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# Settlement

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## Settlement

The process deals with settlement for deliveries. It covers all three forms of distribution:

- Distributor deliveries
- Deliveries direct to retailer
- Deliveries via Crossdock

Settlement is based on the fact that all documentation related to the delivery is to be exchanged in electronic form (EDI).

In addition, the process describes various service level measurements that can be made to document the parties' performance, from ordering, through delivery, until settlement has taken place.

The measurements are typically associated with:

- Correct quantity
- Correct time
- Correct documentation

Settlement includes the following sub processes:

- Invoicing
- Measurement of service level

## Invoicing

### Invoicing

The sub process describes the requirements, recommendations and guidelines STAND has, which may be relevant for settlement for deliveries to a customer, regardless of the method of distribution.

The process is based on the fact that all documentation is exchanged by EDI.

This sub process consists of the following activities:

- Send invoice
- Receive invoice and send invoice receipt
- Receive invoice receipt

Areas affected by, and subject to guidelines from STAND are:

- How EDI is used in the retail trade in general and in the invoicing process in particular
- Requirements and content of EDI messages for
  - Invoice
  - Invoice receipt
- EDI exchange agreement
- Generic description of settlement process

## Use of EDI in the retail trade

EDI – Electronic Data Interchange – is used in the retail industry to exchange commercial documents like Order, Order Receipt, Order Confirmation, Despatch Advice, Invoice and Invoice Receipt.

EDI can be performed in various ways, from fully automated processes both at customer and supplier, to web solutions where information is registered manually.

EDI is used for all distribution types.

### Overview of EDI messages and in which processes they are used

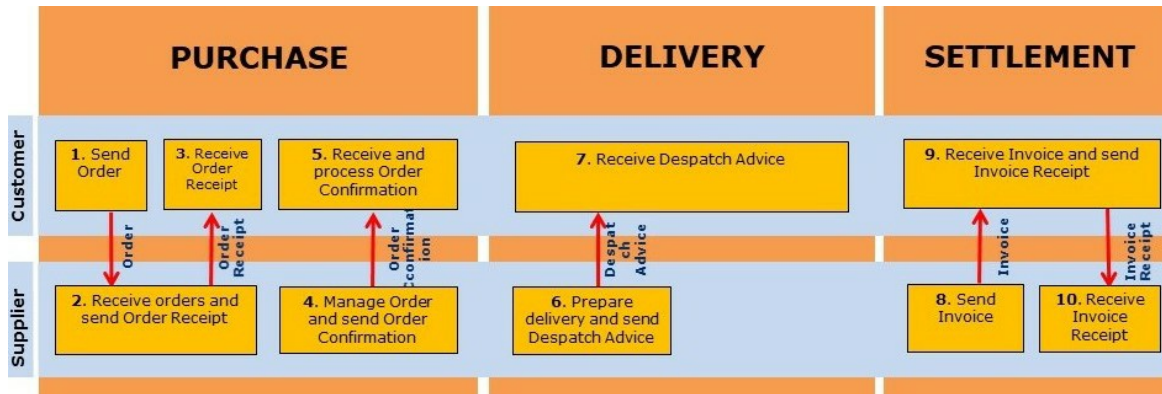


Fig. 234

Which EDI messages to use will vary with the distribution type.

An overview of this, along with deadlines for when the messages are to be sent, are described in [EDI message, type of distribution and deadlines](#).

Before using EDI, it is necessary to clarify which messages to be used, message formats, exchange methods, electronic message addresses, etc. This is documented in the [EDI Exchange agreement](#).

This document also specifies other bilateral issues related to the exchange of EDI messages.

To ensure that both parties and all business functions are familiar with all bilateral agreements, it is crucial that the EDI Exchange Agreement is used actively.

How to get started with EDI is described in [Implement EDI in the retail trade](#).

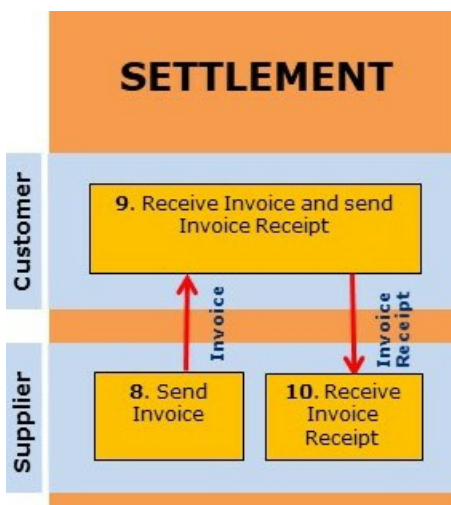
In order to start using EDI, trading documents must be translated into an EDI format.

The following formats are available:

- [Message description EANCOM for order, order receipt, order confirmation, Despatch Advice, invoice, invoice receipt](#)
- [Message description XML for order, order receipt, order confirmation, Despatch Advice, invoice, invoice receipt](#)

Revisions of the EDI formats, is documented in [Change log current version vs. past versions](#)

### Send and receive invoice and invoice receipt



### Send invoice

Based on the products and quantity delivered, as well as other terms of sale and delivery, the supplier produces an invoice and sends to the customer / invoice recipient.

Invoice must be sent by EDI unless otherwise agreed bilaterally.

One invoice shall only include delivery from one Despatch Advice.

At delivery terms Ex Works, one invoice will only deal with products delivered from one warehouse.

If credit note is sent, one credit note should only refer to one invoice.

Invoice must be continuously numbered, state the place of delivery, the invoice date and the name and address of the supplier and buyer. The invoice shall provide information about the product's name, quantity and price, as well as tax and fees.

#### **Receive invoice and send invoice receipt**

If the supplier desires / needs it, it can be agreed bilaterally that the customer will send an invoice receipt to the supplier as confirmation that the customer has received an invoice.

Invoice receipt shall be sent by EDI unless otherwise agreed bilaterally.

The invoice receipt is available in two versions; simple and advanced invoice receipt. Difference is the degree of detail on content. Which version used must be bilaterally agreed.

The following content may be included:

- Code that shows how the customer has processed an invoice
  - Received and controlled
  - Received but not checked
  - Not accepted
- Error code, which shows what is wrong if the customer has entered the code = Not accepted:
  - Incorrect invoice amount in relation to invoice documentation
  - Invoice received earlier
  - GLN error in the buyer's address field
  - No EDI agreement between the parties

One invoice receipt must cover only one invoice.

Invoice receipt can also be sent upon receipt of a credit note. Same rules as for invoice apply.

#### **Receive invoice receipt**

How the invoice receipt is used by the vendor in their internal systems is not covered by the STAND Guidelines.

## Measurement of service level

Good service level in the entire value chain is today a prerequisite for rational and competitive product flow, which in turn assumes that the performance can be measured and followed up.

Measurement and evaluation of service levels are crucial to prioritize and implement measures aimed at continuous improvements.

The parties are free to agree whether to measure the degree of service.

If the parties agree to establish an agreement, STAND recommends that STAND's definitions be used.

Areas affected by, and subject to guidelines from STAND are:

- Intentions for measurement of service level
- Target measures and the conditions that apply to these
- Definitions of different types of target measures, with examples
  - Priority target measures
  - Combined target measures

## Service Level – Purpose, types of target measures and assumptions

### Intentions for measurement of service level

Measurement of service levels is a topic that most players are concerned with and are an important element in the relationships between supplier and customer.

The parties are free to agree whether to measure the degree of service.

If the parties agree to establish an agreement, STAND recommends that STAND's definitions be used.

A challenge in relation to the exchange and evaluation of service level data has been that the trading partners often use different definitions and conditions for measurement and follow-up.

The recommendation contains suggestions for target measures and common definitions for measuring service levels. The purpose is to establish a common platform as a basis for measurement, communication and mutual evaluation of performance.

Joint exchanges of measurement results, based on the proposed definitions, could contribute to improved service levels and contribute to increased understanding of the parties' views on customer and delivery services.

Target measures are based on DLFs (Dagligvaruleverantörers Förbund) and DULOGs (Dagligvaruhandelns Utvecklings- och Logistikgrupp) common definitions, established in Sweden in 1998.

With this as a base as well as experience from companies with international relations, the prioritized definitions build upon the need for common understanding, measurement and evaluation of cross-border service.

With continuous follow-up, development and trends can be monitored over time. This will probably be more interesting than single results. Greater trend deviations are when warning signals and improvement programs should be implemented to reduce the likelihood that a similar situation will arise in the future.

### Target measures

The recommendation describes 6 different target measures, of which STAND recommends that 3 of these are prioritized, as these can be quickly implemented in today's systems.

Other target measures are composed of different combinations of priority targets.

Selection of target measures is done by the parties themselves and described in bilateral agreements.

The industry has an increasing focus on improving the service level to *consumers*, ie reducing out-of-stock in the stores. This is currently being worked on, including developing agreed definitions of how this should be measured and followed up. The following two KPIs can be used:

#### 1. Lost sales:

When stock is zero at the end of the day, this will be set off against lost sales in the store.

*Example: You have sold 40 during the day, and at the end of the day, the stock is zero. If this item had a sales forecast of 100 that day, the shelf service level of this item would be 40%.*

*When you aggregate this to store level, we will get a figure of how many customers were actually affected (based on the forecast) by the empty shelf.*

#### 2. Empty shelf

Number of article lines / products with stock = 0

Empty Shelf = \_\_\_\_\_

Number of article lines / products in the assortment in total

Assortment is defined as what purchasing / category management has decided.

Deviations between what the individual store has in their space program, and the defined assortment for the store may have to be measured with a separate key figure; assortment loyalty.

For the reports, inventory = 0 means that inventory is 0 or less than zero in the store's systems.

Other priority target measures:

- Correct quantity
- Correct time
- Correct administration

Combined target measures:

- Delivery of Order – Availability
- Complete orders at the right time
- The perfect order

The target measures can be used by both the customer and the supplier for follow-up of each other's performance.

#### Prerequisites for target measures and definitions

##### Measure

In the measurements, the unit of measurement is described as "sales unit".

It is recommended that Stock Keeping Unit (SKU) is used as a sales unit. Stock Keeping Unit (SKU) is established in most systems and is the base for transactions; ex. ordering, delivery, billing etc. to the store.

Consumer Units (CU) as a unit of measurement, however, should be the vision and goal of the future, as the Consumer Unit (CU) is the unit of measurement that is uniform and shared throughout the value chain.

##### Agreement on measurement of service level

Which target measures to use and what definitions should apply should be anchored in a bilateral agreement.

The agreement can regulate conditions such as:

- Accrual
- Lead times
- Assortment
- Time frame
- How the exchange of measurement results should take place
- Where and when the measurement should take place for the measurement points associated with the priority target measure "Correct time"
- Duration of measurements. In choosing definitions, the parties must agree on the degree of service to be calculated over time or in relation to a contracted number of orders

#### Definitions – Priority target measures

The target measures are based on three important dimensions in the term «service level»:

- Quantity – availability
- Time – reliability
- Administration – security

The priority targets measures should be followed and evaluated continuously with focus on level, trends and development.

##### Target measures Correct quantity – availability

The target measure "Correct quantity" measures availability as precision in quantity delivered.

Definition:

Number of delivered sales Units	= Availability
Quantity of ordered sales Units	

The quantity ordered is the amount that the customer initially ordered.

Not delivered quantity represents deviations in delivery.

##### Target measure At the right time – reliability

The target measure "At the right time" measure reliability as precision in delivery time.

The target measure is used to measure compliance with time limits defined in the agreement between the parties.

The target measure can be used along several dimensions in the value chain.

Examples may be if orders are sent at the right time, if order confirmations are sent at the right time, if delivery is picked up at the right time, if Despatch Advice is sent at the right time, etc.

Definition (with example order):

Number of late or early delivery orders	= Reliability
Total quantity of orders	

Delayed or premature is determined by whether exchange / delivery is within the agreed time frame.

At Incoterms Ex Works delivery terms, the assessment of the supplier's reliability is on the supplier's ramp.

The delivery is received when the order / delivery etc., is acknowledged for.



Target measures Correct Administration – Security

The target measure “Proper Administration” measures security as compliance between what is ordered in the order and what has been delivered and has been invoiced, that is, the correct product without errors and with the correct documentation.

Definition:

Quantity of orders without credit / debit notes	= SAFETY
Total quantity of orders	

Correct administration means that Despatch Advice, shipping notes, invoices etc. are complete and error-free in relation to the delivery. Only credit and debit notes affecting physical delivery are included in the measurement. The target measure can also be used to measure the quality of orders from the customer.

Examples of calculation of service level for priority target measures can be found in the document

[Examples of priority target measures](#)

## Definitions – Combined target measures

The priority target measures can be combined in different ways, to create Combined target measures.

STAND has defined 3 examples:

### Target measure Delivery Order – Availability

The target measure “Delivery Order” gives the proportion of the orders that are properly delivered.

Definition:

Quantity of complete orders delivered	= Level of Order Delivery
Total number of orders ordered	

A complete delivery order contains all ordered sales units, in the correct quantity

Availability will primarily be measured as the priority target measure “Proper Quantity – Availability”, but to calculate the combined measurements below, it is a prerequisite that “Delivery Order – Availability” is calculated.

### Complete orders at the right time – Availability & Reliability

The target measure describes both accessibility and reliability in the interaction.

The target measure is composed of the target measures:

- Delivery of Order – Availability
- At the right time – Reliability.

Definition:

Availability expressed per order	= Complete orders at the right time
– Quantity of late or early delivery orders	
Total quantity of orders	

Only one error per. order is counted

The measurement of “Complete Orders at the Right Time” shall be done at the place of arrival. At Incoterms Ex Works delivery terms, this is the supplier’s ramp

### The perfect order

This is the most demanding target measure and measures all types of deviations regarding complete orders.

The target measure is composed of three previously defined target measures:

- Delivery of Order – Availability
- At the right time – reliability
- Correct administration – Security

Definition:

Quantity of complete orders delivered	= The perfect order
– late or early delivery orders	
– Orders with missing or incorrect documents	
– Orders with credit / debit notes	
Total quantity of orders	

Only one error per. order is counted

If both the supplier and the customer’s obligations are considered in the target measure, the target measure represents the performance that the parties create in common.

Examples of calculation of service level for combined target measures can be found in the document

[Examples of combined target measures](#)