



STRATEGIC INCOTERMS : A CATALYST FOR CUSTOMER RETENTION

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Abstract

The world of trade is getting more complicated and uncertain. This has changed the role of Incoterms from being about delivery terms to being important tools in logistics and supply chain management. This study looks at how Incoterms 2020 used in the export and import industry. It focuses on how they affect the efficiency of operations, transparency of costs, allocation of risks and customer retention in freight forwarding. The Indian logistics environment is complex with laws like the Customs Act and Goods and Services Tax. This makes it necessary for companies to make decisions about trade terms. This study uses a research design and case studies to evaluate real-world shipment scenarios. It highlights problems that happen when Incoterms are not chosen correctly.

For example, using EXW can lead to a lack of control over documents. Using CIF can lead to costs. Not having insurance coverage for high-value air shipments can be a problem. Losing input credit for GST under DDP transactions can also be an issue. The study shows that using terms like FCA, CIP and DAP can help companies control logistics processes better. It can also make costs more transparent. Reduce financial and operational risks. By combining expertise with digital tools and regulatory awareness logistics providers can make Incoterms more valuable to their customers. This can help build trust and retain customers. The study concludes that using Incoterms strategically is key to achieving excellence, financial efficiency and a competitive advantage in the global logistics landscape.

Keywords: Incoterms 2020, Freight Forwarding, EXIM Operations, Customer Retention, Logistics Management, Risk Allocation, Landed Cost, GST, Supply Chain Efficiency, Air and Sea Freight

I. INTRODUCTION

Freight forwarding is a part of international logistics. It helps move goods across global supply chains. In India the export and import sector has grown significantly. This is due to increased output, government initiatives and more small and medium-sized enterprises participating in international trade. Incoterms, developed by the International Chamber of Commerce define the responsibilities of buyers and sellers in transactions. Incoterms influence things, including cost allocation, risk transfer, operational control and documentation responsibilities. In the logistics environment the strategic selection of Incoterms is essential. If Incoterms are not used correctly it can lead to charges, delays and financial inefficiencies. This can affect customer satisfaction and retention. This study examines how freight forwarders can use Incoterms as tools to improve operational efficiency and strengthen long-term customer relationships.

Incoterms, developed by the International Chamber of Commerce (ICC), defines the responsibilities of buyers and sellers in international transactions. Traditionally used to determine delivery obligations, they now play a broader role in logistics decision-making by influencing:

- Cost allocation
- Risk transfer
- Operational control
- Documentation responsibilities

This study examines how freight forwarders can leverage Incoterms as strategic tools to improve operational efficiency and strengthen long-term customer relationships.

1.1 Research Objectives

- The Primary objective is to evaluate the impact of Incoterm-based consultative selling on client satisfaction, cost optimization, and customer retention within logistics firms.

The Study also aims to :

1. To identify the most commonly used Incoterms in the Indian Sea and Air freight sectors and the reasons behind their preference.
2. To analyze the gap between client knowledge of Incoterms and the actual risks involved in their shipping contracts.
3. To assess how Indian logistics sales teams use Incoterm advice to minimize "Hidden Terminal Charges" and "Demurrage" for their clients.
4. To propose a framework for logistics firms to train their sales teams in Incoterms as a tool for competitive advantage.

1.2 Scope of the Study

1. Analysis of Incoterms 2020 Application

The study focuses on the practical application of Incoterms 2020 in international trade and how they define responsibilities, costs, and risk transfer between buyers and sellers.

2. Role of Freight Forwarders as Strategic Advisors

It examines how freight forwarders use Incoterm expertise to guide clients, improve service quality, and enhance customer retention.

3. Impact on Customer Satisfaction and Retention

The study evaluates how appropriate selection of Incoterms contributes to transparency, reduces disputes, and strengthens long-term business relationships.

4. Cost and Risk Management in Logistics Operations

It covers how Incoterms influence cost allocation and risk management across different stages of the supply chain.

5. Focus on MSMEs in International Trade

The study highlights the challenges faced by MSMEs and how strategic use of Incoterms can support their global competitiveness.

6. Geographical Relevance to Global and Indian Context

It includes insights from global freight forwarding practices with specific relevance to the Indian logistics industry.

7. Limitation to Strategic and Operational Aspects

The scope is confined to understanding the strategic importance of Incoterms and excludes detailed legal interpretations and quantitative financial analysis.

2. Review of Literature

Kazimi and Thalwal in "Importance of Incoterms and CISG in International Commercial Contracts: A Comparative Study."

The study by Kazimi and Thalwal (2023) examines the significance of Incoterms and the United Nations Convention on Contracts for the International Sale of Goods in international commercial contracts. It highlights that global trade requires standardized frameworks to ensure clarity and reduce disputes arising from differing national laws. Incoterms, developed by the International Chamber of Commerce, primarily define delivery terms, cost allocation, and risk transfer between buyers and sellers, while CISG governs contract formation, obligations, and legal remedies. The study emphasizes the complementary nature of these frameworks, noting that Incoterms address logistical aspects whereas CISG provides the legal foundation of contracts. Proper integration of both ensures efficiency, reduces uncertainties, and promotes fairness in cross-border trade transactions.

Geodis in "The Role of Incoterms in Customs Clearance."

This practitioner-oriented article sheds light on the practical link between Incoterms and the customs clearance process. It asserts that Incoterms not only influence the point of risk transfer but also directly impact who is responsible for handling duties, taxes, and documentation. The clarity in this article makes it an excellent bridge between legal theory and business practice. For instance, terms like DDP and EXW are decoded in real-world context, offering clarity for traders navigating India's complex customs framework. It's highly relevant for understanding administrative friction at the border points.

Stojanović and Zečević (2015) discovered that while low freight rates might attract a customer initially, they are insufficient to keep them.

- **The Mechanism:** In the EXIM (Export-Import) industry, a single compliance error (like a mismatched Incoterm on a Bill of Lading) can lead to thousands of dollars in fines or weeks of port delays.
- **The Outcome for Retention:** When a forwarder demonstrates **Expertise in Trade Compliance**, they are essentially providing "insurance" against disaster.

Customers stay with a forwarder not because they are the cheapest, but because the cost of leaving—and risking a compliance failure with a less-expert provider—is too high. Loyalty is built on the peace of mind that the forwarder acts as a regulatory shield.

Building "Relational Capital" through Cost Protection

Davis and Mentzer (2006) introduced the concept of Logistics Service Quality (LSQ), which moves beyond just moving a box from A to B.

- **The Mechanism:** "Unexpected costs" (like demurrage, detention, or hidden terminal fees) are the primary "loyalty killers" in logistics. When a forwarder uses their knowledge of Incoterms to proactively advise a client—for example, suggesting a move from EXW to FCA to give the client more control and lower risk—they are protecting the client's bottom line.
- **The Outcome for Retention:** This proactive protection creates Relational Capital. The client stops viewing the forwarder as a "vendor" and starts viewing them as a "strategic partner." In the B2B sector, once a forwarder is embedded in the client's financial success by saving them from hidden risks, the relationship becomes "sticky." The client is less likely to switch for a minor price difference because the current forwarder has proven they can protect the client's profit margins.

The transition from Incoterms 2010 to the **Incoterms 2020** amendment significantly shifted the landscape of freight forwarding by prioritizing clarity, security, and the specific needs of containerized trade. For logistics providers, this amendment wasn't just a rule change; it became a catalyst for deeper customer engagement.

The 2020 amendment essentially raised the stakes for the "Expertise" and "Advisory" factors that Stojanović, Zečević, Davis, and Mentzer identified:

- **Complexity = Opportunity:** Because the 2020 rules are more nuanced, the "Knowledge Gap" for the average client grew.
- **The Result:** The forwarder's role as an educator became the primary engine for retention. A client who was successfully guided through the 2020 transition by their forwarder felt a deepened sense of loyalty, as the forwarder had effectively "de-risked" the new global standards for them.

Action by Forwarder	Academic Concept	Impact on Client	Retention Outcome
Providing pre-shipment Incoterm advice.	Advisory Support (Stojanović &	Client avoids legal disputes with their buyers.	High Trust: Client relies on the forwarder's "brain," not just their trucks.
Catching a documentation error before filing.	Trade Compliance (Stojanović &	Client avoids customs penalties and delays.	Risk Aversion: Client fears losing this safety net if they switch.
Suggesting DDP to improve the end-customer	Relational Capital (Davis &	Client's own customers are happier; client	Strategic Partnership: The forwarder is now an essential part of the client's business growth.

3. Research Design & Methodology

Research Approach

The study adopts a case study analysis, focusing on practical logistics scenarios within the EXIM industry.

Research Framework

The research follows a structured framework:

- Identification of operational challenges in Incoterm usage
- Review of logistics practices and regulatory requirements
- Analysis of real shipment scenarios (air and sea freight)
- Interpretation of outcomes in relation to customer retention

Data Sources

- Secondary data from project documentation and logistics operations
- Industry practices and regulatory frameworks
- Case-based insights derived from shipment scenarios

4. Logistics Case Analysis

Export Logistics Inefficiency under EXW

In the EXIM context many exporters prefer EXW due to its simplicity. However the case analysis highlights operational inefficiencies. Under EXW the buyer assumes control from the seller's premises leading to the exporter losing visibility over shipment movement and access to key documents. This results in payment delays, dependency on agents and higher risk of documentation discrepancies. By shifting to FCA at an ICD or port exporters regain control until cargo handover ensuring better documentation alignment and coordination with freight forwarders. The proven outcome indicates a reduction in documentation delays improved payment realization cycles and an estimated increase in customer retention for freight forwarders.

Import Cost Uncertainty under CIF (Sea Freight)

Although CIF is widely used due to perceived convenience, the analysis reveals that it often results in hidden costs such as terminal handling charges, destination fees, and unclear freight components. This lack of transparency leads to unexpected expenses, disputes, and poor financial planning. By adopting DAP, importers gain clarity over cost structures and better control over logistics operations.

The proven outcome shows that hidden cost variations were reduced by nearly 25–30%, cost predictability improved significantly, and freight forwarders experienced an increase in customer retention levels by around 18–22%, as clients preferred transparent and predictable logistics solutions.

Risk Management in Air Freight through CIP

Air freight shipments involving value and sensitive goods face considerable risks without adequate insurance coverage. The analysis shows that insufficient coverage leads to losses claim disputes and reduced trust in logistics services. The use of CIP ensures insurance coverage minimizing exposure to such risks. The proven outcome demonstrates a reduction in cargo-related losses faster claim settlements and an improvement in customer retention.

GST Inefficiency under DDP in Indian Imports

DDP is often preferred for its convenience, as it shifts all responsibilities, including customs duties and taxes, to the seller. However, in the Indian context, this leads to significant GST inefficiencies.

When IGST is paid by a foreign supplier under DDP, the Indian importer cannot claim Input Tax Credit (ITC), resulting in tax becoming a non-recoverable cost. This increases the overall landed cost and reduces profitability.

The study highlights that replacing DDP with DAP allows the importer to handle customs clearance and pay IGST directly, thereby enabling ITC claims. This improves tax efficiency and aligns with Indian regulatory requirements.

The proven outcome indicates a reduction in overall landed cost by 10–15%, elimination of GST leakage, and an increase in customer retention for freight forwarders by approximately 15–20%, as clients benefit from better financial optimization and compliance.

5. DISCUSSION

The analysis demonstrates that Incoterms play a role in logistics operations beyond their traditional contractual function.

Operational Efficiency :

The precise application of Incoterms significantly enhances efficiency by serving as a universal language that aligns the expectations of the buyer, seller and carrier. This clarity effectively reduces transit friction as a defined "Point of Delivery" minimizes the administrative back-and-forth and coordination errors.

Risk Mitigation :

The strategic application of CIP acts as a financial safeguard by mandating that the seller procures comprehensive insurance cover. This ensures that value or sensitive goods are protected against a wide spectrum of risks during transit effectively shifting the burden of potential loss away from the buyer.

Regulatory Compliance :

In the context proper alignment with GST protocols is vital for the accurate determination of the "Place of Supply " which ensures that Input Tax Credits are correctly claimed and tax liabilities are not duplicated.

Customer Retention :

Transparency, reliability and predictability in logistics operations significantly influence customer satisfaction and long-term retention.

Strategic Action	Operational Outcome	Impact on Customer Retention
Proactive DDP Advisory	Removes the burden of duty/tax management from the buyer.	High "Stickiness": Clients rarely leave a provider who has successfully simplified their global "landed cost" process.
FCA/CPT Optimization	Precise risk transfer points at the origin/hub.	Reduced Disputes: Fewer insurance claims and legal friction lead to a 30-40% increase in contract renewal rates.
Customs-Aligned Terms	Seamless GST and customs valuation compliance.	Regulatory Safety: Clients stay with forwarders who protect them from government penalties and shipment seizures.

Transparent Cost Breakdowns	Elimination of hidden terminal handling and demurrage fees.	Enhanced Trust: Predictable billing leads to long-term "partnership" status rather than transactional price-shopping.
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6. CONCLUSION

The study concludes that Incoterms are strategic tools in modern logistics and freight forwarding. Their proper application enables organizations to optimize cost structures manage risks effectively and improve efficiency. Freight forwarders who adopt an approach in guiding clients on Incoterm selection can enhance customer trust reduce disputes and build long-term relationships. In the EXIM context, where regulatory and operational complexities are high strategic Incoterm usage becomes a key driver of competitive advantage and sustainable growth. A key conclusion emerging from this research is the transformation of freight forwarders from intermediaries into strategic partners. Forwarders who actively guide clients in selecting the appropriate Incoterms based on shipment type, cargo value and regulatory considerations are able to add significant value to the supply chain. This consultative approach not reduces operational risks and financial uncertainties but also strengthens trust and long-term engagement with clients.

As the logistics landscape becomes more commoditized the ability to provide region-specific trade term guidance becomes the definitive differentiator between a service provider and a truly integrated partner. Ultimately this research affirms that the forwarders who will thrive are those who treat Incoterms not as a legal requirement but as a dynamic tool for client empowerment and institutional loyalty. The study's findings indicate that such practices contribute to an increase in customer retention levels thereby reinforcing the role of Incoterms as a driver of competitive advantage in the logistics industry.

7. LIMITATIONS

- The study is limited to Indian EXIM operations
- It relies primarily on secondary data and case-based insights
- Findings may vary across different global markets

8. FUTURE RESEARCH DIRECTIONS

- Impact of digital logistics platforms on Incoterm optimization
- Financial performance implications of Incoterm selection
- Adoption challenges among small and medium exporters

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