Session 8: Export Payment Terms

How Do I Get My Money?

Previously Pieces

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

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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

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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

### Why so common?

- 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
**Open Account Downsides**

- Insurance doesn’t cover **everything**
- Buyer may “ride his payables”
- Ultimate risk of default
- More credit management cost
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!**

Documentary Collection Types

Cash Against Documents
Documents Against Acceptance (trade acceptance)
Documentary Collections

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

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
**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)

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**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.”

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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.
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!

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
For more information on payment terms please see our Web Links

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The End
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