



NATIONAL ASSOCIATION OF
ELECTRICAL DISTRIBUTORS

Smart Tools for Smart Distribution.™

SPA Process Efficiency: Recommended Best Practices in SPA Claim Filing



Prepared for the Membership of NAED
by The Task Forces on SPA Process Efficiency

NAED's Mission

The National Association of Electrical Distributors (NAED) is the voice of electrical distribution, providing members with the best in tools, information, and assistance to help them thrive financially and to improve the electrical distribution channel. This is accomplished through promotion of networking, advocacy, education, and defined standards.



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Scope of this White Paper

This White Paper, "*Recommended Best Practices in SPA Claim Filing*," is designed to facilitate a dialogue among distributors and manufacturers for the purposes of making the SPA Claim Filing process more efficient and reducing costs for all parties involved. This document is not intended to express any views regarding individual manufacturers' decisions to provide SPAs, including whether, when, to whom or in what amount SPAs are provided. All distributors and manufacturers will continue to make their own independent decisions regarding pricing and other competitive issues.

Goal of NAED's Task Forces on SPA Claim Filing Process Efficiencies



NAED brought together teams of manufacturers and distributors to develop solutions to make the process of SPA claim filing more efficient. The first deliverable from the task forces was the *Inventory Carrying Cost Calculator*. It enables distributors and their suppliers to work together in measuring the additional costs of SPAs on a case-by-case basis. The task forces also determined that a common vocabulary across the channel was needed to improve communications. The *Recommended Industry Vocabulary* was designed to facilitate a dialogue among distributors and manufacturers for the purpose of making the SPA process more efficient and reducing the costs for all parties involved. It is the goal of the task forces that the *Recommended Industry Vocabulary* be adopted industry-wide on September 1, 2005. And once distributors and manufacturers speak a common language, best practices in SPA claim filing can be addressed, allowing further process efficiencies and channel cost savings.

Thanks to Our Industry Volunteers

This White Paper, "*Recommended Best Practices in SPA Claim Filing*," is the result of an industry effort! While both manufacturers and distributors were involved in the development of this document, it was the brainchild of Christina Ide of North Coast Electric Company. Christina led the Distributor Task Force in developing a Recommended Best Practices document which was presented to the manufacturer's task force for comment in September 2004. Since then, Marjorie Frett of Schneider Electric/Square D led a subcommittee of manufacturing personnel who work with SPAs on a day-to-day basis through a series of bi-weekly 90 minute conference calls. Needless to say, countless hours have been volunteered to help standardize SPA Claims Process to make it more efficient for all channel partners.

The Distributor Taskforce

The Distributor Taskforce included volunteers from 10 companies:

- Border States Electric Supply.....Tammy Miller, CPA
- Standard Electric Supply Co.Larry Stern, CPA, Esquire
- Madison Electric Company.....Ben Rosenthal, Esquire
- Wabash Electric.....Lori Cruz
- Rexel, Inc.Annie Warren
- Sonepar (EOFF Electric)Jackie Angel
- North Coast Electric.....Christina Ide
- The Hite Company.....Ron Eberhart
- WESCO Distribution, Inc.Richard Stone
- D.S. Electric.....Darrel D. Daniel

The Manufacturer Taskforce

The Manufacturer Taskforce included Fran Piscitelli and Jerry Hagerman from OSRAM Sylvania, Marjorie Frett of Schneider Electric/Square D Company, Bernie Westapher from Panduit, and more than 36 other volunteers from the companies listed below.

- Schneider Electric/Square D Company
- OSRAM Sylvania
- Panduit
- Thomas & Betts
- Advance Transformer
- Philips Lighting
- Hoffman Enclosures
- Cooper Industries
- Hubbell Incorporated
- Rockwell Automation
- Ideal Industries

The Manufacturers' Task Force also reached out to NEMA (National Electrical Manufacturers Association) and IDEA (Industry Data Exchange Association). Del Nickel, President, Hoffman Enclosures, a member of the task force and a member of the NEMA Board of Governors. Additionally, two of our task force members are on the IDEA Board of Directors: Bernie Westapher, Group VP Marketing Implementation & eCommerce at Panduit; and Marjorie Frett, Director, Channel Operations at Schneider Electric/Square D Company.

Additional Key People

Mary Shaw, formerly of IDEA, was brought into the process to incorporate the *Recommended Industry Vocabulary* and *Recommended Best Practices* into the IDEA file format standards she was responsible for developing. NAED's general legal counsel, Ron Rucker, provided legal guidance during all face-to-face meetings and conference calls.

Joining in the implementation of the *Recommended Best Practices in SPA Claim Filing* with Intuit Eclipse Software are 6 representatives from Stuart C. Irby & Company, led by Betty Staines, as well as representatives of Siemens Energy & Automation.



Selected Definitions*

▶ **Special Pricing Authorization (SPA)**—A discounted price granted by a manufacturer to a distributor to meet a competitive situation.

Note: Depending on a manufacturer's published procedures and guidelines, such transactions may be known as "*Ship and Debit*;" "*Direct Ship Quote or Sale*," "*Distributor Into Stock Price Program or Quote*," and/or "*Promotional Quote*."

▶ **Distributor SPA Claim Filing**—The process a distributor must complete to substantiate the rebate amount to be paid by the manufacturer to the distributor, per the terms and conditions of the SPA or the manufacturer's published procedures and guidelines.

▶ **Distributor's SPA Credit Request**—When a distributor submits SPA claim documentation, but does not issue a debit for the SPA claim amount they are requesting credit from the manufacturer.

▶ **SPA Chargeback Invoice**—An invoice generated by a manufacturer when there is a discrepancy between the SPA claim amount deducted by the distributor and the credit amount issued by the manufacturer.

*For a complete listing of industry terminology, please refer to the *Recommended Industry Vocabulary*. It is available at <http://www.naed.org/vocabulary.pdf>



Recommended Best Practices in SPA Claim Filing

Introduction

Special Pricing Authorizations (SPAs) came into existence over 40 years ago as a mechanism to allow manufacturers to respond to the needs of specific customers in specific markets. In the ensuing years, the use of SPAs has proliferated, resulting in channel inefficiencies in the process of claiming SPAs.

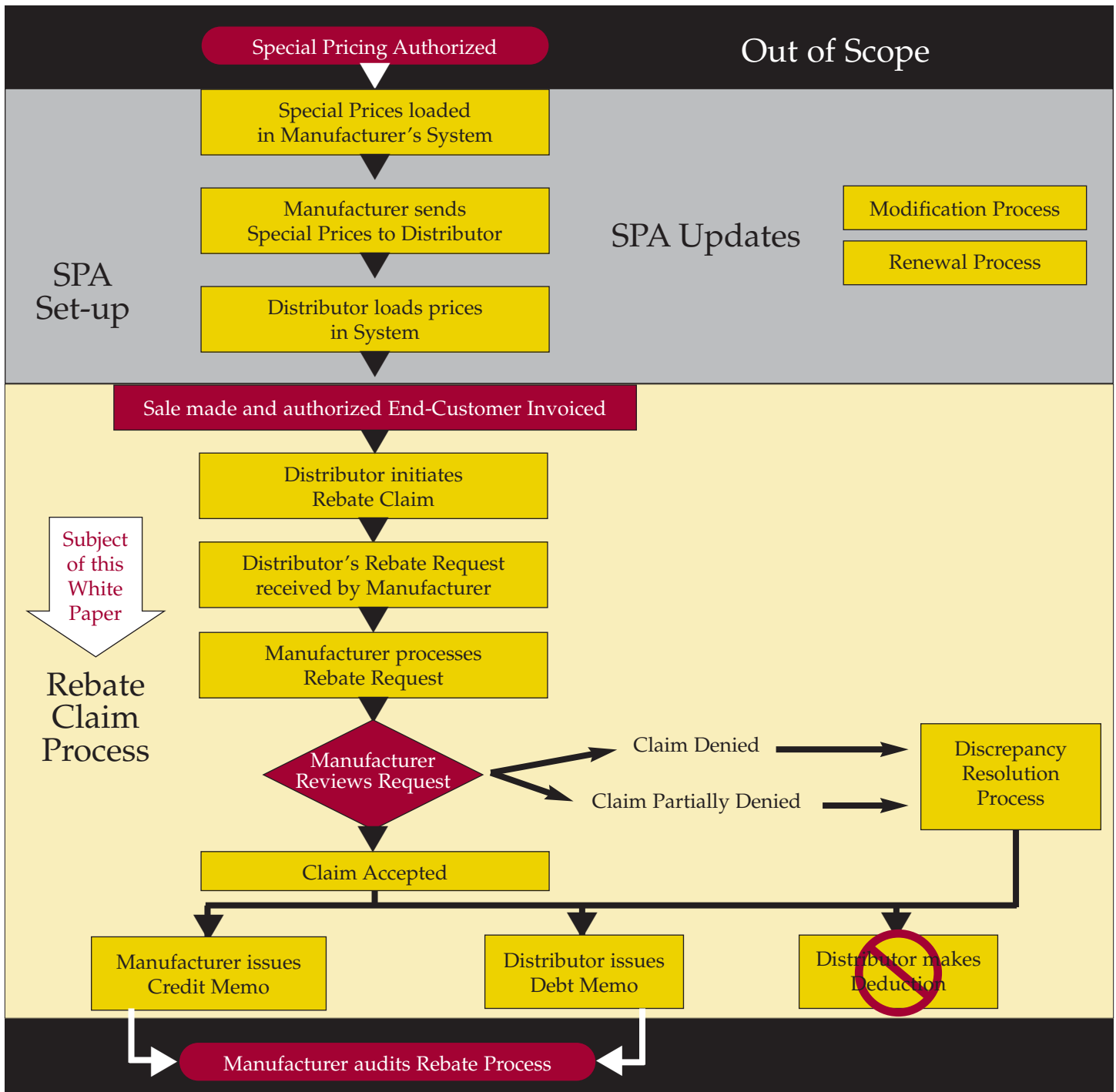
While this document is not intended to express any views regarding individual manufacturers' decisions to provide SPAs—including *whether, when, to whom or in what amount SPAs are provided*—a general understanding of the SPA rebate process is needed so the process of claiming rebates can be made more efficient for manufacturers and distributors. Distributors and manufacturers will continue to make their own independent decisions regarding pricing and other competitive issues. Therefore, for the purposes of this white paper, the SPA process begins after an agreement is reached between a manufacturer and distributor to meet a competitive situation in a specific market for a specific customer on items sold through a distributor's stock.

The Overall SPA Process

While each manufacturer has different published procedures and guidelines for Distributor SPA Claim Filing, the overall SPA process can be broken down into 5 general areas as illustrated by the Process Map on the following page. This White Paper will address 2 of the 5 general areas—the Rebate Claim Process and the Discrepancy Resolution Process. In recognition that we sometimes focus on the end of a process instead of the front of the process where the problem is created, a subsequent White Paper titled, "*Recommended Best Practices in SPA Set-Up and Updates,*" will be issued at a future date to allow channel partners to prevent discrepancies rather than resolve them.

Recommended SPA Process Map

This Recommended SPA Process Map is designed as a method to facilitate making the SPA process more efficient and reduce costs for manufacturers and distributors. It is not intended to express any views regarding individual manufacturers' decisions to provide SPAs, including whether, when, to whom or in what amount SPAs are provided. All distributors and manufacturers will continue to make their own independent decisions regarding pricing and other competitive issues.



Distributor Initiates SPA Claim: *Timely Submission*

Current Situation

Some distributors initiate SPA claims daily, while others are on weekly, monthly, and even quarterly filing schedules. And depending on a manufacturer's Published Procedures and Guidelines, the amount of time allowed for SPA claim submission varies between 90 and 180 days after sale to the end-customer.

Recommended Best Practice

✓ **Distributors: Submit SPA Claims *at least* monthly**

✓ **Within 15 days after close of month sold to end-customer**

Filing SPA claims as quickly as possible after month-end close enables many distributors to receive a Manufacturer's SPA Credit prior to paying the invoice. In addition, the longer a distributor waits to file an SPA Claim, the greater the risk in forgetting to file the SPA Claim.

✓ **Manufacturers: Accept claims up to 90 days from the date of sale to the end-customer**

✓ **Allow a 30-day "grace period" to minimize disputes**

If SPA Claim Requests are submitted monthly and limited to no more than 90 days from the date of sale, manufacturers decrease the amount of accruals required to account for Special Pricing Authorizations.

Distributor Initiates SPA Claim: *Information Required*

Current Situation

The information required in SPA Claim Filing varies not only by manufacturer but sometimes also by type of quote (*Direct Ship, Ship and Debit, Promotional Quote, etc.*) from a single manufacturer. And the variations in formats among manufacturers seem to be endless! The more variation, the more confusing, and inefficient the SPA Claim Filing process is for distributors, increasing the possibility of errors and resulting in manual intervention and rework for both channel partners.

Recommended Best Practice

- ✓ **Manufacturers:** Adopt the IDEA Standards for Required (*and Required Conditional*) Information per IDEA's EDIPro 844 and EDIPro 849* for all EDI and flat file SPA Claims.

- ✓ **Manufacturers:** Map (*adapt, and/or translate through an intermediary*) your current Excel SPA Claim Forms to the EDIPro 844 flat file format by September 1, 2005 so there is 1 standard format for all SPA Claims throughout the industry.

**The EDIPro Standards are available for download at http://www.idea-inc.org/info_support/kb_idx.php3*

Distributor Initiates Claim: *Number of Claims/SPA*

Current Situation

In order to respond customer purchasing patterns and inventory requirements, some distributors need the ability to submit one file for all claims for sales on one SPA for the entire company together. Because whether an end-customer buys from a different location or if a branch receives an item via an inter-company transfer, the SPA claim may be rejected by the manufacturer for lack of purchase. This requires distributors to file claims for each branch separately, a very time consuming, inefficient, and often manual task.

The dilemma for manufacturers is that SPAs are end-user specific, product-specific, and distributor specific. While some manufacturers have developed "Claiming Groups" and "Transfer Transactions" to address the number of claims per SPA due to inter-branch transfer and customer convenience, an individual manufacturer's Policies and Procedures in issuing SPAs determines how a rebate can be claimed.

Recommended Best Practice

- ✓ **Distributors:** Address the Number of Claims/SPA on a one-to-one individual basis with manufacturers.
 - ✓ If a manufacturer can accept one claim for multiple locations, the distributor accepts responsibility for allocating the cost of goods sold reduction internally.

Distributor Initiates Claim: *Options for Submission*

Current Situation

Many manufacturers offer a plethora of options for submitting an SPA Claim—the labor-intensive manual submission of invoice copies via the U.S. Postal Service, the manual entry of claims over the Internet, attaching Excel files to an email, uploading Excel and/or Flat Files via the Internet, transmitting Flat Files directly (*or through an intermediary such as IDEA*), and EDI transmission. Each method has its own advantages and disadvantages:

EDI Transmission

EDI is the acronym for Electronic Data Interchange, a format for exchanging business data that has been in use for more than 20 years. It is quick, fast, and painless for both channel partners once you know how to do it. EDI is a little harder to set up, but little or no human intervention is required for processing and error rates are often less than 2%. EDI is governed by the ANSI Standard X12. EDIPro is a subset of the ANSI X12 Standard that was created by the electrical industry, for the electrical industry to facilitate the use of EDI. EDIPro has defined three transaction sets for SPA rebates:

EDIPro 844: Product Transfer Account Adjustment

(also known as SPA Credit Request)

Used by a distributor to request credit for transactions covered by a manufacturer's pre-authorized SPA quotation instead of sending copies of invoices through the mail. *(Used in the SPA Claiming Process)*

EDIPro 849: Product Transfer Account Adjustment Request

(also known as SPA Credit/Discrepancy)

Used by a manufacturer to issue an SPA Credit or SPA Credit Discrepancy Notice in response to a Distributor Claim Filing. *(Used in the SPA Claiming Process)*

EDIPro 845: Price Authorization Acknowledgement/Status

Used by a manufacturer to provide a distributor with a specific SPA Quotation so prices can be automatically loaded into the distributor's computer system. *(Used in the SPA Set-Up Process)*

NOTE: The EDI 845 can also be used to provide Distributor Into Stock Cost.

Flat File Transmission

Flat Files are data files that contain records with no structured relationships like the rows and columns of Excel®. For the data to be used, a decision must be made on how to interpret the data—*through a process called “mapping”*—contained in Flat Files. (*That’s why when you try to open a flat file in Excel®, you must tell Excel® how the file is “delimited.”*) And while a flat file can be opened in Excel®, the changes made cannot be saved back to the flat file format because Excel® does not currently accommodate “pipe delimiting.” Flat files do, however, offer tremendous advantages in automating SPA Claim Filing for both trading partners. And while transmitting a Flat File is a little harder to set up in the Distributor’s system, once it’s set up it’s quick and fast. Distributors can “send” the SPA claim in the format they desire and manufacturers have the ability to “receive” the SPA claim in the format their computer system needs to receive it.

E-mailing an Excel® File

Excel® is easy, quick, and universal in its application. It’s a format that just about everyone is comfortable using. When a distributor emails an Excel® File to a manufacturer, credit is often received via fax or e-mail within a couple of days. However, every manufacturer currently has its own format for Excel® Files, adding to the workload of distributors. In addition, Excel® requires manual intervention for many manufacturers who may be required to format the distributor’s data manually before it can be imported into their computer system.

Internet-Based Applications

Distributors often have the ability to see a credit almost immediately and, in some cases, fix any problems before the credit is actually issued. However, the Internet is unpredictable and in many cases the distributor has to key the entire claim into the manufacturer’s system. Also, there are times when the speed of the Internet can go from lighting fast down to a snail’s pace, making it difficult to upload large files. And Internet-based applications may not provide the audit trail required for distributors whose stock is publicly traded.

Note: While the task forces respect and encourage the use of all electronic means to take cost out of the channel, it is recognized that the audit trail requirements of publicly traded distributors, coupled with the tremendous investments required to develop the capability to process SPA claims via the Internet preclude the endorsement of Internet-based solutions as a Best Practice.

Recommended Best Practice

The goal of the task forces is to take cost out of the channel through the electronic processing of SPA claims—ideally without any human intervention. Therefore, any activity that transfers costs from manufacturers to distributors or vice versa cannot be included in our recommendations. In order of preference, the Recommended Best Practices in submitting SPA Claims are: (1. EDI; (2. Flat File transmission; and (3. E-mailing an Excel® File.

- ✓ **Manufacturers: Offer 3 electronic options: Excel®, Flat File, and EDI—with formatting based on EDIPro Standards 844 and 849.**
 - ✓ **Convert current Excel® claiming process to IDEA Flat File Standard by September 1, 2005.**
 - ✓ **Use a group email address for claims that are emailed. This practice reduces email administration and if individuals in the claim department are out of the office—meetings, illness, or vacation—one need only edit the group (since the email address remains the same).**

- ✓ **Distributors: Use the electronic option that best fits your individual needs.**
 - ✓ **Acceptable formats for files that are emailed include .xls, .txt, .dat, and Flat File**
 - *NOTE: e-mailing a .pdf file format requires manual processing by the manufacturer and therefore is not considered an electronic filing.*
 - ✓ **Excel® files can be sent to IDEA's IDX2 for translation into Flat Files and/or EDI.**
 - *NOTE: EDI is the preferred method of transmission for many manufacturers and distributors.*

Discrepancy Resolution Process

Current Situation

Some manufacturers have been known to reject an entire claim if there are any discrepancies, even if it's only for one or two line items. Other manufacturers issue credit for the items they agree with without sending documentation detailing which items were accepted and which were declined. And

once an item on an SPA Claim is in dispute, there is no time horizon specified for resolution. In fact, there is anecdotal evidence of SPA Chargeback Invoices issued by manufacturers years after a deduction was taken by a distributor.

Recommended Best Practices:

Direct contact is encouraged. Discrepancies and disputes should be handled in a fast, easy, and timely fashion by both trading partners. The vision of the task forces is for the Discrepancy Reconciliation Process to be supported electronically so both the manufacturer and distributor can see the claim at the same time and jointly resolve any issues during 1 phone call.

- ✓ **Manufacturers: When discrepancies occur, issue credit for the items not in dispute and send detailed information regarding how the credit amount issued was calculated.**
- ✓ **Manufacturers: Transmit messages notifying distributors of errors within 72 hours (3 Business Days) of receiving a claim electronically.**
 - ✓ For manual submissions of SPA claims, send error messages within 90 days.
- ✓ **Manufacturers: If there is a discrepancy in a SPA Claim and the distributor has taken a deduction, the SPA Chargeback Invoice should only be for the dollar amount in dispute, not the full amount of distributor's claim.**
 - ✓ The SPA Chargeback Invoice should provide detail as to how it was calculated.
- ✓ **Distributors: Call the person specified in the manufacturer's Published Procedures and Guidelines to expedite the dispute resolution process and determine a course of corrective action to prevent the same situation from recurring in the future.**

Discrepancy Resolution: *Prevent Common Errors*

▶ **Current Situation:** There are 6 common errors that result in the majority of the discrepancies in SPA Claiming—incomplete information, mathematical errors, incorrect pricing, requesting rebates for more products than purchased, requesting rebates for unauthorized end-customers, and requesting rebates for items not authorized for the end-customer.

Recommended Best Practice

Incomplete information and mathematical errors can be prevented through electronic filing. Incorrect pricing, requesting rebates for unauthorized end-customers, and requesting rebates for items not authorized for the end-customer can be prevented through proper SPA set-up. Requesting rebates for items not purchased is a matter to be discussed by individual trading partners. However, as long as humans are involved, errors will occur. The solution is to provide as much information about the errors as possible in a common format.

- ✓ **Distributors:** Please do not file claims for items and/or end-customers that are not pre-authorized to use the SPA.

- ✓ **Manufacturers:** Adopt the discrepancy codes listed in the IDEA 849 Standard to help standardize the discrepancy resolution process.

Manufacturer's SPA Credit Issued

Current Situation

Manufacturers issue SPA Credit in a variety of ways—mail, fax, emailed .pdf file, Internet posting, and electronically via the EDI 849. The time interval between SPA Claim Filing and receipt of SPA Credit also varies by manufacturer, causing some distributors to take deductions from invoices as a matter of practice to recoup their money in a timely fashion. However, of 10 manufacturers polled in May 2004, 78% of electronic SPA Claims were processed in 72 hours or less, with the range varying from 57% to 98%.

Recommended Best Practice

- ✓ **Manufacturers:** Issue credit within 72 hours (*3 Business Days*) of receiving a Distributor SPA Claim Filing electronically for those items for which there is no discrepancy.
 - ✓ For items for which there is a discrepancy, an error message should be sent within 72 hours (*3 Business Days*) of receipt with the information as noted in the section above.
 - ✓ For manual submissions of SPA Claims, credit and/or error messages should be sent within 90 days of receipt of the claim.

- ✓ **Distributors:** Please refrain from taking deductions and/or issuing an SPA Debit.
 - ✓ However, if: (1. You have followed up with a manufacturer and received no satisfaction; and (2. and your SPA Claim Filing was made electronically more than 3 business days prior to the date of payment, then you may take a deduction and/or issue an SPA Debit for the SPA Claim Amount.

What You Can Do

What can you do to make sure the *Best Practices in SPA Claim Filing* is up-to-date? Tell us if we missed anything! Please send an email to NAED Customer Service at customerservice@naed.org with your comments and suggestions. Or call NAED toll free at (888) 791-2512.

To download the most recent *Best Practices in SPA Claim Filing* document, go to <http://www.naed.org/bestpracticesclaimfiling.pdf>.



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