
Making Money with Incoterms® 2010

Strategic Use of Incoterms® Rules in Purchases and Sales

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In most negotiations for imports and exports there are four primary areas buyers and sellers discuss. These four areas are possession of the goods during transportation, transfer of risk or responsibility, title transfer, and payment terms.

Of these four areas, the most important is the negotiation over the transfer of possession during transportation. This can be thought of as whether the goods will be sold freight prepaid or freight collect. The second issue discussed is the transfer from seller to buyer of risk, or responsibility for the condition of the goods during transportation. For traders not savvy in Incoterms[®] Rules this subject may not even be discussed. Once the transfer of possession and risk are agreed upon then title transfer and payment terms normally fall into place.

The author's mnemonic to recall the International Commercial Terms, or Incoterms[®] Rules and their effect on risk, possession and ownership is RePO[©] (**R**esponsibility, **P**ossession, **O**wnership), which addresses three critical areas in a supply chain, and helps remind us of an important lesson about Incoterms[®] Rules regarding possession, responsibility and ownership:

1. You may be **R**esponsible for goods you neither own nor possess.
2. You may **P**ossess goods you are neither responsible for nor own.
3. You may **O**wn goods you neither possess nor are responsible for.

And as will be discussed in greater detail, the Incoterms[®] Rules are silent on title transfer, or ownership.

Landed cost, or total cost of ownership, is the sum of all costs to get the product that was purchased to its destination. This would include the piece price, the costs for transportation, export and import clearance, security clearance, insurance, duties, taxes, fees, etc.

This book will address the strategy and tactics of negotiating the minimization of landed cost and the maximization of profit for both international and domestic transactions, from the perspective of both purchasing and sales.

This book is addressed to the largest group of importers and exporters: those who sell goods either as LCL, or in full containers by ocean, air or truck. This book is not meant for importers and exporters who charter vessels, such as commodities traders, but commodities traders can still learn from the negotiation lessons herein.

Most traders will be using only a few Incoterms[®] Rules. For this reason, this book will address those Incoterms[®] Rules in depth that are most applicable to most companies that participate in international trade. The rest of the Incoterms[®] Rules are briefly discussed and dismissed as inapplicable for those of us who move goods in containers.

Who should read this book?

This book should be read by people in the following departments:

- Purchasing
- Sales
- International Trade Compliance
- Contracts/Legal
- Logistics/Supply Chain Management
- Shipping/Receiving