a DAC is no different. When key people from both the manufacturer and distributors get to know each other, not just by name and rank, deeper relationships result. By interacting with progressive distributors and their principal owners, a manufacturer's senior management learns of problems, and prospective issues that otherwise would never reach them. Nearly all distributors expressed the value of informally meeting with fellow distributor members to discuss benchmarking and best practices. Some of these best-practice relationships last for generations, enabling distributors to compare themselves with peers over time.

3. **Maintains continuity when leadership changes.**
   Frequent manufacturer management changes can hinder DAC relationships and the implementation of programs and policies. These changes intensify with mergers, divestitures and restructuring programs. As personnel changes, a distributor council can maintain stability and continuity between the manufacturer and its distributor network. A DAC helps bring newly appointed manufacturing executives up to speed on issues facing both parties. Even without frequent management changes, it can be difficult for distributors to know who to contact at a large, multi-location manufacturer. To ease communication and boost response time, one DAC suggested the manufacturer send a digital contact list to all of its distributors. This open access list identifies key divisional personnel, along with current contact information that can be updated as needed. This helps all of the company's distributors to stay connected in real time.

4. **Promotes more constructive brainstorming.**

   A group of 12-15 experienced manufacturing and distribution senior leaders focusing their energy on a common issue can lead to powerful problem-solving. As people share years of successful and unsuccessful experiences, they foster ideas and solutions. Because of the diversity of council members and years of collective expertise, a DAC brainstorming discussion is nearly always more productive than a one-on-one meeting. Distributors also share successful and unsuccessful approaches that other manufacturers they represent have used to address similar issues. For example, one DAC recently discussed the best digital commerce and IT systems with its distributors who had experience with multiple manufacturers' IT platforms. This helped the manufacturer pinpoint the best global supplier of hardware and software for its business.

5. **Identifies market and product needs.**

   Since distributors are closer to customers and users than manufacturers, DACs have proven to be a reliable barometer for identifying customer needs and product-line gaps. Georgia Pacific's DAC identified the growing trend of institutional food workers preparing microwave meals using plastic rather than paper plates. The paper products manufacturer acquired a plastic plate company whose paper line was already carried by some of its distributors. Parker Hannifin Corporation, a manufacturer of motion and control solutions, conducts about 70% of its $14 billion in annual sales with distributors throughout the world. Parker has separate DACs for industrial connectors, instrumentation fittings, hydraulics, pneumatics, seals and filtration product groups. The company regularly asks its DACs for suggestions about gaps in the product line and new product ideas. This input has helped Parker Hannifin guide product development programs, target attractive acquisition candidates, and implement its fast-follower innovation strategy where the second mouse often gets the cheese.

6. **Yields competitive information.**

   Since a distributor's salespeople meet the competition every day, they can relay excellent regional, nationwide and global competitive information. Through its DAC, a manufacturer can verify local or regional competitive moves reflected across the nation. Furthermore, if a distributor carries dual sources or a competitive line, it can supply current and accurate information on competitor marketing policies, quality, delivery service, and new product plans. As new products typically originate in one part of the country and in discreet market applications, a DAC can provide early warning of upcoming releases.

7. **Clarifies new product benefits and needed launch programs.**

   A DAC is an excellent mechanism to test new product concepts and programs before rolling them out to the entire distribution network. The distributor's salespeople are aware of small but important differences that cause a user to purchase products from one supplier over another. A DAC can incorporate these make-or-break details into new designs. In one situation, the DAC of a private electronic-component manufacturer suggested that new product kits include a die-cut sample to allow sales staff to demonstrate the patented design which had 60% fewer moving parts. At another DAC meeting, council members unanimously suggested the manufacturer leave space in co-op advertising, so each dealer could personalize ads with its company name and phone number beside the manufacturer's name.

8. **Upgrades outside and inside sales teams.**

   Successful marketing with distributors requires top-notch selling capabilities and coordinated efforts between factory representatives and a distributor's inside and outside salespeople. Because of this synergy, a DAC can identify the type of training, knowledge and sales tools needed. For example, a Johnson & Johnson DAC helped identify medical implant device information needed on the sales teams' laptops for meetings with orthopedic surgeons. During council dinners and planned social activities, distributor members often discuss sales skills not mentioned in formal council meetings, helping both the manufacturer and distributor elevate their personnel, tactics and marketing tools.

9. **Re-orients a manufacturing company toward distribution.**

   Many manufacturers, including senior sales and marketing executives, are not distributor-oriented. Those who market through distributors often lose touch with rapidly changing customer needs and competitor data. By attending DAC meetings, senior manufacturing leaders learn how distributors make and lose money, the challenges distributors face, and what makes distributors loyal to a manufacturer. Likewise, extending DAC membership to the manufacturer's non-sales and marketing executives helps illustrate how departmental activities translate into programs that benefit distributors and users. When an issue is raised by a DAC, it receives more attention and cross-departmental support than repetitive internal field memos and sales manager requests. After a manufacturing vice president joined Scott's Lawn Care's DAC and attended the first two meetings, he said, "I never realized how all the activities within the four walls of our plants have such direct and immediate impact on the distributor's sales and profits. All of my people are now much more concerned about how and when anything leaves our shipping docks. We now see all our authorized distributors as both partners and customers with needs, and not as a nuisance."

10. **Increases local and regional market data and support.**
    Caterpillar, which sells approximately 95 percent of its $55 billion in annual sales through 220 independent dealers and their many branch locations throughout the world, believes that its global dealer network is its greatest competitive advantage.[5] CAT treats dealers as family with a common end-use customer to serve. Each dealer plays a vital role in every aspect of CAT's business, including product design and product support for machines known to last 15 years or more. Regarding the relationship, a member of CAT's management stated, "Our locally owned dealers know more about their customers and local market needs than Caterpillar ever could. The dealers have a close relationship with customers and their knowledge of the local markets is invaluable information that flows from our dealer council meetings. For example, a copper mine in Chile may have over 100 pieces of Caterpillar equipment. Our dealers continuously monitor the health of all their CAT machines by remotely and automatically reading the sensors on each machine to spot problems as they occur, and sending these alerts directly to local field technicians' portable computers. The local technician then sends a proposal to the customer either by computer or phone, allowing the customer to let him know the best time to carry out the repair. We have a corporate IT system that ties together Caterpillar factories, regional parts centers, dealers and large end-use customers. We have separate DACs for our construction machinery, lift trucks, paving machines and forestry products businesses."

How Distributor Councils Evolve

There are four primary ways DACs develop and evolve into full-fledged councils. As the following examples show, either the distributors, the manufacturer, or a combination of both parties can initiate the process that leads to the formation of a formal DAC.

1. **Evolution from informal meetings at trade associations and buying groups.**
   Since every industry has its own national trade association where manufacturers and distributors gather, manufacturers and distributors frequently have one-on-one or small group meetings before, during or after association meetings. For years, Chicago Pneumatics Construction Equipment division held a series of trade meetings on specific topics before the annual national Construction Industry Association (CIA) meeting. Chicago Pneumatic concluded it needed more time with distributors, and formed a formal DAC which meets twice a year but never before or after a tradeshow or national sales meeting.

[5] Fites, Donald V, "*Make your Dealers Your Partners," Harvard Business Review* March-April, 1966.

2. **Evolution from focus groups.**

   This market research method, ideal for progressive or lead distributors, probes product concepts, marketing policies, and proposed programs. Often, these meetings are conducted at various cities and regions of the country. Becton-Dickinson, a medical supplies manufacturer which conducted sessions throughout the U.S. annually, concluded that a more cost-effective approach would be to discuss new product concepts and marketing programs via a DAC. As a result, they formed a council and hold market research meetings on special topics as needed. Similarly, Snap-on Tools has a dealer council that meets twice a year. It began as a focus group to discuss current and emerging hand-tool needs and the increased use of electronic diagnostic equipment.

3. **Evolution from a distributor group.**

   In this situation, distributors that represent the same manufacturer form their own meeting group without any influence or support from the manufacturer. For example, many of Parker Hannifin's instrumentation fittings distributors were meeting annually in Colorado to discuss common concerns. Called the "Aspen Group," the informal council disbanded when Parker's instrumentation division general manager created a formal DAC to take its place. Similarly, Caterpillar lift-truck dealers in the Northeast region of the U.S. formed their own council. Caterpillar was invited to the meetings to discuss the distributors' agenda. After seeing the value of these meetings, CAT established its own national lift-truck dealer council.

4. **Manufacturer-initiated.**

   Sometimes, councils form when the head of sales at a manufacturing firm concludes that a DAC will help solve distribution problems. In one case, a manufacturer was losing market share for successive years, and distributors were beginning to stock competitive lines. The sales director formed a DAC to identify and verify the issues leading to losses. In a second situation, a U.S. lift-truck manufacturer formed a DAC when one of its Japanese competitors, Komatsu, stated in a magazine article that its DAC helped the company penetrate the U.S. market faster. When another manufacturer believed its marketing was not being well-executed for dealers, it launched a DAC to learn how to improve its implementation.

Regardless of how a DAC evolves, the bulk of the responsibility to organize and manage a successful council rests with the manufacturer. If a manufacturer's top management, including the CEO as well as sales and marketing executives, do not champion a DAC, it will prove an ineffective forum. A manufacturer's senior management's full support and commitment are vital to any DAC's success.

When DACs Are Not Practical

Based upon long-term DAC success at some high-performing companies, the merits of distributor councils are well-established for manufacturers that go to market through distributors. However, I do not blindly recommend that every manufacturer form a council. While a cost-effective way to gain insights, there are a number of situations where a DAC may not be practical or worthwhile.

1. Less than 25 percent of the manufacturer's sales or profits come from distributor sales, most sales are direct to users, and there is no intention of increasing the percentage of sales with distributors.
2. Total manufacturer sales are less than $20-$30 million and are not a high enough percentage of a distributor's sales or profits to justify involvement in a council.
3. The manufacturer has a significant or growing number of company-owned distributors or "stores", which will discourage open communication, information sharing, commitment and trust from independent distributors.
4. The manufacturer has regional warehouses/service centers, and it primarily sells directly to OEMs and end-users from its warehouses, factories and/or service centers.

Excuses for Not Having a DAC

Even if having a DAC would be beneficial to manufacturers and their distributors, a manufacturer's senior sales and marketing team may not want to acknowledge the head-on, daily issues of distributors. In such situations, manufacturing sales executives often make excuses for not sponsoring a DAC or, at best, will go through the motions of creating a council with no intention of following up on distributor concerns. The sales executive who outwardly rejects the notion of a DAC also may fear other department heads will learn about the widespread concerns of distributors and users.

Many national sales managers, sometimes responsible for distributor councils, prefer to face distributors one-on-one, so they can bully them, use threatening tactics, or create side deals. Furthermore, if the manufacturer's general manager or president does not understand the proven value of a council and the need to connect with distributors and users, he or she will question the cost and merit of having a DAC. The following manufacturer statements represent just a few commonly stated excuses for not forming a DAC.

- "We are constantly in contact with our distributors, and who needs another long meeting in these days of non-stop meetings? Our territory managers tell us everything that distributors need."

- "Who needs to listen to a group of complaining distributors? All they want is larger gross margins, better terms, and exclusive territories."

- “Since many of our distributors carry competitive lines, why should we help them better-market competitor products?”

- “The last thing we need is to encourage our distributors to form a trade union, complete with demands and collective bargaining.”

While predictable, these excuses inhibit a manufacturer’s ability to address the stated needs of their distributors and end-use customers. The refusal to see any value in a DAC signals that a manufacturer is not distributor-oriented, does not perceive distributors as business partners serving the same customer, and probably has tenuous or adversarial relationships with distributors. If the manufacturer has never witnessed the benefits of a thriving DAC or has experience limited to an ineffective or dissolved council, there is no impetus to pursue a DAC.

Why Some Distributor Councils Are Ineffective

Management of a distributor advisory council is deceptively simple; however, it requires careful considerations to make a DAC productive. Too often, DACs produce mediocre and disappointing results for manufacturers and their distributors because they lack a clear purpose. At the root of dissatisfaction lies a manufacturer who does not understand the true intent of a council. The following comments from manufacturers and distributors disappointed with their DACs identify pervasive problems which greatly diminish the effectiveness of any DAC.

> “We had an advisory council for three years, and it was just a formalized gripe session with our distributors.”
> -- *National Sales Manager, Fortune 100 medical products company*

> “Our distributor council meetings take a lot of time to plan and attend. The same topics are raised each time I go to some of the meetings. I am not sure of the value we get from so many of our employees being away from the business.”
> -- *Division President*, *$350-million building products business unit*

> “I’ve been on a number of councils. Many are a total waste of time and money, as they just go through the motions and are at best a sales meeting. However, we are a member of one DAC at 3M, which is outstanding.”
> -- *Distributor Principal, packaging distributor*

"I just resigned my membership from one council. It was just a lot of the manufacturer's good ole boys playing golf and boozing it up at fancy resorts."
-- *Dealer Principal, Southeastern truck dealership*

To help manufacturers avoid the typical pitfalls encountered when they organize and manage a DAC, the Corporate Development Institute (CDI) surveyed nearly 300 distributor principals in a variety of industries to determine which manufacturers had the most effective DACs. Since distributors usually carry the lines of several competitive manufacturers, they are readily able to compare manufacturer policies, practices and councils. These same distributors repeatedly named 24 manufacturers with the most consistently well-run distributor councils. The CDI then interviewed these 24 companies to identify and describe which management practices led to their more effective DACs.

Manufacturers that Make the Most of DACs

Manufacturers with the greatest Distributor Advisory Council (DAC) success begin with a well-defined purpose, values and objectives that align with the entire council. Henkel-Loctite, a leading manufacturer of industrial and household chemicals and adhesives, has managed distributor councils successfully for more than 60 years and now has separate DACs in the USA, Mexico, Europe, Latin America, Japan and Southeast Asia. Loctite's former vice president of channel management and industrial distribution, Kevin Boyle, stated, "The purpose of our distributor council is to work closer with our distributor partners to better serve the needs of users, who in turn should increase sales and profits for both of us. The cornerstone of our dedication to a council is that Loctite sees its authorized distributors as channel marketing partners first and secondly as customers. What is good for distributors is usually good for us. We learn what to do and what not to do by listening, learning and responding to our distributors. The council has caused us to modify a lot of products, programs and policies for our mutual benefit."

With over 60 years of experience maintaining DACs worldwide, Loctite has fine-tuned its approach to DAC management. Loctite's global regional vice presidents are solely responsible for distributor relations. They have no direct responsibility for field sales personnel and report to a regional CEO or general manager. There are six reasons Loctite prefers full-time, dedicated vice presidents of distribution to be responsible for a DAC, instead of relying on national or regional sales managers.

1. Many sales managers do not understand how distributors earn and lose revenue, nor the strategic and operating issues they face.
2. Some sales managers are autocratic and more occupied with large direct sales to OEMs and end-users rather than to middlemen placing small orders.
3. Most sales managers do not realize that a fiercely independent and entrepreneurial distributor principal will work <u>with you</u> but never <u>for you</u>.

4. The high turnover rate in sales manager jobs hurts distributor relations.
5. Sales managers of large, public companies rarely understand the challenges facing small entrepreneurial, family-owned or privately held businesses.
6. Few manufacturing sales representatives appreciate that distributors have "skin in the game," so unlike sales reps, distributors are paid only when products profitably sell. Likewise, distributor principals are not W-2 wage-earners who automatically get a paycheck deposited, regardless of performance.

The Corporate Development Institute's research indicated a trend to have a senior manufacturing executive dedicated full-time to distributor relations is growing. These dedicated executives typically advance through the manufacturer's organization with long careers, exhibit excellent communication and people skills, and are able to discuss delicate topics including leadership/ownership, succession planning, weak outside/inside salesforces, and potential contract cancellation. Most distributor principals applaud this dedicated approach, now employed by manufacturers including Loctite, Caterpillar, 3M, and Mettler-Toledo, known for precision instruments and delicatessen food scales.

Gehl farm and construction equipment, a division of Manitou Americas, posts annual sales of about $700 million and is convinced of the value of DACs. Committed to its DAC success, Gehl clearly spells out the vision and purpose of its council through five goals.

1. Improve communication between Gehl and its dealers.
2. Learn about customers, competitors and industry trends.
3. Understand the pain points and unmet needs of end-users and dealers.
4. Gain insight and suggestions from Gehl dealers on existing and new product concepts.
5. Evaluate and test proposed marketing programs.

Parker Hannifin has five different DACs in the states, plus more globally. The company's Motion Systems Group, which operates 12 U.S. divisions selling through its distributor network, has managed a highly effective DAC for the past four decades. The president of the group explained Parker Hannifin's DAC philosophy. "Every one of our divisions needs help from distributors to sell their products. Distributor Councils are one of the best ways we know to work together in important areas which benefit users, distributors, and ourselves. Councils have been a great learning experience for us to shape policies and focus programs. The majority of our distributors' concerns raised at council meetings result in changes."

The general sales manager of Alcoa's Presto Products Division has had an advisory council in place for nearly 10 years and enthusiastically touts the rewards. "When forming a new council, neither party should become discouraged after struggling through the first year or two. By working at improving their council, the results will be better with each meeting. There is nothing more important to us now than open, two-way communication with distributors about their needs and the needs of their users. Approximately 80% of the suggestions made by distributors have been acted upon. We are convinced that our council has significantly improved market penetration and profits for us and our distributors."

Although DACs have been used by industrial companies and manufacturers of consumer goods for some time, high-tech hardware and software manufacturers are just beginning to grasp that councils can help them learn about the marketplace and strengthen distributor and dealer relations. One of the first software companies to form a DAC was Microsoft. Its dealer council has representatives from small, independent retail companies, large nationwide retailers, and specialty market value-added resellers, also known as VARs. The vice president of sales at Microsoft stated, "Our last council meeting, held near the Atlanta airport, cost us $25,000, but it was a small investment for all the tremendous amount of information the dealers transmitted back to us. It is the dealers that have their hands on the pulse of the fickle customer. We also learned about how precious floor space is to a dealer. We were going to spend a lot of money on expensive store displays only to realize that the dealers had no space to put them. The dealers also helped us determine service levels, product support, and application training needs for software programs. The dealers really enjoyed the meeting. They got a chance to meet other dealers from all over the U.S. and share ideas and best practices with their peers."

When asked to comment about the positive experiences of being part of a DAC, a high-tech computer dealer in the Dallas-Fort Worth area, operating several branch stores, said, "Our industry is full of propeller heads and rocket scientists who design new products. They're brilliant whiz kids, but they far too often lose sight of what the customer needs. While on the dealer council of a PC computer company, these individuals get burned and stopped from pushing dogs on the retail stores. When a new product concept was presented to the dealer council, we were stupefied. It was a good idea and a good product, but it was too sophisticated. Our dealer council also suggested the need for a 24-hour, toll-free telephone number for new product introductions so dealer salesmen and users could immediately call for assistance. The council has really helped their business and ours."

Selecting Council Members

While a distributor advisory council delivers many advantages, it demands a solid, well-organized foundation to prosper. This starts with careful selection of participants. Most DACs contain between 12 and 18 members with an equal number of people from both the manufacturer and its distributors. Field research indicates the ideal council size, on average, is seven manufacturing and seven distributor members. When a DAC represents multiple product divisions, as is the case at 3M, Parker Hannifin and Caterpillar, the council usually has 14-18 members. Because of the dynamic discussions within a DAC, 20 members should be the absolute maximum.

Most of the time, the manufacturer takes the lead role in determining the size and composition of the council. In more than 90% of councils, the manufacturer independently selects distributor members. Alternately, a manufacturer nominates distributor members, and the slate is voted upon by all distributors. Sometimes, distributors are nominated and elected by their peers; however, this can devolve into a popularity contest. This approach also prevents a manufacturer from choosing the most progressive distributors, a range of distributors serving different markets, or a good cross-section of small, medium and large distributors.

Best-case scenario, a manufacturer's top sales or marketing executive, familiar with the firm's distributors, should determine the number and background of council members from both sides. On the manufacturing side, members typically include senior management, the sales manager, marketing manager, general managers, and/or the heads of engineering, IT, manufacturing operations, and quality assurance.

Regardless of council membership, at least one member of the manufacturer's top or general management should be present and actively engaged at every council meeting—not just at ceremonial dinners and events. When high-level managers attend formal meetings and informal gatherings, they learn invaluable first-hand information. A CEO who attends at least one DAC meeting per year will learn vital intel that would otherwise never reach his or her office. This top-management commitment underscores the council's importance, promotes timely action, and avoids momentum-crushing statements like, "We'll check into that later."

In many cases, the meeting agenda determines the manufacturer's specific personnel who should be present at each meeting. If the council only represents one division of a multi-divisional company, the division general manager should be present at all meetings. In companies where multiple divisions market through the same distributor network, the group president should be the permanent council member.

Gehl's farm equipment division attributes a large amount of its dealer council success to careful selection of distributor members. Membership criterion includes geographic representation; large, medium, small and new dealers; major-line tractor dealers; dealers representing different farming and ranching conditions; and major crops grown and harvested. Armed with this formula, Gehl's top management asks for nominations from field sales managers for progressive distributors that fit two or more of the above criteria. Dealers that have repeatedly experienced severe financial difficulty or are likely candidates for contract cancellation are excluded.

Involving Gehl's regional field sales managers in the selection process reduces senior management's tendency to invite only favorite, high-profile or large dealers. Stacking a council with "good ole boys", "golf buddies" and sycophants can quickly lead to an ineffective and dissolved DAC. The more entrepreneurial, progressive and vocal distributors with steady sales growth prove better candidates for council longevity and productivity. These may not be the easiest members to garner, but they are often more candid, on-target, and pose good questions.

Membership Terms and Rotation

Typically, council member terms span three years with staggered terms, so no more than one-third leaves and is replaced per year to ensure continuity. As a member's term expires and new council members are added, this criterion should be considered. The emergence of new markets and distribution channels should influence new members selection as well.

When new DAC members come on board, they should be briefed on the council's purpose, bylaws, and broad distributor membership. Emphasizing the scope of members helps minimize the tendency for new members to fixate on isolated issues, trivial matters or personal complaints.

For large or general-line distributor organizations that carry 100 to 200 different manufacturer lines and staff dozens or even hundreds of locations, the distributor owner or principal may not be the best person to oversee sales and marketing issues at DAC meetings. To address this problem, Loctite created two types of DACs: one for strategic and long-term issues best fielded by distributor owners and principals, and an operational DAC led by distributors' sales and marketing executives. Some large distributors with vast line-card items have top management executives serving as group product managers, responsible for the buying and marketing of product groups. These distributor product managers would serve on the distributor council focused on operating issues.

Council Leadership

The leader or chairperson of a DAC can be identified by one of four ways. The most popular method designates the manufacturer's national sales manager as chairperson. The second approach is to elect a chairperson from the existing council members. Thirdly, if the manufacturer has a dedicated vice president of distribution, such as at 3M, Caterpillar and Loctite, that person becomes the DAC chairperson. And, sometimes a member from the manufacturer and a select distributor act as co-chairs. More important than who serves as chairperson is how this person(s) conducts the meeting.

Council meetings can be a balancing act, so it's key for the chairperson to follow pre-prepared agenda topics and Robert's Rules of Order, allow sufficient time to discuss each issue, and keep the meeting on schedule. He or she should facilitate rather than lead a meeting, actively seeking divergent views and directing them into a consensus among distributors. Since every successful DAC functions purely as an advisory body, consensus views are recorded in the minutes as distributor suggestions or advice.

Council chairpersons should prevent sessions from evolving into sales meetings with the manufacturer selling to distributors, and keep distributors from drifting toward personal complaints that are neither agenda topics nor concerns of the majority. However, note that initial DAC meetings may be marked by complaints, venting, and a borage of shared issues, especially if the distributor base has been historically overlooked or underappreciated. As a manufacturer isolates and analyzes common-thread distributor issues, individual complaints should subside in future meetings.

When Councils Meet

The majority of DACs meet twice a year. Some meet once formally, and then may call one or two special meetings during the year. A typical scheduled meeting is a two- to two-and-a-half-day event, while special meetings usually span one day or a half-day. Special meetings may involve all or part of the council. For example, when an unexpected heavy demand for F-150 pickup trucks caused Ford Motor Company to put dealers on allocation, the company called a special meeting for all distributor advisory council members. The half-day special meeting ended with an allocation system that was agreeable to most of them. In another case, manufacturer John Deere considered selling its lawn-and-garden riding tractors through Lowe's retail stores and met with its DAC to discuss the decision. Staging a special meeting devoted to one topic helps a company predict and avoid problems when substantial distribution changes or policies are being considered.

Some companies' DACs create special subgroups or task forces to focus on particular issues or market needs. These groups may meet at a different, mutually agreed upon time than the rest of the council. A Parker Hannifin instrumentation product manager wanted to develop programs to penetrate the pulp and paper industry. Since not all instrumentation distributors had paper and wood product factories in their regions, the product manager called a special DAC sub-group meeting of distributors with stocking locations and sales offices in Maine, Georgia, Mississippi, Alabama, Wisconsin, Oregon, Washington and the Carolinas.

Where Councils Meet

Although DACs can meet virtually anywhere, they tend to meet at one of four locations. The most popular location is a hotel near a manufacturer's headquarters. This meeting location enables the manufacturer's personnel to participate in topics as needed. The second and third most popular locations are resorts and hub-airport cities such as Chicago, Dallas or Atlanta which offer easy access. Other possible meeting locations include a new production facility, before a national convention or annual sales meeting, or at a corporate-owned retreat as 3M does at Lake Wonewok in Park Rapids, Minn. Hosting a DAC before or after a trade show or national sales convention is not recommended because this diverts the focus and undivided attention needed when the DAC meets.

Since most councils meet twice annually, one of the meetings is generally held near the manufacturer's headquarters and the other takes place in a resort location. For example, Georgia Pacific's semiannual council meetings convene at a hotel near its headquarters in Green Bay, Wisconsin during summer, and in winter, the group meets at a golf resort in a warmer area like Florida or Arizona.

Most DAC meetings consist of a business session each morning, followed by varied afternoon recreational activities including golfing, fishing or sailing. Afternoon recreation periods should pair manufacturer personnel with distributor members. Not surprisingly, the social portion of DAC meetings spark knowledge- and relationship-building that otherwise would not ensue. For many of the distributor councils reviewed, manufacturers pay all expenses. If a distributor member does contribute to costs, it is mainly for out-of-pocket travel to and from the meeting. Whatever reimbursement process is followed, it should be applied uniformly and stated in the council bylaws.

DAC Bylaws and Legal Presence

Every DAC meeting should heed formal parliamentary rules and expedient procedures, including following an advance topical agenda, allowing adequate discussion of each issue, and finishing on time. All successful councils develop and periodically update a set of bylaws which should be reviewed by legal counsel to avoid conflicts or antitrust implications. Bylaws define meeting procedures and should specifically address five areas:

1. Mission or purpose statement
2. Distributor membership size, selection, length of term, and expenses reimbursement
3. DAC chairperson or president selection
4. Meeting frequency, meeting duration, and how minutes are recorded and distributed
5. Special committees and meetings, including number of meetings per year

Having an attorney present at every meeting helps steer discussions away from topics that violate the word and spirit of federal and state antitrust laws. Since even casual conversations could be considered an unlawful agreement, council members should be cautioned not to discuss anything with antitrust tones during social gatherings. This said, be judicious about the presence of legal counsel. Many attorneys have never been involved with a DAC and, therefore, must be counseled by the manufacturer about the council's purpose, non-adversarial environment, and the need for straightforward, two-way communication. An obtrusive legal presence can stifle the candid dialogue and collaboration essential to every DAC meeting.

At one DAC, uninformed outside legal counsel wanted to have all council members sign a lengthy, three-page document at the first council meeting. Fortunately, the manufacturer resisted the request because it would have instituted a defensive meeting tone and atmosphere. As a compromise, the manufacturer introduced the attorney as an observer, asked him to say a few opening remarks, and then passed out a page that listed federal and state antitrust topics to avoid. At 3M, the general counsel attends all DAC meetings and specifies topics that should not be discussed by members, including:

1. Pricing of specific 3M products, market shares, product quotas or territories

2. Agreements, understandings or inferences (with or without 3M personnel) on any subject(s) that would negatively influence the action of a distributor in operating openly, independently and competitively in the marketplace
3. Business details of any other competing distributor
4. Appointment or discontinuance of distributor members

Developing the DAC Agenda

The agenda lies at the heart of any successful distributor council meeting and should revolve around distributor concerns or issues to discuss. Issues, the lifeblood of any DAC, must be actively managed by the manufacturer and continually gathered from the distributor network. Without communal issues for discussion, a DAC serves no purpose.

Issues should be solicited from all distributors at least eight to 10 weeks before a council meets and submitted directly to the manufacturer or a DAC member. Three months before each DAC meeting, 3M sends a letter requesting issues/topics from all its distributors. Parker Hannifin sends a biannual survey six weeks before council meetings to amass mutual concerns and topics for discussion. These submissions are requested with the understanding that sources will be strictly confidential. Many manufacturers have distributors send their list of issues to a third party, which extends anonymity. This third party also might function as a facilitator at council meetings, particularly for the first few sessions.

To make it easy for issues to be submitted, all distributors (not just council members) should have a list of each DAC member and his or her contact information. When needed, the council chairperson should call or email busy distributors to remind them to submit issues by a certain date. If issue collection is well-managed and members perceive the DAC as worthwhile, it is not uncommon to receive 30 to 40 concerns from distributors for each meeting. A poorly managed DAC will have few issues submitted or distributors will say they have none—a sure sign that the DAC fails to thrive.

Once distributors' issues have been compiled, the manufacturer can plan the agenda. This begins by eliminating complaints specific to one distributor, concerns the manufacturer must resolve independently, and off-limit topics, e.g., pricing, discounts and gross margins—especially for companies without exclusive territories.

In order for any issue to become an agenda item, it must be a concern for a significant percentage of the manufacturer's distributors. When finished, review the number of topics to be covered within the allotted meeting time. For a two-day meeting, the number of agenda items should be limited to about 12 issues. Half or more of these issues should be submitted by distributors, and the remaining items can be submitted by the manufacturer. The following sample agenda from an actual DAC meeting reveals six issues derived from distributors and five supplied by the manufacturer.

Sample DAC Agenda

1. Old business and progress update for previous DAC issues
2. Product liability litigation and judgments
3. Suggested sales training program improvements
4. Competitive new product introductions
5. Attracting and motivating good internal and external salespeople
6. Case history application stories for new products
7. Annual distributor business plans – new format and due date
8. Proposed co-op sales promotion reimbursement
9. Proposed digital barcoding, UPC format and EDI systems
10. JIT-systems contract purchasing and digital commerce update
11. Distributor principal succession planning

When manufacturer members prepare for a DAC meeting, their presentations should be guided by the agenda topics. Often, manufacturers encourage division manager(s) to address specific topics. All presenters should investigate issues far in advance to be adequately prepared to discuss them. Agendas drafted days prior to council meetings, on route to a meeting, or at the meeting lack thoughtfulness and intention. Distributor council members recognize when a manufacturer is poorly prepared, and poor preparation will negatively affect the council's overall results.

Minutes and Corrective Actions

Far too many manufacturers go through the time and expense of conducting a proper DAC meeting, but fail to follow up on issues. Follow-up consists of drafting and distributing minutes and sincerely working on concerns raised at council meetings.

Minutes

Council discussions, consensuses, suggestions, and the manufacturer's proposed responses must all be accurately recorded in the minutes. When appropriate, even the most sensitive discussions should be included in the public minutes. DAC members usually take notes during a meeting, but there must be one person formally designated to record the discussion. Usually, the person who reports directly to the vice president of marketing and sales is designated the chief scribe, and minutes must be sent promptly. Far too many manufacturers err by distributing the minutes several weeks or even months after a meeting. As a result, they lose much of the interest and momentum generated at the previous council meeting.

Determining which recipients should receive the minutes varies widely. One manufacturer studied unfortunately only mails minutes to council members and the manufacturer's field salesforce. Georgia

Pacific audio-records the entire meeting and makes tapes available to any authorized distributor on request. Loctite's distribution of minutes stands out as the most thorough. In addition to sending the minutes to all of its 250 North American distributor locations, Loctite forwards a copy to its 6,000+ U.S. employees. Such wide circulation confirms the council is a high priority. A few manufacturers distribute minutes to their field salespeople one to two weeks before distributors receive them. This approach allows field reps to review and clarify details before discussing them with distributors in their territories. Generally, the more people who receive the minutes, the better.

Corrective Actions

The major complaint reported by distributors in ineffective councils and a key reason for DAC disbandment stems from failure of manufacturers to follow-up on a majority of agenda items and suggestions recorded in the minutes. Insufficient follow-up translates into a waste of time for everyone involved, and distributors view the slight as "high-level lip service." If a manufacturer does not work earnestly on most of the issues listed in the minutes, distributors assume the manufacturer lacks the commitment to learn from the DAC and use its input to improve.

To assure follow-up, the manufacturer's top and general manager must designate at least one person to be accountable for each action item in the minutes and set a completion or response date. Each council meeting should begin with a discussion of "old business" that reviews the status and follow-up of action items in the previous council minutes. This process helps close the loop on issues and actions before introducing new items to the council. To proactively assure its issues and concerns are addressed, Parker Hannifin also reviews DAC action items at annual national sales meetings. This reinforces accountability and keeps everyone abreast of progress made.

For every distributor, time equals lost income. When follow-through fails, distributor enthusiasm wanes. Fewer issues will be shared with the manufacturer, meetings will become shorter or cancelled, and the council will deteriorate to a purely social affair or dissipate altogether. Your best distributors will be the first to tell you if you're wasting their time with insufficient follow-up and poorly conducted council meetings –warnings to heed for a DAC's ultimate success.

Checklist to Evaluate a DAC's Effectiveness

How does a manufacturer know if a Distributor Advisory Council is productive and worthwhile? There are eight ways to gauge the effectiveness of any DAC. If any of these conditions are not being met, corrective action is quickly needed to improve the council's long-term success.

1. **Top management and leadership team commitment.**

   The presence of a manufacturer's CEO, COO, group president, and/or general managers in meetings demonstrates true DAC commitment. Without commitment of senior management, any council will be less effective. Senior management can mitigate roadblocks, prevent delays, and initiate greater distributor involvement. Top management's commitment to the council also should come from engineering, IT, sales, manufacturing and quality assurance.

2. **Cross-section of distributor members.**
   A wide range of distributors helps identify and verify communal issues. Diverse council members have more perceptions and experiences to share. An absence of demographic diversity among distributors will reduce the problem-solving potential of the forum. Entrepreneurial and publicly vocal distributors with good year-to-year sales growth will usually be the most valuable council members and critical for the DAC's success.

3. **Focus on commonly held issues.**
   Common issues are what brings a distributor advisory council together. The purpose of the forum is to openly discuss concerns and develop consensus recommendations for the manufacturer to consider. Deviations from these joint issues or focusing on isolated requests will weaken the council. Even if a DAC suggestion cannot be implemented, the manufacturer should explain why the suggestion cannot be resolved.

4. **Openness, transparency, and high mutual trust.**
   To encourage candid, two-way communication in any distributor advisory council, both manufacturers and distributors must be forthright about each issue discussed and share as much information as possible. To maintain trust, members should be treated equally with no secrets or company-owned stores.

5. **Bylaws to define governance and meeting procedures.**
   Sound bylaws help a DAC determine its purpose, mission, membership size, membership selection and tenure, leadership, topics, meeting frequency and location, and corrective actions when needed. Council meetings can be a balancing act so as mentioned earlier, the chairperson should follow Robert's Rules of Order.

6. **Well-prepared and followed agenda.**
   An agenda acts as a meeting roadmap with a skilled DAC chairperson as the guide. The council leader must allow sufficient time to discuss each agenda item without over-indulging on a particular topic. The absence of an advance agenda and thorough preparation will not lead to a productive meeting. (And, for what it's worth, cell phones should be silenced and texting should not be allowed during DAC meetings.)

7. **High percentage of common issues acted upon.**

   Even though a DAC merely advises a manufacturer, every distributor issue and consensus recommendation must be taken seriously. At least 80 percent of all agenda issues should be corrected or acted upon within a reasonable amount of time. When the same issues appear on the agenda meeting after meeting with little or no progress, the process needs to be improved or distributors will lose interest in attending the council. When an issue cannot be resolved, the reason(s) should be reported at the DAC meeting and included in the minutes that all distributors receive.

8. **Commitment of distributor members.**

   When progressive distributors believe a DAC is worth their time and investment, they will anxiously participate. When too many DAC members are halfheartedly involved, they will begin to miss meetings, arrive late, leave early, send substitutes, and submit few or no issues. These behaviors signal serious problems in a DAC's mission, organization and management, and deserve attention. When a distributor member of 3M's DAC misses two consecutive meetings, he or she is dismissed from the council. 3M also does not allow substitutes to attend for distributor principals, nor do they allow attendance by teleconferencing.

Prudence with Teleconferencing

Despite being advantageous during times when council members cannot meet in person (such as during the 2020 COVID-19 pandemic), teleconferencing cannot replace the benefits of face-to-face meetings. With travel expenses increasing and managers seeking to contain or reduce costs, manufacturers and distributors were asked whether teleconferencing and technologies such as Skype and Zoom were worth using for DAC meetings. The overwhelming response was an assertive "no," and they emphasized the following negative reasons to limit teleconferencing.

1. Teleconferencing does not provide eye-to-eye contact and body language to guide discussions and clues about how people really feel about a subject.
2. The lack of personal interactions before, during and after sessions will not surface, and more sensitive concerns from both manufacturer and distributor attendees will not be raised.
3. Bonding and business relationships that typically develop in meetings, at dinners, and during social outings would never occur.
4. The more reserved and introverted members will be inhibited to speak up.
5. Discussion of graphs, data and charts would be difficult and awkward at best.

6. Cultural differences in some countries (such as Japan) discourage people to speak up frequently during teleconferencing.

For special half-day meetings, teleconferencing might be considered. But these cases should be outliers lest the DAC risks a less productive, less incisive meeting where ideas, opinions and issues are withheld.

Summary

Distributor advisory councils are not a panacea for every manufacturer-distributor issue. However, a number of leading manufacturers including Caterpillar, 3M, Loctite and Parker Hannifin have utilized distributor advisory councils effectively for decades as the primary vehicle to acknowledge distributors as partners rather than adversaries. The late consultant Peter Drucker noted this paradigm shift when he wrote, "Adversary relationships may work when you don't have to see the bastards again. But when you must work with each other every day, manufacturers and distributors must work toward win-win approaches."[6]

Distributors can become your greatest single advantage over the competition and the biggest asset not shown on a balance sheet. Well-managed major companies like Loctite, Caterpillar, Parker Hannifin and 3M make strong distribution partners the backbone of sustainable sales and profit growth year after year. These companies do not perceive distributors as an afterthought; they regard them as integral to their operations, decision-making and mindset. They consider distributors part of their extended family and focus on long-term generations, not just quarterly results. An outstanding distribution network requires annual investments by both the manufacturer and its independent distributors, including the usual capital for inventories, information systems and salaries, as well as soft investments in new product/application training, mentoring and career development.

Loyal, high-preforming distributors are valuable allies and not just channels to push and promote products. Thus, a sound manufacturer-distributor partnership far surpasses the contractual relationship that appears on the surface. What matters most is mutual trust, consistently applied fair policies, and constant open communication between all parties. Every manufacturer must realize that the best distributors are fiercely independent entrepreneurs with their own money at risk, and they must earn a reasonable rate of return on their investment. They deserve assistance and training to sell products, especially those newly developed. Leading manufacturers have recognized the long-term strategic importance of having one or multiple distributor advisory councils to constantly improve distributor relationships. A well-run DAC can help everyone learn, adapt, and achieve winning to the third power—for customers, distributors and manufacturers alike.

[6] Drucker, Peter F., The Concept of the Corporation, 1999. John Wiley, page 141.