



NATIONAL ASSOCIATION OF  
ELECTRICAL DISTRIBUTORS



# Recommended Industry Vocabulary

*“Supply Chain Scorecard”*



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This **Recommended Industry Vocabulary** is designed to facilitate a dialogue among individual distributors and the manufacturers that supply products to them for the purposes of making the supply chain evaluation process more efficient and reducing the costs for all parties involved. It is not intended to express any views regarding individual distributors' or manufacturers' business decisions. All distributors and manufacturers will continue to make their own independent decisions regarding all matters affecting competition. Information outside the scope of the designated categories (*e.g., manufacturer pricing and payment terms, promotional allowances, etc.*) has been omitted from this document. However, individual distributors are free to discuss these subjects in separate dealings with individual manufacturers.

### **Why Measure Supply Chain Performance?**

What gets measured, gets done. Better metrics lead to better decisions and better outcomes. NAED distributors measuring supply chain performance report better relationships with channel partners, reductions in operating expense, and above average return on the time and effort invested. Furthermore, measuring supply chain performance can make processes more efficient, lower the cost of doing business together, and give the channel a sustainable competitive advantage in delivering value to end-customers.

### **Vision for NAED's Supply Chain Scorecard**

NAED's Supply Chain Scorecard is more than a report handed out at booth sessions. It is a disciplined, ongoing strategic business tool to enhance efficiency, improve performance to customers, and drive results. It also enables distributors and manufacturers to identify issues, develop action plans, and hold each other accountable for results. Industry benchmarks, similar to the Performance Analysis Report (PAR), will be developed once a critical mass of distributors (*approximately 100*) measure supply chain performance.



- ✓ Strategic Measures
- ✓ Electronic Measures
- ✓ Performance Measures

### Recommended Industry Vocabulary

**Average Inventory**—Average of the inventory within the rolling 12 months.

**Average Number of Shipments per Order**—The number of shipments required to complete an order.

**Business Alignment**—Shared vision, mutual concern, and long-term relationship focus organization-wide.  
*“Your business matters to us.”*

**Communications**—Company vision and plans communicated from the top of the organization to the bottom. Channel Partners are readily open and responsive to suggestions, influences, appeals, and efforts; take relevant, timely and impactful actions that are straightforward and consistent with words.

**Direct Shipments**—Distributor Cost of the material sold to customers on shipments direct from the manufacturer.

**Discretionary Business**—Business where the distributor has a choice of vendors.

**Distributor Cost**—The amount the distributor actually pays for the product i.e., the price on the manufacturer’s invoice to the distributor less deductions for Special Pricing Authorizations (SPAs) and other allowances.

**EXAMPLE:** The amount on Manufacturer Z’s invoice for 100 widgets is \$80 (*the distributor’s regular in to stock cost*). However, 10 widgets are subject to a \$20 rebate on a Special Pricing Authorization (SPA). The distributor’s actual cost for the items is \$80 for 90 widgets and \$60 for the 10 widgets sold on the Special Pricing Authorization (SPA).

**100 Widgets @ \$80 in To Stock \$8,000**  
**Less Credit of \$20 each for 10 Widgets on SPA 200**  
**Distributor Cost \$7,800**

*Note: When calculating the value of inventory, generally accepted accounting principles apply.*

**Distributor Non-Stock Items**—Items that a distributor does not keep on hand due to low and infrequent sales. Non-Stock items are special ordered to fill specific end-customer orders. Non-Stock items on an order may be shipped to a distributor’s warehouse or shipped directly from the manufacturer to the end-customer.

*Note: Whether an item is a “stock” or “non-stock” will vary by individual distributor and often even by distributor branch.*

## Recommended Industry Vocabulary

**Distributor Stock Items**—Items that a distributor keeps on hand in their warehouse to fulfill end-customer orders.  
*Note: Whether an item is a “stock” or “non-stock” will vary by individual distributor and often even by distributor branch.*

**Distributor Total Sales**—Stock plus Direct Sales at Distributor Cost to customers.

**EDI 214: Transportation Carrier Shipment Status**—EDI transaction used to report the status of a shipment to the shipper, consignee, or third parties, from pickup to final delivery.

**EDI 810: Invoice**—EDI transaction that is an electronic version of a paper invoice.

**EDI 812: Credit/Debit Adjustment**—EDI Transaction used to request or notify a trading partner of an adjustment. An EDI 812 identifies and contains the details and amounts covering exceptions, adjustments, credits, or debits for goods or services.

**EDI 820: Payment Order/Remittance Advice**—EDI transaction used to receive remittance advice and send payments to vendors.

**EDI 824: Application Advice**—EDI transaction used to report at the functional group or transaction set level the results of an application system’s data content edits of transaction sets; used to report acceptance, rejection, or acceptance with change of the transaction set.

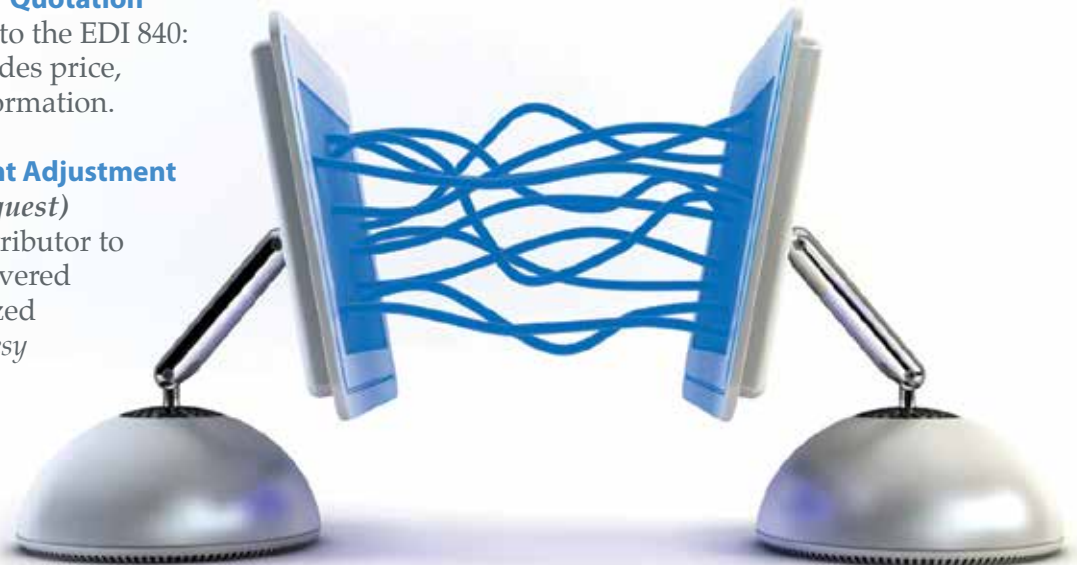
**EDI 830: Planning and Forecasting**—EDI transaction used to transfer forecasting or material release information in the form a simple forecast. This forecast includes the buyer’s authorization for the seller to commit resources, labor and materials, or a forecast used as an order release mechanism (*which can eliminate the need for discrete purchase orders*).

**EDI 832: Price/Sales Catalog**—EDI transaction used to furnish the price of goods or services in the form of a catalog. The EDI 832 keeps internal item files up-to-date with accurate product and price information.

**EDI 840: Request for Quotation**—EDI transaction used to solicit price, delivery schedule, and other information from potential sellers. The EDI 840 can be used for a limited list of parts versus an entire catalog.

**EDI 843: Response to Request for Quotation**  
—EDI transaction that responds to the EDI 840: Request for Quotation and provides price, delivery schedule, and other information.

**EDI 844: Product Transfer Account Adjustment**  
(*also known as a SPA Credit Request*)  
—EDI Transaction used by a distributor to request credit for transactions covered by a manufacturer’s preauthorized SPA Quotation. (*Definition courtesy of SPA Task Force*).



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**EDI 845: Price Authorization Acknowledgement/Status** (May also be known as a SPA Quotation, but there are other uses including price quotations)—EDI Transaction used by a manufacturer to provide a distributor with pricing or a specific SPA quotation. (Definition courtesy of SPA Task Force).

**EDI 849: Product Transfer Account Adjustment Response** (also known as a SPA Credit/ Discrepancy)—EDI Transaction used by a manufacturer to issue a SPA Credit or a SPA Credit Discrepancy Notice in response to a Distributor SPA Claim Filing. (Definition courtesy of SPA Task Force).

**EDI 850: Purchase Order**—EDI transaction that is an electronic version of a paper Purchase Order.

**EDI 852: Product Activity Data**—EDI transaction that reports the movement of material in and out of a supplier consigned inventory on a daily or weekly basis, depending on the need.

**EDI 855: Purchase Order Acknowledgement**—EDI transaction that is an electronic version of a phone call, fax, or hard copy of a purchase order acknowledgement. *NOTE: The EDI 855 can also be used in conjunction with the EDI 852: Product Activity Data as an initiation of a VMI Order.*

**EDI 856: Ship Notice/Manifest**—EDI transaction sent when product is shipped that is an electronic version of a printed packing slip.

**EDI 857: Shipping and Billing Notice**—EDI transaction that combines the EDI 856 and EDI 810. It is used to reduce EDI costs when shipment and purchase order accuracy is high.

**EDI 860: Purchase Order Change Request**—EDI transaction used (1) by a buyer to request a change to a previously submitted purchase order; or (2) by a buyer to confirm acceptance of a purchase order change initiated by the seller or by mutual agreement of the two parties.

**EDI 861: Receiving Advice/Acceptance Certificate**—EDI transaction used to notify the trading partner of the initial receipt or verified receipt quantity for a shipment of goods.

**EDI 864: Text Message**—EDI transaction used to transmit messages, contracts, explanations, or other one-time communications in a human readable form, and is for people, not computer processing.

**EDI 865: Purchase Order Change Acknowledgement**—EDI transaction used to convey acceptance or rejection of changes to a previously submitted purchase order by the seller or to notify the buyer of changes initiated by the seller to a previously submitted purchase order by the seller.

**EDI 867: Product Transfer and Resale Report**—EDI transaction used to (1) report information about product that has been transferred from one location to another (*inter-branch transfer and/or transfer from a Regional Distribution Center to a branch*); (2) report sales of product to an end-customer; and/or (3) report lost orders, i.e., demand beyond actual sales. (Definition courtesy of POS Task Force).



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**EDI 869: Order Status Inquiry**—EDI transaction used to request information about all or part of a purchase order or for all or part of the items on order, whether shipped or unshipped.

**EDI 870: Order Status Report**—EDI transaction used in response to the EDI 869 to report on the current status of a requirement forecast, an entire purchase order, selected line items on a purchase order, selected products/services on a purchase order, or purchase orders for a specific customer in their entirety or on a selection basis. This transaction set can also be used to report on the current status of single or multiple requisitions. It may also be used to update the supplier's scheduled shipment or delivery dates.

**EDI 997: Functional Acknowledgement**—EDI transaction that confirms a specific transaction set has been received and is structured correctly according to accepted standards and definitions for that transaction set.

**Electronic Measures**—Includes measures of Electronic Orders, Electronic Invoices, EDI Transaction Sets and IDEA Participation.

**Electronic Data Interchange (EDI)**—The exchange of business documents electronically instead of mailing or faxing paper. Businesses use EDI to reduce errors, the costs associated with the manual keying of data, and to speed up the process of sending and receiving standard business documents. EDI uses standard transaction sets and formats that have specific transaction numbers assigned to them. The transaction set numbers identify the standard use and function of the individual transaction.

**Electronic Invoicing**—Invoices received via Electronic Data Interchange (EDI), Flat File, Vendor Managed Inventory (VMI), and/or downloaded from the vendor's secure website.

**Electronic Purchase Orders**—Purchase Orders received via Electronic Data Interchange (EDI), Flat File, Vendor Managed Inventory (VMI), and/or Online entry.

**Emergency/Expedited Order**—Orders requiring special handling, i.e., requested in less than the normal/historical lead times, a negotiated delivery date, or shipment via air freight.

**Executive Action Areas**—Measures needing executive attention in order to improve or resolve ongoing problems.

**Flat File**—Files containing records without the structured relationships like the rows and columns in Excel®.

**Freight Efficiency**—The number of orders that do not meet manufacturer minimum order requirements and the distributor pays a surcharge or the freight, as a percentage of total orders.

**Gross Margin Return on Inventory** (*Definition from Performance Analysis Report, i.e., PAR*) also know as GMROI – Gross Profit\* divided by Average Inventory X 100. *Note: This ratio measures how many gross margin dollars are produced from each dollar tied up in inventory. GMROI facilitates the evaluation of products with widely varying gross margin and inventory utilization rates.*

*\*Dr. Al Bates only includes the gross profit on stock sales in this calculation in the Performance Analyses Report (PAR).*



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**GS1 128: Shipping Container Label**—Scannable packing list. A GS1 128 lets the receiving department know what is in the shipment without having to open the cartons. *NOTE: Used in conjunction with the EDI 856: Ship Notice/Manifest, when a shipment with a GS1-128 is received, it is scanned and the contents of the shipment are electronically matched in the receiver's computer. This streamlines the receiving process by eliminating the manual entry of data.*

**IDEA Participation**—Includes measures of IDEA membership, product and published price data in IDW, use of the Product Life Cycle flag in IDW, enriched / catalog data and images in IDW, and a subjective measure of the quality of the vendor's data in IDW.

**Initial Fill Rate**—Stock line items received complete on **first receipt** as a percentage of stock line items ordered.

**Inventory Management Measures**—Includes measures of Average Inventory, Overstock Inventory, Stagnant Inventory, and Inventory Turnover.

**Inventory Turns, also known as Inventory Turnover** (*Definition from Performance Analysis Report, i.e., PAR*)—Cost of Goods Sold divided by Average Inventory. *Note: Dr. Al Bates measures Inventory Turnover 2 ways in the PAR Report—Cost of Goods Sold of Total Sales and Cost of Goods Sold of Sales Through Stock. For purposes of the Supply Chain Scorecard, it is recommended that Inventory Turnover be calculated based on the Cost of Goods Sold for Sales through Stock only.*

**Investment in the Future of the Business**—Time, energy, and funding consistently and proactively invested in people, products, systems, skills development, and training in order to meet channel partner's needs, market conditions, and to gain a future advantage.

**Invoice Accuracy**—The number of line items invoiced correctly divided by the total number of line items invoiced.

**Joint Business Planning**—Jointly developed actionable, tactical plan established during an annual planning workshop, to fulfill the agreed upon vision and shared strategies of <Distributor name> and <Manufacturer name>. Joint business planning includes implementation plans, as well as targeted, market-specific, measurable activities.

**Lead Time in Calendar Days**—The time elapsed in calendar days between when an electronic order is issued, or a manual order is accepted, to the receipt of material. *Note: Sometimes referred to as "Order Cycle Time" by Manufacturers.*

**Manual Purchase Order**—Purchase Orders placed via telephone, fax, or hard copy. Manual Purchase Orders require physical intervention—*interpretation, price verification, re-keying, printing, filing, and internal routing of hard copies*—and increase the cost of doing business together.

**Manufacturer Non-Stock Item**—Products that are assembled-to-order, custom engineered, modified, private labeled, and /or have low or infrequent usage. Non-Stock Items are frequently ordered by description rather than by catalog number. *Note: Whether an item is a "stock" or "non-stock" will vary by individual manufacturer.*



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**Manufacturer Stock Items**—Standard items listed in a manufacturer’s catalog with unique identifiers (*i.e.*, *catalog numbers*) and UPC Codes assigned. Manufacturer Stock Items are typically available off-the-shelf for immediate shipment. **Note:** *Whether an item is a “stock” or “non-stock” will vary by individual manufacturer.*

**Marketing Coop Funds (Co-Op)**—A cost sharing arrangement, typically based on product purchases, to create brand recognition, stimulate product demand, and /or build customer relationships in which manufacturers may elect to provide financial assistance to distributors for specific marketing activities. The guidelines for accrual of co-op funds vary and may be in a manufacturer’s published policies and procedures. **Note:** *Some companies may currently refer to this as an “advertising allowance” or “promotional allowance.”*

**Marketing Development Funds (MDF)**—A funding arrangement to create brand recognition, stimulate product demand, and /or build customer relationships in which manufacturers may elect to provide financial assistance to distributors for specific marketing activities. The guidelines for approval of Marketing Development Funds vary and may be in a manufacturer’s published policies and procedures. **Note:** *Some companies may include marketing group programs in this voluntary funding arrangement.*

**New Product**—Products introduced as “NEW” in the electrical industry run the gamut from products never available anywhere before; products that are almost, but not quite, “me too” imitations of another manufacturer’s product; products to which additional features have been added; and products repackaged for promotional or repositioning purposes.

**Objective Measures**—Measures that are based on observable facts, uninfluenced by emotions or personal prejudices.

**On-Time Delivery**—The number of lines received complete from the manufacturer by the requested date based on normal/historical lead times or a negotiated delivery date divided by the total lines ordered.

**On-Time Payment**—The total dollar value of past due invoices as a percent of the total invoices due.

**Order Level Optimization**—Number of purchase orders that do not meet minimum order requirements divided by the total number of purchase orders. **Note:** *Purchase Orders that do not meet minimum order requirements may incur a “small order” processing charge or require the distributor to pay for the freight.*

**Overstock Inventory**—The amount of inventory in excess of a specified number of days supply.

**Perfect Order**—An order that is delivered on-time, with all line items filled completely, with no errors, and invoiced correctly.

**Performance Measures**—Includes measures of Lead Time in Calendar Days, Initial Fill Rate, Average Number of Shipments per Order, On-Time Delivery, Shipping Accuracy, and Invoice Accuracy, Inventory Management measures, and Returns Management measures for distributor scorecards. Manufacturer scorecards may include measures of Purchase Order Accuracy, Emergency / Expedited Orders, Freight Efficiency, On-Time Payment.



## Recommended Industry Vocabulary

**Price Change Notification**—The number of calendar days in advance of price changes notification is provided.

**Price Change Updates Received**—The number of calendar days in advance of the effective date specific pricing updates are provided.

**Price Update Timeliness Measures**—Includes measures of Price Change Notification and Price Change Updates Received.

**Profitability Measures**—This profitability measure definition is intended to serve as a reminder that a distributor may discuss profitability of a Manufacturer's products in individual discussions with that manufacturer. Definition of one profitability measure, GMROI, is taken from the Performance Analysis Review (PAR) Reports and is reprinted above. Distributors should not discuss profitability with other distributors, and all distributors and manufacturers will continue to make their own independent decisions regarding profitability measures and other competitive issues.

**Purchase Order Accuracy**—The number of line items ordered 100% correctly---*Correct part number, correct price, correct Unit of Measure, correct carton quantity, within the published or "agreed to" lead time*---divided by the total line items ordered.

**Rebates**—A return of part of an amount given in payment exclusive of Special Pricing Authorizations (SPAs). Examples of rebates include marketing group incentives, year-end volume discounts, and other pre-negotiated price adjustments. The guidelines vary by manufacturer and may be in a manufacturer's published policies and procedures.

**Receipt of Credit for Return Cycle Time**—The number of calendar days between shipment of the items on the Return Goods Authorization (RGA) and the receipt of the credit for the items returned.

**Relationship Measures**—Includes measures of Business Alignment, Joint Business Planning, Investment in the Future, Communication, and Reliability.

**Reliability**—Reliable, dependable, and trustworthy. Meets promises, proactively communicates if things change, does what they say they are going to do, and holds themselves accountable for results.

**RA (Return Authorization) Processing Cycle Time**—The number of calendar days between the initial request for Return Goods Authorization (RGA) and the receipt of authorization for return.

**RepFiles NAED Edition**—RepFiles is a content distribution system that is free for distributors to access their manufacturers' sales and marketing collateral.

**Return of Authorized Goods Cycle Time**—The number of calendar days between the receipt of authorization for return and the shipment of the items on the Return Goods Authorization (RGA).





## Recommended Industry Vocabulary

**Returns Management Measures**—Includes measures of RA Processing Cycle Time and Receipt of Credit Cycle Time for distributors and Return of Authorized Goods Cycle Time for manufacturers.

**Sales Growth**—Percentage change in sales at Distributor Cost over a specified time period.

**EXAMPLE:**

*2011 Sales at Distributor Cost \$100*

*2010 Sales at Distributor Cost \$80*

*Growth in Sales at Distributor Cost is 25%*

**Sales Management Measures**—Includes Distributor Total Sales, Warehouse Sales, Direct Shipments, Sales Growth, Stock Sales in Dollars Subject to Special Pricing Authorizations, Stock Sales in Units Subject to Special Pricing Authorizations, and Special Pricing Authorization (SPA) Percent. **NOTE:** *Manufacturers measure distributor purchases.*

**Shipping Accuracy**—The number of line items received 100% correctly divided by the total line items ordered.

**Special Pricing Authorization (Also known as SPA)**—A discounted price granted by a manufacturer to a distributor to meet a competitive situation. (*Definition courtesy of SPA Task Force.*)

**Stagnant Inventory**—Stock items that have not had a sale during a specified time period.

**Special Pricing Authorization (SPA) Dollars**—Stock Sales at Distributor Cost subject to Special Pricing Authorizations (SPAs) from this vendor.

**Special Pricing Authorization (SPA) Percent**—Stock Sales at Distributor Cost subject to Special Pricing Authorizations (SPAs) from this vendor divided by total Stock Sales at Distributor Cost from this vendor.

**EXAMPLE:** A distributor sells 100 Company Z brand widgets through stock during a specific time period at an in-to stock cost of \$80. Ten of the Company Z brand widgets are subject to a Special Pricing Authorization (SPA), resulting in an in-to stock cost of \$60 each.

*90 Widgets at \$80 In To Stock \$7,200*

*10 Widgets on SPA at \$60 \$600*

*Distributor Cost \$7,800*

Percent of Stock Sales Subject to Special Pricing Authorizations =  $\$600 / \$7,800$ , or 7.7%

**Special Pricing Authorization (SPA) Units**—Stock Sales in units subject to Special Pricing Authorizations (SPAs) from this vendor.

**Strategic Measures**—Includes Sales Management measures, Profitability measures, Special Pricing Authorizations (SPAs), Relationship measures, and Executive Action Areas..

**Strategic Trading Partner**—Those channel partners representing 80% of your sales.

**Subjective Measure**—Measures an individual's satisfaction with specific behaviors.



## Recommended Industry Vocabulary

**Supply Chain Management**—Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies. Supply Chain Management is an integrating function with primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high performing business model. It includes all of the logistics management activities noted above, as well as manufacturing operations, and it drives coordination of processes and activities with and across marketing, sales, product design, finance, and information technology. *Source: The Council of Supply Chain Management Professionals (CSCMP).*

**Vendor Managed Inventory (VMI)**—Vendor Managed Inventories (VMI) refers to any practice that involves cooperation between supply chain partners to control inventories. The practice uses demands inventories and forecasts to prepare and carry out automatic replenishments through EDI linkages. *(Definition from the APQC—American Productivity & Quality Center).*

**Warehouse Sales**—Distributor Cost of the material sold to customers through the warehouse.



## What You Can Do

Please help us leverage the collective knowledge of the industry by giving us your feedback!

Share your insight and input with the Supply Chain Scorecard task force by calling NAED Member Services toll free at 1.888.791.2512 or emailing [memberservices@naed.org](mailto:memberservices@naed.org).

And be on the look-out for additional tools from NAED's 2012 Supply Chain Scorecard Task Force, available for download on <http://www.naed.org/supplychainscorecard/>

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