

## Using Advisory Boards to Build Beverage Distributor Value

“You can accomplish anything in life, provided you do not mind *who* gets the credit.”

- Excerpted from the book ‘Truman’ by David McCullough

In *Good to Great*, one of the more enlightening management books, “driving a bus” is used as a metaphor for moving a business forward. Author Jim Collins contends, perhaps in contrast to conventional wisdom, that bus drivers [i.e. corporate CEOs] have their eyes fixed too closely to the road – and not on the seats behind them.

In terms of priorities, a focus on the “who” rather than the “what” is advised. In other words, getting the right people on the bus is the first step. Figuring out where you want the bus to go and how to get there is why you need to have good people on board.

Many companies, distributors included, have managers that are extremely effective at driving the business on a day-to-day basis. But let’s face it. There is a lot to do to keep wholesale operations running smoothly day-in, day-out. It’s enough activity to drain most managers of the various functional areas. After “putting out the daily fires” it is hardly surprising that managers have little mental energy left to devote to long-term, strategic issues.

For this and other reasons, an increasing number of privately-held companies, including beverage distributors, are forming Advisory Boards.

### What is an Advisory Board?

An Advisory Board is legally and practically different from the traditional Board of Directors. In the public company environment, the CEO of a business technically reports to the Board of Directors which, in turn, has significant fiduciary obligations to company shareholders. In a privately-owned operation, an Advisory Board has no fiduciary or authoritative position but rather serves as a useful resource for business owners. An effective Board should include a relevant cross-section of business expertise and provides ownership with valuable feedback and direction on important issues. Usually an Advisory Board is comprised of individuals both from – and outside of – current company management.

“There is essential value in having outsiders looking at the way you run your business,” according to Gary Thompson, Executive Vice President/GM of Powers Distributing Company in Orion, Michigan. “You can get myopic in your vision.”

Thompson’s company, a large multi-brand distributor just north of Detroit, has used an Advisory Board for a number of years. In his view, the increasing complexity of the beer industry demands more creative solutions and an Advisory Board plays a crucial role. In Thompson’s experience, “the Board encourages managers to look at alternative methods of management. It’s no longer sufficient to continue something just because that’s the way we’ve always done it.”

## **A More Complicated Industry**

Industry consolidation has created larger, more complicated enterprises with distributors handling many more products – and product suppliers. Owners experienced with Advisory Boards are seeing the benefits in the area of supplier relations and overall management development.

Some see critical value in having an Advisory Board asking the tough questions and in helping foster an ownership mentality among key managers.

Indeed, management development is one of the key benefits of the Advisory Board process. In an Advisory Board setting senior managers are forced to challenge how they are performing on a macro level and executive-level accountability increases.

Unfortunately, an all too common occurrence at family-owned (and operated) businesses is for executive performance accountability to dwindle to unhealthy levels. Accountability can be an issue both for individual owners, and between and among various relatives in the business. An Advisory Board can be an effective outside influence forcing family members to consider and communicate the larger issues.

In addition to the use of outside professionals on the Board, some companies effectively supplement the group's experience with presentations from company management. Bringing in *non*-Board managers for special, focused presentations serves the dual purpose of adding additional perspectives to the Advisory Board and aiding in the development of the company's organization. Creating and delivering a professional business presentation to an Advisory Board is an excellent opportunity for a manager to shine.

## **Advisory Board Composition**

Of course, determining which managers should participate as Advisory Board members is a key – and sometimes difficult – decision. The composition and size of a Board is a balance of providing the right cross-section of expertise, while limiting the group to a number that facilitates productivity and effectiveness.

The difficulty with Board composition often lies in determining who should *not* be on the Board. The tendency is often to include all top managers which can inhibit effectiveness – and potentially populate the group with individuals having direct ownership over most every issue the Board is likely to address. A central foundation of a successful Advisory Board is that everything should be on the table. Simply filling Advisory Board seats with current management can result in a group dynamic biased toward the status quo and unwilling to push the envelope.

Of course, pushing the envelope is where “outsiders” can be particularly valuable. Thompson advises those considering Boards to choose outside members that will complement the professional capabilities of company management and challenge their thinking. “Use the Board to bolster your weaknesses,” urges Thompson. “And find outsiders that are straightforward and direct. If all they do is tell you

everything is OK, you've made a mistake." Some owners have even considered inviting other distributor owners to sit on their Advisory Boards.

By asking the tough questions and not taking anything for granted, outside Board members can force a higher level of creativity in the organization. Throwing out preconceived notions and biases, and asking tough, pointed questions can lead managers to "moments of clarity". The value from outside participation on Advisory Boards is often the result of simply asking the right questions.

While there is no magic answer as to size, and each situation is unique, generally a range of 6-8 should be targeted with perhaps a maximum of 10.

A larger group size is warranted if the Advisory Board is charged with addressing more tactical issues and diving into specific problem-solving efforts. In such an environment, it is more important that the Board have adequate representation from each functional area of the business.

Conversely, some owners focus their Advisory Boards solely on *higher*-level, strategic issues. This approach may argue for eliminating some managers of functional areas and limiting Board membership to those with demonstrated abilities for long-term, strategic thinking.

## **Summary**

The beer and beverage wholesale industry is changing at a quickened pace. Your business may have a management team extremely effective at running the day-to-day business in the current operating environment. But do you have the *right* people on board to help you decide where your bus is going in the future and how you are going to get there?

With various regulatory changes always threatening to impact the industry, Gary Thompson perceives "more people failing to see the benefits provided by wholesalers."

"It used to be everything was done on relationships. But this industry has to get away from strictly relationship-based ways of operating to a more professional, broader outlook," said Thompson.

Advisory Boards can be a valuable addition to the set of tools owners use to keep their businesses ahead in this time of change.

As Thompson says, "In the beverage distribution business, we have to leave no stone unturned to find ways of making us more integral to the three-tier system."

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