**Maximizing Impact of Incoterms** 

# Are you using Incoterm for better negotiation, & finance impact?

Let's check how Incoterms, beyond logistics, influence negotiation, finance, and how we can optimize them for financial & negotiation outcomes.



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## Incoterms: A Strategic Procurement Tool

Incoterms impact negotiation, finance, and procurement value.

If we understand their influence on cash flow and negotiation, we can optimize our financial position and achieve favorable negotiation outcomes.

#### The Key for us: Timing & Leverage

Incoterms dictate cost timing!
cost timing refers to when the money leaves our company's bank account.

It's not just about how much we pay, but when we pay it.

---> This directly impact cash flow and working capital!

If we understand this we will be able to leverage the Incoterm

Let's learn about how they impact us!

#### Incoterms & Cost Timing?

Early Cost Timing: EXW, FCA, FAS

Buyer pays for most of the journey from the start. Costs like pickup, export, main shipping, import, and delivery all hit your books early.

Impact: lower initial price, but large upfront costs. Strains cash flow

Mid Range Cost Timing: FOB, CFR, CIF, CPT, CIP costs are split. Buyer pays for the main shipping and import. Some costs hit your books in the middle of the journey. Impact: balances cost and responsibility. Moderate impact on cash flow."

Late Cost Timing: DDP, DPU
Seller pays for almost everything until delivery. Most costs hit your books at the end.
Impact: higher initial price, but fewer upfront costs. Frees up cash flow.

# Early Cost Incoterms: EXW, FCA, FAS - Negotiation Implications

EXW (Ex Works): Buyer handles all logistics from the supplier's location.

Lowest initial price, highest overall cost.

FCA (Free Carrier): Supplier delivers goods to a specified carrier. Moderate initial price, moderate overall cost. Both require significant upfront cash outlay for the buyer.

FAS (Free Alongside Ship): Supplier delivers goods alongside the ship at a named port. Buyer responsible from that point.

All require significant upfront cash outlay for the buyer. Leverage strong logistics capabilities to negotiate lower initial prices.

Negotiation focus: Securing the lowest possible initial price, but be prepared for high logistical costs.

# Mid Range Incoterms: Balancing Costs & Negotiation Flexibility

Focus on defining delivery points and cost breakdowns clearly.

FOB (Free on Board): Supplier delivers goods onto a ship. Buyer handles costs from that point.

CFR (Cost and Freight): Supplier pays for shipping to a named port. Buyer handles costs from that point.

CPT (Carriage Paid To): Supplier pays for shipping to a named place. Buyer handles costs from that point.

CIP (Carriage and Insurance Paid To): Supplier also pays for insurance to the named place.

Moderate initial price, moderate overall cost for the buyer.

Negotiation focus: Clear definition of delivery points, insurance details, and cost breakdowns & risk sharing.

# Delayed Cost Incoterms: DDP, DPU - Negotiation Advantage

Delayed cash outlay frees up working capital.

DDP (Delivered Duty Paid): Supplier handles all costs, delivers to buyer's location. Highest initial price, lowest overall effort.

DPU (Delivered at Place Unloaded): Supplier delivers & unloads goods at a named place. Buyer handles customs.

Delayed cash outlay, freeing up working capital.

Negotiation focus: Ensuring all costs are transparently included in the DDP/DPU price. Leverage reduced risk and logistical burden to negotiate better payment terms.

## Timing & Negotiation: A Direct Link

Incoterms dictate payment timing, directly influencing our negotiation power.

Early payments (EXW) may offer leverage for price reductions.

Delayed payments (DDP) shifts leverage towards the buyer, enabling better payment terms

Different Incoterms influence cash layout timings, managing cash flow effectively.

Different Incoterms dictate when a buyer must lay out cash.
This timing is crucial for managing cash flow effectively.

EXW: upfront costs=less cash.

DDP: delayed costs = more cash.

## Leveraging Incoterms for Negotiation Advantage

Demonstrate your understanding of Incoterms to gain credibility.

Use your logistics teams as a bargaining chip.

Align Incoterms with the overall negotiation strategy.

Prepare cost comparisons of various Incoterms to strengthen your position.

Incoterms are not just about cost allocation, they are a key negotiation lever.

Understanding our leverage (logistics capabilities, market knowledge, ...) allows for strategic Incoterm selection.

Negotiate Incoterms alongside price, payment terms, and quality.

## Cash Flow & Negotiation: Strategic Alignment

Align Incoterms with cash flow and negotiation goals.

For tight cash flow, use DDP to negotiate extended payment terms.

For strong logistics, you can use EXW to negotiate lower prices.

Align Incoterms with cash flow patterns to choose terms that suit your financial situation.

## Incoterms: A Strategic Financial Lever

They're more than shipping terms—they're financial tools.

Strategic selection can significantly impact your financial health & use them strategically to:

- 1. improved cash flow,
- 2. reduced working capital needs,
- 3. stronger negotiation positions.

Consult with finance and legal to ensure alignment and maximize benefits.

#### Incoterms: Navigate Your Shipping Costs!

Incoterms affect costs and control

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EXW (Ex Works)

Goods at supplier's site. Buyer

Goods at supplier's site. Buyer handles all else.

FCA (Free Carrier)

Supplier delivers to carrier. Buyer takes over from there.

FAS (Free Alongside Ship)

Supplier delivers goods to port. Buyer ships onward.

FOB (Free on Board)

Goods on deck. Buyer cover

Goods on deck. Buyer covers shipping from port.

CFR (Cost and Freight)
Supplier ships to port. Buyer handles from port.

CIF (Cost, Insurance, and Freight)

Supplier ships and insures to port. Buyer takes it from port.

CPT (Carriage Paid To)

Supplier ships to place. Buyer takes over there.

CIP (Carriage and Insurance Paid To)

Supplier handles shipping and insurance to place.

DAP (Delivered at Place)

Supplier delivers to location. Buyer manages unloading.

DPU (Delivered at Place Unloaded)

Supplier delivers and unloads. Buyer clears customs.

DDP (Delivered Duty Paid)

Supplier covers all costs to buyer's doorstep.



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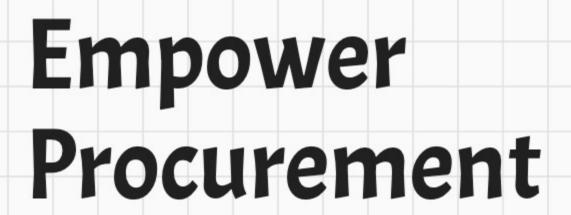
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Select the right Incoterms to improve cost management.

Maximize your financial health!



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