

Why Commodity Codes Continue to Work for Electrical Distributors

One indispensable requirement every electrical distributor has is the ability to group inventory items into meaningful product classes or categories to enable essential report generation such as sales activity, what and how much to stock, what to discontinue stocking, profit by product, etc. Intelligent product classification also facilitates the establishment of a pricing matrix that affords flexibility in the areas of purchasing and selling, enabling the distributor to be competitive, while improving profit margins wherever possible.

This paper provides an executive overview of two such product classification systems that exist today within the electrical industry: the Commodity Code hierarchy developed and maintained for the electrical industry by Trade Service, and the UNSPSC, a system that requires active and on-going involvement by the manufacturer to assign the codes and keep them maintained.

Any distributor considering the adoption of a product classification scheme should take into account:

1. Will the codes represent the industry at large, or will they reflect the specific viewpoint of each manufacturer?

The Trade Service Commodity Codes are manufacturer agnostic, which means they are assigned irrespective of any given manufacturer. This neutral and unbiased approach provides the assurance that any report generated will group all like products together, assigning equal weight to each item.

The UNSPSCs must be assigned by each manufacturer for their own product line, in an attempt to fit their products into a common standard. Given the fact that any comprehensive product coding system must represent 100% of the industry's manufacturers, it must be asked how many electrical manufacturers are equipped at this time to effectively address a task of this magnitude? Without unanimous participation, an industry-wide effort to standardize on the UNSPSC cannot obtain the level of adoption needed to be successful. Furthermore, it is only human nature that those manufacturers who do assign UNSPSCs to their products will incorporate their own unique viewpoint. Again, if the codes are not 100% common across all manufacturer lines, they cannot accomplish for the distributor what they are designed to accomplish.

2. Is there an effective way to “map” the Trade Service Commodity Codes to corresponding UNSPSCs, and if so, what will this accomplish?

The Commodity Codes and the UNSPSC are essentially 4-digit methodologies. The UNSPSC contains 8 digits, but 2 digits are required to represent each level within the hierarchy. And both systems are hierarchical, in that the product groupings become increasingly more granular, moving from left to right across the digits.

Below is an example of one of the product groupings that appears in the current attempt to map these two coding systems. Note that the UNSPSC covers the entire “Electrical Conduit” product category with just one code:

Commodity Code	Product Category	UNSPSC	Product Category
1050	Intermediate Metal Conduit	39131706	Electrical Conduit
1100	Heavy Wall Conduit	39131706	Electrical Conduit
1110	Galvanized Heavy Wall Conduit	39131706	Electrical Conduit
1130	Aluminum Heavy Wall Conduit	39131706	Electrical Conduit
1200	Electrical Metallic Tubing (EMT)	39131706	Electrical Conduit
1300	Flexible Conduit	39131706	Electrical Conduit
1310	Flexible Metallic Conduit	39131706	Electrical Conduit

Commodity Code	Product Category	UNSPSC	Product Category
1320	Flexible Non-Metallic Conduit	39131706	Electrical Conduit
1400	Liquid Tight Conduit	39131706	Electrical Conduit
1500	PVC Conduit, Fittings & Boxes	39131706	Electrical Conduit
1510	PVC Schedule 40 Conduit	39131706	Electrical Conduit
1520	PVC Schedule 40 Elbows	39131706	Electrical Conduit
1560	PVC Schedule 80 Conduit	39131706	Electrical Conduit
1580	P & C Duct	39131706	Electrical Conduit
1800	ENT Conduit, Fittings, & Access.	39131706	Electrical Conduit

In a similar example, the category “Electrical Conduit Coupling” is represented by 42 distinct designations within the Trade Service Commodity Code, and again, by one single code in the UNSPSC. In order for a product coding system to work properly within a distributor’s system, it needs to reflect an appropriate level of granularity. The Trade Service codes provide overall more granularity than the UNSPSC; and, in response to customer demand, Trade Service will soon be introducing a 5th digit to its Commodity Code to provide a more targeted breakdown.

3. What level of market adoption or usage does the coding system have?

The UNSPSC does not have industry adoption at this time.

The Trade Service Commodity Codes were developed in the late 1960’s in response to distributor demand for a way to easily break products down into common categories. Since that time, the codes have experienced continual refinement, as Trade Service receives actual “use case” input from its 1,000 distributor customers. The usability of the codes is tested and verified in the best possible way: by those who use them every day to help drive their business. In addition, the industry’s business software providers have integrated their systems to accept the Commodity Codes and have written specific applications around their use.

It should be noted that the word “legacy” often connotes “old,” “outdated,” or “static.” If this expression applies to the Trade Service Commodity Codes, it is only in the context of a dynamic “living legacy”, developed decades ago, but continuing to evolve to reflect the ever-changing needs of the hundreds of distributors and end-users who use them.

4. How reliable are the codes in their ability to evolve without causing disruption in their use within the business system?

The Trade Service Commodity Code structure has essentially remained intact since its inception. Updates are provided periodically to reflect industry requirements and distributor use models. Before changes are released, mostly due to code expansion and additions (deletions are uncommon), customers are given a 60-day advance notice. When changes are implemented, detailed change records and automatic data mapping from old to new are provided. This process allows for seamless updating of the distributor’s business system with no manual interaction required.

The UNSPSC maintains multiple sets of codes with no fewer than 10 versions currently available. Updates are released periodically with membership required for changes and additions. An audit file is distributed with each release that the distributor must visually analyze and compare against existing records and then physically update any impacted records through manual data entry. Code deletions are common.

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A product classification scheme continues to be a fundamental requirement today in obtaining maximum benefit from a distributor’s business system. This paper has attempted to point out the importance of researching the coding systems that are available and then choosing the right one for your business.

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