

## GLOBAL LOGISTICS, COMPETITIVENESS AND THE NEW INCOTERMS

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**Abstract:** *If in the first stages of the internalization of business, logistics had a minor influence in the international success of the company. In a globalized economy, strategy and the logistics costs are essential factors for competitiveness. Nowadays, logistics determines the place which a country or a company holds in the worldwide competitive hierarchy. The new Incoterms – 2010 – establish – in the field of commercial practices this reality; performance is now assessed in global terms (not national), competition is global, not international. Ultimately, the new Incoterms encourage/stimulate the orientation of firms towards increasing competitiveness by employing an appropriate logistics strategy; the degree to which firms will manage – as quickly as possible – to be integrated in this new trend will also be the measure of their competitive capacity in the newly emerged context. The category of global firms should not include just the large transnational corporations, but also the medium and small enterprises that operate exclusively or mainly on the global market. Within this plan there can be created and developed competitive advantages which are primarily based on the reaction speed to the changes in progress, the capacity to adapt to new things and the availability for intercultural communication. These last conditions represent characteristics of the Romanian business approach.*

**Keywords:** *global logistics; competitiveness; incoterms; international business*

**JEL classification:** *F59, L81, F23*

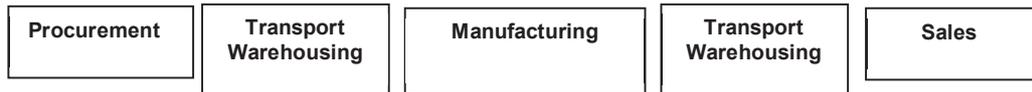
### **1. The development of logistics – from international to global**

The recent development of logistics marks the path from internationalization towards globalization in the world economy. If in the beginning logistics had only a minor influence in the international success of the company, gradually it became one of the major factors ensuring the latter's competitiveness at a global scale.

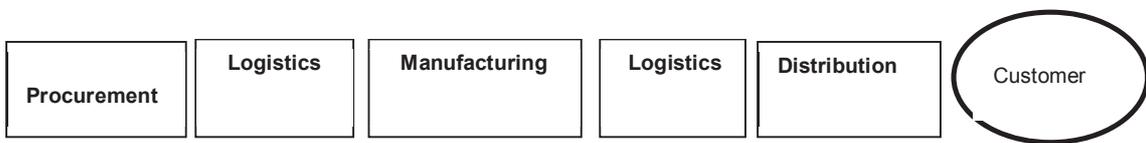
The first stage is that of the transition from the "international transports" approach of the process of physical merchandise delivery to the concept and strategy of international logistics. If in the 70's the main commercial powers (the advanced economies, corporations) were preoccupied with increasing the efficiency of the different logistics components –ensuring the necessary raw materials, handling the merchandise, storing it, packaging it, and above all transporting it – in the 80's the emphasis is on configuring and optimizing the logistics flows and on the integration and coordination of activities related to procurement, production and distribution.

With these objectives in mind, primarily beginning with the 1980's, many firms started to establish logistics departments or began to work with companies specializing in this field, and subcontracting all logistical activities to the latter (see Figure 1).

**1970: Classical Logistics**



**1980 : Logistics as a cross-divisional function**



**Figure 1 : Logistics - the first stage**

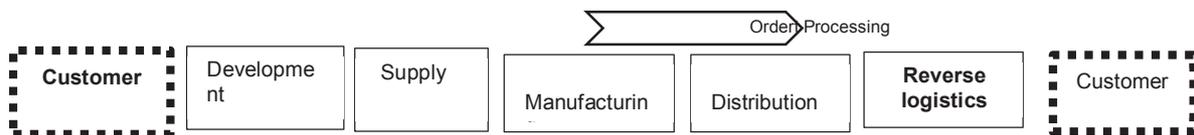
Source: Source : Baumgarten, H. , Beyer, J. and Stommel, H. (2004),

The second stage developed in the 1990's, along with the breakthroughs in the IT field, which allowed control over the flows of information in the supply chain. Nowadays a more holistic approach is being pursued, where the emphasis is on the integration of merchandise and information flows with the aim of optimizing the entire supply chain.

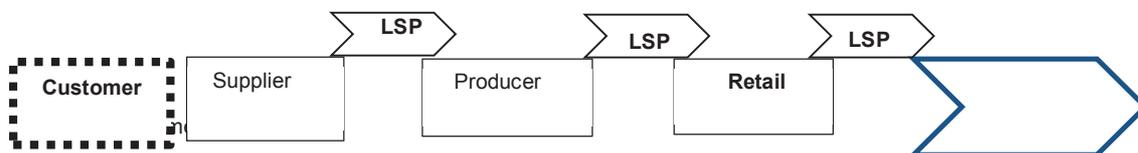
In international business the supply chain management approach regards the supply chain as constituting a continual process, starting from the imports order and finishing with the delivery of the merchandise and payment of price. As such, a systemic approach is needed, implying a single planning of resources for the entire company and a global optimization of activities. An approach of this kind can be employed within a single entity, but it can also be applied to a group of more entities, constituting what is called a virtual enterprise or an extended enterprise (the supplier of the supplier> the supplier> the enterprise> the client> the client's client).

Thus, logistics is becoming a major component in the business strategy of companies, allowing the attainment of competitive advantages by capitalizing on the services/information component – formalities, documents, security, etc.- international transactions. (see Figure 2)

**1990 : Phase of functional integration**  
*Logistics integrates functions to process chain*



**1990 : Phase of multidisciplinary integration**  
*b. Logistics integrates enterprises into value chains*



**Figure 2 : Logistics - the second stage**

Source : Baumgarten, H. , Beyer, J. and Stommel, H. (2004),

The beginning of the 2000's brought about a new stage: the flows of goods and information are planned and controlled not only within departments at the company level, but also at the supplier-client level. This integration is possible by implementing the Supply Chain Management based on ERP systems, systems connected through EDI links (Electronic Data Interchange), APS (Advanced Planning Systems), which have allowed this development. On the basis of these, presently, the process of integrating the logistical components is realized at the global level, relying on an integrated global network.

## 2. Logistics and Competitiveness

In a globalized economy, logistics and the logistics costs are essential factors for competitiveness; furthermore, in the production/commercialization activities, the highest share is that belonging to the costs of logistics activities. The logistics costs account for 5-20% of the total costs in commercial or manufacturing enterprises.

Logistics also determine the position a country holds in the worldwide competitive hierarchy. In what concerns our country, if we analyze the data pertaining to two important reports relating to competitiveness, we arrive to some interesting conclusions.

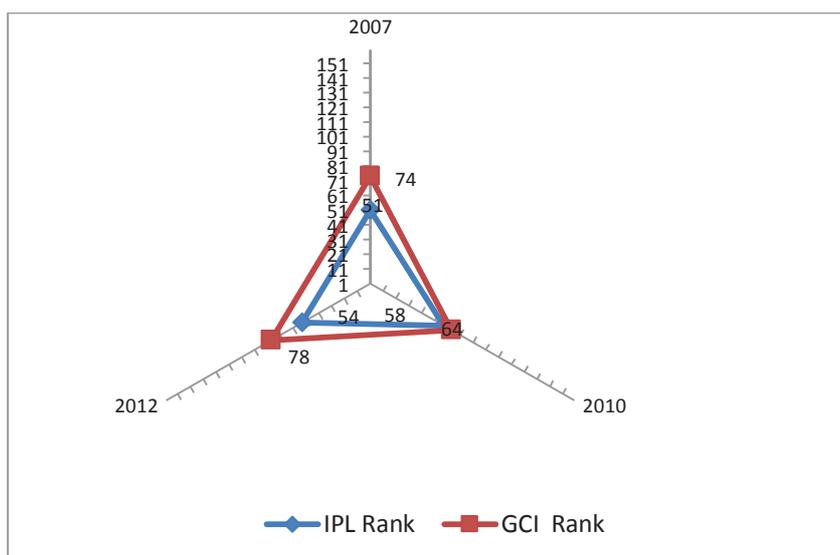
In the Rapport „Connecting to Compete” an index of logistics performance is computed, taking into consideration the following criteria: customs, infrastructure, international shipments, logistics competence, tracking & tracing, timeliness.

In the year 2007 the first edition of the rapport was issued and a Logistics Performance Index was computed for Romania, resulting in a value of 2.91 points, ranking it on the 51<sup>st</sup> place among 150 states; Romania took the 35<sup>th</sup> spot for cross border transportation but only qualified for a mere 123<sup>th</sup> spot when it came to internal

costs. For infrastructure the overall world ranking was 50 and for criteria such as the logistic competence – the 52<sup>nd</sup> place – customs activity and tracking deliveries (the 56<sup>th</sup> for both criteria).

Along costs, the score for competitive advantages (ranked 66<sup>th</sup>) pulled down the list the final score. It must be specified that countries where costs are high risk losing the chance of capitalizing on the opportunities of globalization. In its second edition –in the year 2010- the Rapport's Logistics Performance Index evaluates Romania as having a score of 2.84, placing it on the 58<sup>th</sup> spot among a total of 155 states. In the year 2012, Romania's LPI was 3, a value ranking it on the 54<sup>th</sup> place.

On the other hand, in the Global Competitiveness Report, the position held by Romania in the years mentioned above was as follows: in the 2010, Romania's position in the global ranking of economic competitiveness has improved, a value ranking 67<sup>th</sup>. Last year, our country occupied, according to WEF, 78<sup>th</sup>, down one place to 77<sup>th</sup> position occupied last year. The overall score obtained by Romania was 4.07 points on a scale of one to seven, less than a score of 4.08 points in the last year. (see Figure 3)



**Figure 3: Romania GCI vs Romania LPI**

Source : *The Global Competitiveness Report 2012-2013, 2010-2011, 2007-2008*; World Bank, Logistics Performance Index, 2012, 2010, 2007

Consequently, we draw the conclusion that Romania is now better positioned in the logistics rankings. This represents in itself a confirmation of the thesis – supported throughout time by numerous Romanian researchers – of the commercial vocation of our country – geographical position, an open business culture, etc. –, respectively

of the competitive advantages in activities such as services, especially export-import ones.

### 3. Incoterms 2010 vs. 2000

The codified delivery terms – Incoterms – are a very useful tool for all the economic agents that are involved in international commercial transactions. They allow the users to define, with highest precision, the extent to which each of the parties is liable concerning one of the most important parts of the contracts: the delivery. As the literature shows, the proper use – which involves detailed knowledge – of the codified conditions is essential for the physical accomplishment of the foreign trade operations, as well as for the security of the economic agents, either of the exporter or of the importer. (Popa, 2006)

The high importance of the delivery conditions for the international contract, as well as the existence of various practices concerning the delivery, explain the concern for the codification of some rules in this domain, which would serve as a benchmark for the business sector. Starting with 1936, the International Trade Chamber in Paris published a set of rules with international applicability concerning the delivery of goods, named Incoterms 1936 (International Commercial Terms). These rules were revised in 1953, 1967, 1976, 1980, 1990, 2000, the last revision being in 2010 (publication 715)

If the previous modifications were continuous improvements to the code of practices – inside the same international paradigm – taking into account the practical experience of the merchants and the dynamics of the business environment, the last review means, in our opinion, not just a “technical” modification, but also a change in the paradigm: from international to global.

The two versions of the Incoterms present a series of common characteristics, as follows: the delivery conditions offer a precise definition of the obligations of the seller concerning the delivery of goods; of the transfer of the risks from the seller to the buyer, concerning the merchandise; of the division of the expenses between the two parties, during the transportation period; of the documents – or the equivalent electronic messages – owed by the seller to the buyer. *On one hand, even though* it does not regulate the transfer of the property right, Incoterms offers a clear solution for the problem of the transfer of the risks concerning the delivery of the merchandise at international level from the seller to the buyer. *On the other hand*, despite their *optional* character, the parties having the freedom to apply the embedded rules, Incoterms are used on a large scale in international trade. Even though they do not stand for an international law, Incoterms proved to be a highly useful tool in international trade. In the absence of an express reference to Incoterms 2000/Incoterms 2010, the parties may find themselves in front of some serious difficulties of interpretation of the contract in the process of its execution.

Incoterms 2000, like Incoterms 1990, are based on the classification of the rules in four groups – E, F, C, D – organized by the criterion of the increasing obligations of the seller. The rules are mentioned starting from the one which represents the minimum expenses amount for the seller – Ex Works (EXW) – and finishing with the one which implies that the seller would be charged the highest part of the expenses – Delivered Duty Paid (DDP).

Incoterms 2010 brings a series of modifications, among which we mention the followings: the reductions of the number of the delivery conditions: DEQ conditions were replaced by DAT (delivery at terminal), DAF, DES, while DDU conditions were

replaced by DAP (delivery at a denominated place), and the DAF condition was removed (See Table 1).

Another modification brought by the new version Incoterms 2010 consists of a new classification of the delivery conditions: the exclusive maritime delivery conditions (FAS, FOB, CFR, CIF) and the delivery conditions used in any other transportation mode (EXW, FCA, CPT, CIP, DAT, DAP, DDP).

**Table 1: Incoterms 2000 vs. Incoterms 2010**

Incoterms 2000				Incoterms 2010	
E	F	C	D	Omni-Modal	Marine Restrictide
EXW	FCA FAS FOB	CFR CIF CPT CIP	<del>DEQ</del> <del>DES</del> <del>DAF</del> <del>DDU</del> DDP	EXW FCA CPT CIP DAT DAP DDP	FAS FOB CFR CIF

#### 4. Competitiveness and the new Incoterms

A characteristic of the new Incoterms is the fact that – for the first time in the history of the elaboration of this code of commercial practices – the conditions are not exclusively applicable in international transactions, but in internal ones as well. Apparently it would concern the change from international to local (domestic); in fact, the new Incoterms regard a new structuring of the global economy in which the great economic areas have an increasing role. More specifically, Incoterms 2010 are applicable to some extended economic areas, either national (the USA) or regional (the EU), areas which are based on large markets with a unitary regulation (where borders are blurred). In fact these spaces have a dominant share in the global economy.

The statistical data below confirm this affirmation.

The external commercial changes of the EU are about 16% of the total exports and 17% of total imports; in the USA the percentages are 8,1% of total exports and 12,3% of total imports; however, in the case of the EU, the deliveries inside the community weight 62,4% of EU's total imports – the data is for 2011.

This reality implies major changes in the strategy of the firms which activate on the global market: their competitiveness is measured in global terms (not national), competitions is global, not international.

Another radical change concerns the two most known clauses from Incoterms, FOB and CIF. Therefore, we consider that their role is diminished by the inclusion in the category of the clauses that are used for maritime or fluvial transportation. Moreover, in some specific situations – such as transportation in containers – there were included important modifications in defining the clauses.

It is hard to foresee how this change will be perceived in that part of the business world which we call traditionalist (or conservatory, resistant to change). Until now, Incoterms 2010 are – to our knowledge – relatively poorly used as compared to Incoterms 2000. The extent to which they are applied represents a criterion of the evaluation of the way in which business is approached by the companies that

operate on the global market. The option for Incoterms 2010 seems to be the adoption of a global strategy concerning competitiveness. Another implication of the way in which FOB and CIF are defined in 2010 could arise in the domain of international statistics. Nowadays the exports are evaluated FOB and import are evaluated CIF (referring to the cost at frontier of the exporting country and cost, insurance and freight to the importing country). However, it seems that in the new vision the idea of a frontier itself is questioned or redefined in a certain way.

A third major modification brings into discussion the determinant factor of the globalization of the information nowadays, more precisely the electronic support and the internet: the new Incoterms recognizes and establishes the usage of electronic documents. With the formalization of the documents and electronic messages as being in conformity with the demands of the commercial circuit, the problem of the transfer from paper support to electronic support is brought into discussion, both in commercial correspondence and commercial formalities.

The electronic documents can be used if the parties convey so: therefore, the International Trade Chamber recognizes the importance and the reliability of the communication on electronic support in the global trade. The Internet represented one of the major forces of the globalization process; the globalization of business brings the Internet in front of a new challenge.

Last but not least, the new Incoterms bring opportunities to the companies to increase competitiveness through a proper logistic strategy; the extent to which these companies will succeed to integrate in the new trend – as soon as possible – will also be a measurement for their competitive capacity in the new context.

### **Conclusions**

International business will be characterized in the future, to an increasing extent, by a partitioned structure: the players on the global market, with the most chances to value the market potential; the firms with international activity (the classical foreign trade operations) and the companies with local dimensions. The most dynamic sector is previewed to be the one of the global firms.

In what concerns Romanian companies, the new trends mean new opportunities, given the fact that the category of global firms is no longer limited to transnational corporations – as it used to be – but also small and medium enterprises which operate exclusively or mainly on global markets are allowed. In this new plan there is room for the creation and the development of competitive advantages which are based mainly on the speed with which firms react to the change in progress, their adaptability to new conditions and their availability for intercultural communication. These last conditions are important characteristics of the Romanian business approach.

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