



# The Strategic Impact of Incoterms on International Trade and Logistics

*Dr. G. Hemamalini, Shameer S*

Natesan Institute of Cooperative Management

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## Abstract

The use of International Commercial Terms (Incoterms) is critical to the smooth operation of global trade. These standardized terms, established by the International Chamber of Commerce (ICC), define the responsibilities of buyers and sellers in international transactions. This article explores how the correct application of Incoterms enhances trade efficiency, minimizes disputes, and supports better risk and cost management in logistics. Drawing from empirical research, this article presents insights into how organizations implement Incoterms, the challenges faced, and strategies for improvement.

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## Introduction

In the expanding world of international trade, clear guidelines are essential to avoid disputes, delays, and financial losses. Incoterms serve as internationally recognized trade terms that assign roles and responsibilities for shipping, insurance, risk, and customs between exporters and importers. With cross-border commerce becoming increasingly complex, the correct application of Incoterms has grown in importance for stakeholders across supply chains, including traders, freight forwarders, and logistics professionals. This article analyzes the practical impact of Incoterms on trade efficiency, based on a research study conducted among professionals engaged in global logistics operations. The aim is to understand how these terms influence decision-making in trade processes, improve workflow, and affect cost structures and risk allocation.

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## Understanding Incoterms and Their Role

Incoterms provide clarity in trade agreements by specifying who is responsible for various elements of the logistics chain—from loading goods onto a ship to handling customs clearance at the destination. They reduce ambiguities in contracts, facilitate smoother negotiations, and streamline international trade processes. The 2020 revision of Incoterms reflects modern shipping practices, including heightened attention to security and digitized documentation. Choosing the appropriate Incoterm can influence a firm's legal liability, transportation cost burden, and risk exposure in transit. For example, terms like EXW (Ex Works) place the bulk of responsibility on the buyer, while CIF (Cost, Insurance, and Freight) sees the seller handle more logistics operations until delivery.

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## Methodology and Data Analysis

A structured questionnaire was administered to 50 professionals involved in trade operations, procurement, and documentation. The participants spanned various experience levels and were involved in the trade of both waste paper and used tyres—commodities requiring detailed handling and regulatory compliance. Descriptive and inferential statistical methods, including Chi-square and correlation tests, were employed to examine the relationships between experience level, Incoterm selection, and operational outcomes.

### Key findings include:

- All participants reported consistent use of Incoterms.
- EXW and FAS were the most commonly used for purchasing, while CIF dominated selling preferences.
- A moderate positive correlation existed between selecting the right Incoterm and the belief that it simplifies negotiation.
- Most participants agreed that Incoterms reduced trade confusion and improved workflow efficiency.

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## Key Findings and Insights

### 1. Preference Patterns Based on Experience

The study revealed a direct link between the level of trade experience and the choice of Incoterms. Less experienced staff preferred EXW, while those with intermediate experience favored FAS. Senior professionals used a mix of EXW and FAS but avoided FOB entirely. This suggests a learning curve in comfort with risk-sharing and logistics responsibility.

## 2. Impact on Operational Efficiency

Participants overwhelmingly reported that Incoterms enhanced workflow by clearly defining roles and reducing miscommunication. This was further supported by the absence of confusion among employees regarding Incoterm application, indicating successful internal training and standardization efforts.

## 3. Cost and Risk Considerations

While most firms used Incoterms to optimize cost efficiency and satisfy buyer/supplier preferences, there were instances of delivery delays and unexpected costs—often due to mismatches in responsibility or insufficient coordination.

## 4. Influence on Pricing and Shipment Speed

More than 90% of the respondents acknowledged that Incoterms influenced pricing and landed costs. About 60% felt that certain Incoterms affected shipment speed, depending on how responsibility was split. This underscores the strategic dimension of Incoterm selection in supply chain planning.

### Challenges in Implementation

Despite high levels of awareness, the study highlighted key challenges:

- LogisticalDisagreements
- Unanticipated Costs
- Delivery Delays

These challenges suggest that beyond knowing Incoterms, organizations must ensure robust communication and coordinated decision-making across departments.

### Recommendations for Practice

- Develop Internal Guidelines
- Enhance Training
- Integrate Technology
- Strengthen Collaboration
- Monitor Legal Trends

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## Conclusion

Incoterms are more than contractual formalities; they are strategic tools that significantly influence global trade efficiency. When implemented correctly, they foster transparency, reduce disputes, and streamline operations across borders. The findings of this study reinforce that businesses with a well-trained workforce and clear internal systems are better positioned to leverage Incoterms for competitive advantage. As international trade continues to evolve, it is imperative for companies to treat Incoterm knowledge as an operational competency. This requires continuous learning, alignment with global standards, and a proactive approach to stakeholder engagement. In doing so, organizations can transform Incoterms from legal necessities into enablers of global business success.