

Professional Distributor Management is a Critical Success Factor

A while ago I started the research for a new article that should have had the title "The cost of non-performing distributors". The idea was that after reading it there would be a better understanding on what the (potential) cost of non-performing distributors is and what could be done to limit or even avoid the number of non-performing distribution partners or agents.



In order to base the article on facts I thought it wise to also do a small market survey among exporting companies. After the first dozen of surveys I realized something more shocking than having costly and non-performing distribution partners. Many companies did not appear to have any idea on how to professionally manage and evaluate their international business partners. Moreover, having a professional distributor management system implemented and embedded in their organization seemed for many companies as unbelievable as ice on the sun.

Since the initial topic required respondents to have a proper way of evaluating one's business partners, it meant that the absence of such systems and processes to evaluate the performance of distribution partners was a critical problem. Therefore, redefining the topic became a necessity but in actuality quite easy. It would be just as interesting to see if there was a correlation between companies achieving international success and having a proper distributor management system in place.

The survey was conducted with the cooperation of 44 companies of various sizes and in different industries and provided interesting results. First of all, most importantly and obviously not too surprising there was a very strong correlation between the companies that were exporting successfully and who had such a system in place. Eight of the nine companies that responded positively to this question were in the top ten most successful exporting companies in the sample (successful was defined as revenue times the export to total sales ratio).

Obviously the distribution management systems described by the respondents were not all identical. A few companies used some type of balanced scorecard method, other companies used elements of activity based costing and some required complete marketing and sales plans. Regardless of the system used and the motivation for it, every distributor management system always contained three elements:

1. Periodic reporting from the distribution partner
2. Key Performance Indicators
3. Formal periodic evaluation and/or planning meetings

Periodic Reporting

Every management system is dependent on obtaining the correct information. When managing an international distribution network there is no difference. The companies that had a system in place all required their international business partners to submit periodic (monthly or quarterly) reports and quite often added information that was available internally as well as information from independent sources. All respondents that required their partners to send in periodic reports also said yes to the question "Do you know the most important issues for your business success in the markets managed by your distributors?" This probably could have been expected but more shocking was that 14% of the respondents felt that it either was not important to them or too much trouble to know all of that. All 6 companies with this response ended up at position 34 and lower.

Key Performance Indicators

When talking about Key Performance Indicators (KPI) it could be expected that 95% of the companies considered revenue as an important KPI and that 70% of the companies considered revenue as the leading KPI used for evaluation purposes. What was surprising was that out of the top 5, only one company used revenue as a leading KPI. The other four were more interested in indicators that can be considered to be the drivers of revenue. One company selling into the consumer market actually considered shelf-space market share as the most important KPI. When asked why that was the case the reply was: "When I want to move my car forward there is not much use in staring at the speedometer, it makes much more sense to focus on the things that make the gas go to the engine". For this company the number of meters of shelf space always could be converted back to sales using the same formula with a small margin of error.

I do not claim that revenue should not be a KPI. Quite frankly in my opinion it should always be an important figure, however, I do agree with the top 5 companies that other KPIs can be just as or, in some cases, even more important than revenue. Conclusion: when evaluating distributors, it is important to look at other things than just revenue to prevent jumping to conclusions.

Formal Periodic Evaluations

The research showed that formal periodic evaluations are essential to achieve mutual success with your business partners. All of the nine companies who did this have a distributor management system in place and were planning these meetings with their customers. Again these nine companies all were ranked 12 and higher in our list and 8 of these were all in the top 10. These evaluations are usually done once or twice a year and ideally should be linked to the planning process of both the distributor as well as the vendor.

The key word is formal. I hate to disappoint all of those area sales and export managers accumulating frequent flyer points with the sole purpose of taking their client out to dinner and to have a casual business chat in the local night club. Also a chat on the booth floor during a trade show is not a formal meeting. A formal meeting means that it is properly planned and conducted and both parties should be prepared for the discussion topics and have uninterrupted time available. The meeting should be focused at evaluating the past period compared to the plan as well as developing a new plan and KPIs for the following period or periods.

Having a professional distributor management system in place will result in meetings and discussions with partners that will have more substance and meaning. A proper system will simplify management and the planning of sales activities. Moreover, it will even strengthen the relationship between vendors and their strategic partners (which a distributor managing a country or region should heed) because it will

create shared objectives and mutual understanding. In the event of a non-performing distribution partner the right system will also automatically build the case for termination but, and this is probably the most important benefit, the number of non-performing partners will be reduced as a result of professional distributor management.

Is this way of managing your (international) distribution network difficult or time consuming? Once in place it probably will save time and simplify management. Personally I do not see any reason why any serious business would not want to have such a system in place.

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