

Session 8:

Export Payment Terms

How Do I Get My Money?



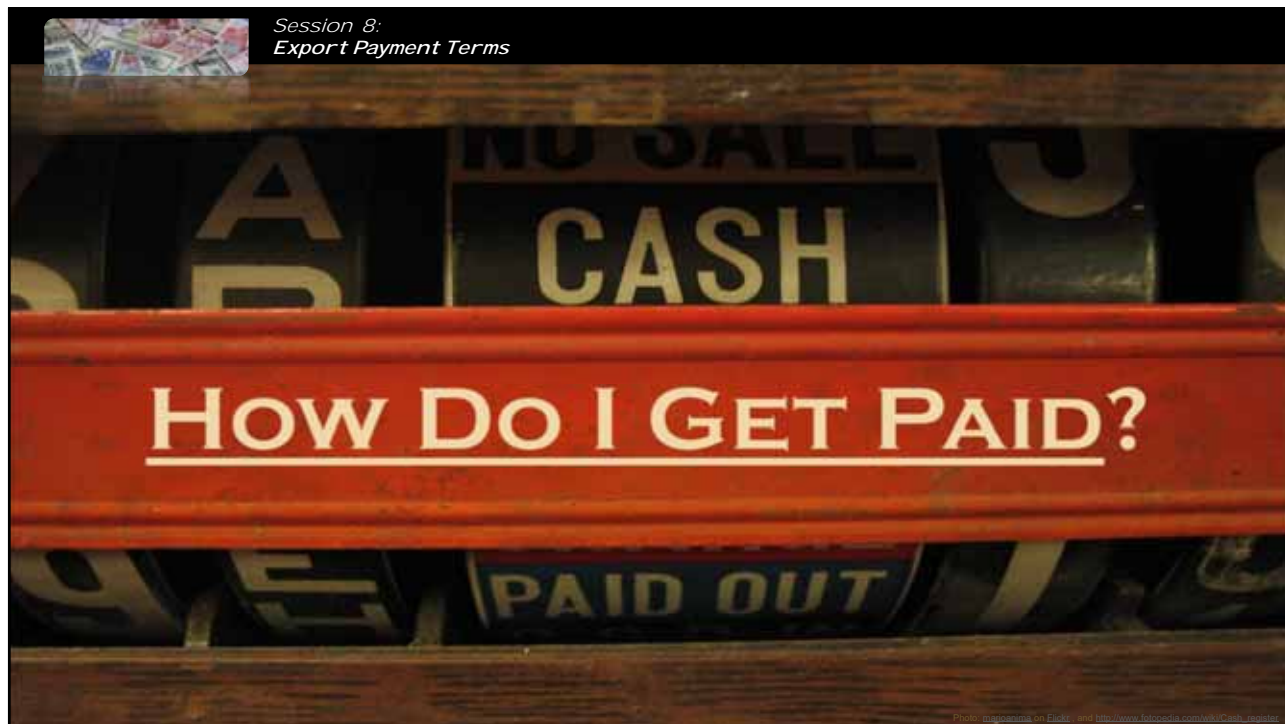
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PREVIOUS PIECES

1. Are you ready?
2. Market intelligence
3. More intelligence
4. Costing
5. Market approach
6. Tradeshows
7. INCOTERMS

Image: Original art derived from NASA photo.




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PAYMENT TERMS

1. Cash in Advance
2. Open Account
3. Documentary Collections
 - Cash Against Documents (sight drafts)
 - Documents Against Acceptance
4. Documentary Credits (Letters-of-Credit)
 - At Sight
 - Acceptance

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CASH IN ADVANCE

- Seller has the buyer's money & control of product after payment
- Buyer often wonders when & if the shipment will occur


Photo: <http://www.flickr.com/photos/087619156/N00633522123U>, also Microsoft clipart

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CASH IN ADVANCE

When does it make sense?

- Used equipment
- Unique or high demand items
- Small orders
- First orders



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OPEN ACCOUNT

or "cash in arrears"

Why so common?

- Reliable credit & country risk info
- Super competitive world market
- Insurance available for commercial and political default



Photo: Extreme motorcycle start, secret agents. customized images.

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OPEN ACCOUNT – UPSIDE

- Relatively safe – **IF INSURED**
(max 95% for commercial default, 100% for political)
- Most flexible payment term
- Less costly to importer (& exporter)
- May lead to increased market share



Photo: NASA. Sun rising above the earth taken from the International Space Station. Microsoft clip art.



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OPEN ACCOUNT DOWNSIDES

- Insurance doesn't cover **everything**
- Buyer may "ride his payables"
- Ultimate risk of default
- More credit management cost



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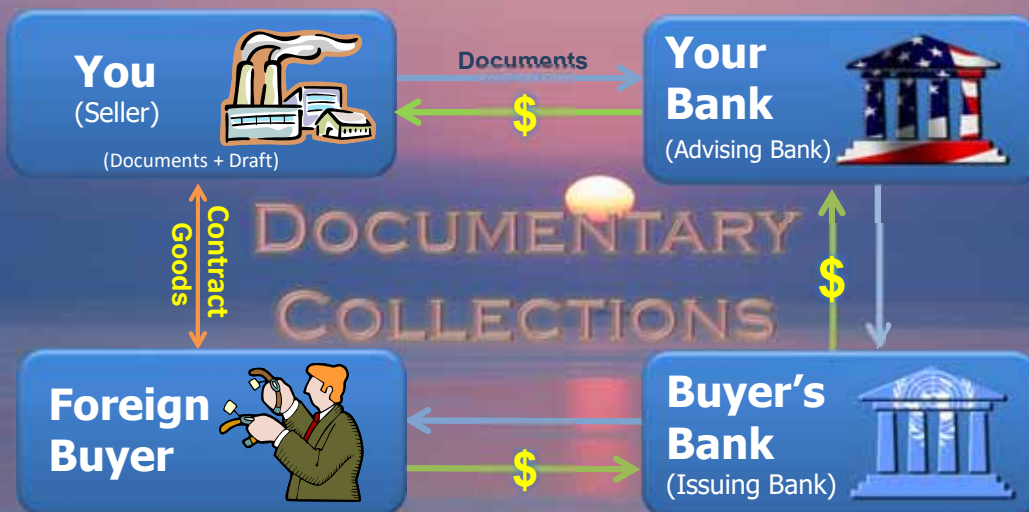



Photo: [Kostas Karalis](http://www.fotoidea.com/wiki/Sunset#/media/Category:Sunset), <http://www.fotoidea.com/wiki/Sunset#/media/Category:Sunset>

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DOCUMENTARY COLLECTIONS

- Your bank delivers the documents to buyer's bank
- Foreign bank attempts to collect the money owed to you.
- Neither bank guarantees the payment!**



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DOCUMENTARY COLLECTION TYPES



Cash Against Documents
Against Acceptance
(trade draft)

Photo: all over web.

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DOCUMENTARY COLLECTIONS

- Transitional terms
- Documents not released without:
 - Payment (C.A.D.) or
 - Buyer formally acknowledges his liability to pay you (D.A.A.).

Photo: all over the web.

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DOCUMENTARY COLLECTIONS

Advantages/Disadvantages

- + You retain title if documents not picked up (marine)
- + Buyer's bank will know if he doesn't pick-up/ pay
- If not picked up, goods must be returned or disposed of
- Buyers usually wait for goods before paying

Photo: all over the web.



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DOCUMENTARY COLLECTION


Factors to Consider

Generally good term
(particularly with marine shipment)

Apply due diligence in checking out buyer and market

Consider requiring a substantial down payment
(to assure buyer compliance)

Image: NASA



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LETTER OF CREDIT

(Definition 1)

“A Letter of Credit is a bank instrument by which a bank substitutes its credit-worthiness, which is both well-known and good, for that of its client, which may be good but is not well-known.”




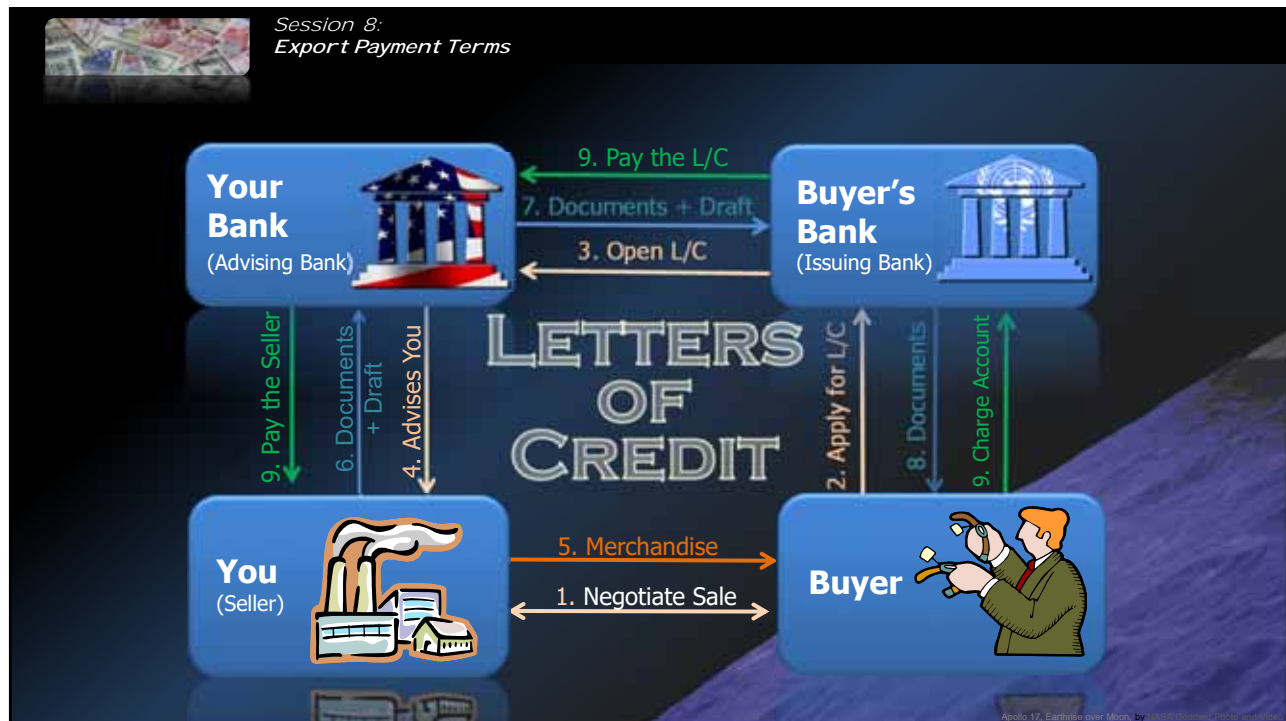
Image: All over the world

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LETTER OF CREDIT

(Definition 2)

- Bank instrument calls for recipient/ beneficiary to:
 - Provide commercial goods/services to its client (the account party), and
 - Evidence such delivery by presentation of the documents,
 - Within the time frame set
- Carries “*conditional*” bank guaranty for compliance with the instrument.

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L/C POINTERS

- Irrevocable
- May be “at sight” or “time” drafts (e.g., “At 30 Days Sight”)
- Time drafts may be discounted if you need cash-flow
- Advised vs. Confirmed L/C
- Know your buyer!

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Payment Risk Hierarchy



Cash in Advance


Confirmed Letter of Credit

Advised Letter of Credit

Cash Against Documents

Documents Against Acceptance

Open Account



Max Risk
Bungee
Chord Lady

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For more information on payment terms please see our [Web Links](#)



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The End
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