

The benefits of increasing control over your shipping

How you can make more money
through incoterms

Logistics doesn't have to be a maze.



The big ownership question.

Incoterms exist to provide a standardised and globally recognised set of rules and definitions for international trade. Ultimately, who is responsible for a shipment at the various stages of its journey. By responsibility, we mean who is burdened with the costs and risks of the transportation and customs.

While incoterms themselves are not legally binding, they're often written into sales contracts, which are legally binding.

It can be tempting then, and we see it time and again from firms of all sizes, to pass much (or all) of that responsibility to the other party in a deal. After all, who wants to deal with the logistics? It's complicated, time consuming and challenging.

However, where there is a challenge, there is an opportunity.

There are significant benefits to taking increased control of your shipping, using incoterms which place more of the burden on your business. Both on the import and export side.

Here we explore the hidden risks associated with passing logistical responsibility on, and the potential benefits of assuming more control.

Ex-Works

The incoterm which places the lowest possible logistical responsibility on the exporting party.

DPU

The incoterm which places the lowest possible logistical responsibility on the importing party.

Incoterms reminder...

Seller obligation
 Buyer obligation

Incoterm	Packaging & Checking	Loading at seller premises	Transport from origin	Export customs clearance	Terminal charges origin	Freight charges	Freight Insurance	Terminal charges destination	Import customs clearance	On-land transport at destination	Unloading buyer's premise
EXW							*				
FCA							*				
FAS							*				
FOB							*				
CPT							*				
CFR							*				
CIP											
CIF											
DAP							**				
DDP							**				
DPU							**				

* No obligation, but risks borne by the buyer

** No obligation, but risks borne by the seller

Making more money with incoterms

By using incoterms which give you more responsibility over a shipment, you could make more money from the sale.

By this, we mean you can build the logistics and customs costs into your price and add additional profit on top.

For sellers, this means using terms like DAP or DDP, rather than Ex-Works or FOB. For buyers, it means the reverse. With that burden and responsibility taken on, you have licence to increase prices.

An added benefit is the higher level of service for your supplier or customer. They could be grateful for not having to organise logistics. With more control, you're able to choose a reputable logistics provider, who can be trusted. Passing that responsibility means you have less control over the quality of the transportation, which could compromise the condition of the goods.

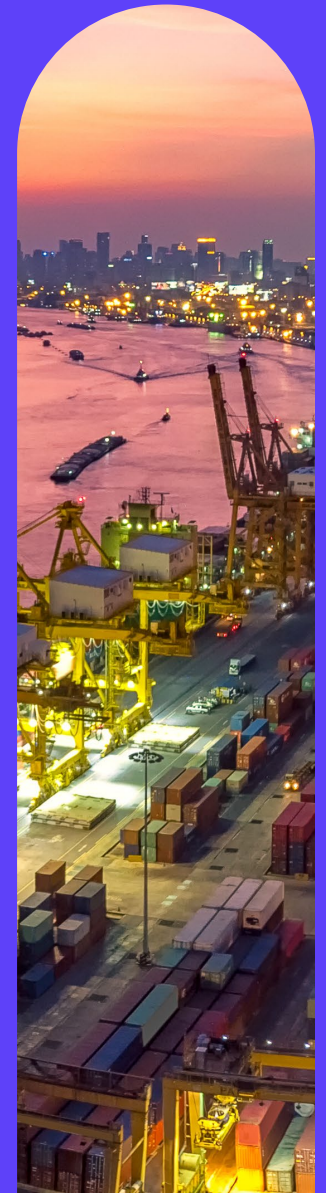
It could be the case that by assuming more control over the logistics, both parties make more money.

How so?

You could have access to better rates than your supplier or customer, through a more competitive forwarder and/or contract rates. There's no harm in submitting an RFQ to see if taking increased ownership would lower costs for both sides.

Alternatively, a competent forwarder would also be able to advise more strategically on your whole supply chain, to save money in more areas than just the freight rate.

Start a dialogue with your suppliers and/or customers to explore how changing incoterms could influence prices. In this fiercely competitive market, better use of incoterms could give you an edge in the marketplace.



Key considerations for taking increased control

With the prospect of improved profitability and customer service, be wary of some vital considerations when positioning your business to assume more logistical responsibility.



Your logistics provider

Assuming more responsibility will not work financially if your business doesn't have a reputable logistics provider in place.

They need to offer visibility, prompt communication and exceptional service so you can confidently accommodate incoterms with additional burden.

Knowledge of the route and market entry procedures is also essential.



Type of shipment

If shipping LCL, it can be more difficult to negotiate a change of incoterms because of reduced buying power.

It might be worth considering what products your goods are being shipped with. Perhaps move away from consoles which are adding complexity.



Economies of scale

Bigger companies could have access to better contract rates than their supplier or customer.

In these circumstances, bringing logistics under their own control could save both parties money.

Alternatively, a wider supply chain restructuring could save money beyond just freight rates.



Additional risks

Be aware: taking on added logistical responsibility likely means you're also taking on additional risk, in the form of responsibility for the goods.

Consider whether you're willing to take on this risk for the potential of financial reward of doing so.

However, there are different risks associated with relinquishing control of a shipment.



Finding efficiencies with incoterms

Separately from assuming more control over your logistics, there could be cost savings in greater homogeneity of incoterms. We see this particularly with large firms, which have expansive import and export portfolios.

Their many suppliers and buyers will insist on certain terms, which are likely different, meaning their supply chain is made up of a wide range. This adds complexity. We regularly see the same importer juggling FOB, CIF, EXW and others, depending on their supplier.

Making efforts to secure consistency in the incoterms used can have dramatic consequences for efficiency. Saving time and reducing the possibility of mistakes from the procurement team.

Using the same incoterms could also give you access to greater scale and reduced rates with your logistics provider.

Look at building homogeneity into the sales process.



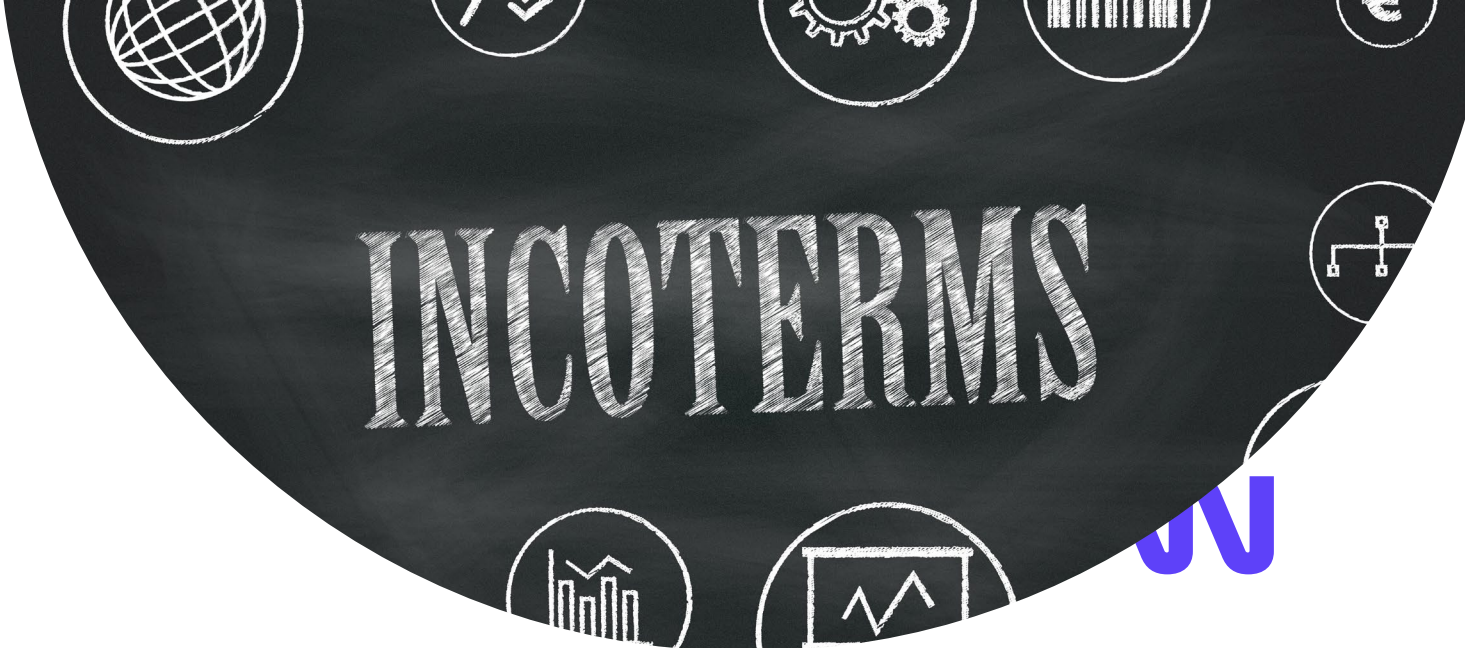
So, what incoterms are best?

Unfortunately, this is where the heavy caveating comes in.

We're not able to advise on which incoterms are best. No logistics provider is. In fact, if you come across one claiming to have a best and worst incoterms, we would advise you steer clear.

What incoterms are best is entirely dependent on circumstances. Risk, cost, destination/departure port, contents, volumes, trade lane, the supplier/customer and more.

Shippers must take all these factors into consideration in their decision. This article exists only to highlight that a more strategic use of incoterms could have financial rewards for your business.



INCOTERMS

That being said, WTA we can advise on incoterms for your circumstances. Our team with decades of experience working across 679 trade lanes means it's highly likely we have encountered your specific challenges before.

Coupled with our visibility platform and unmatched communication, you would be in the perfect position to take more control of your logistics and the increased profit which may come with it.

"We have been working with WTA for a number of years now and their service is exceptional. A pleasure to work with."

Micaela Moroney, International Sales Operations Manager at The Millboard Company

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