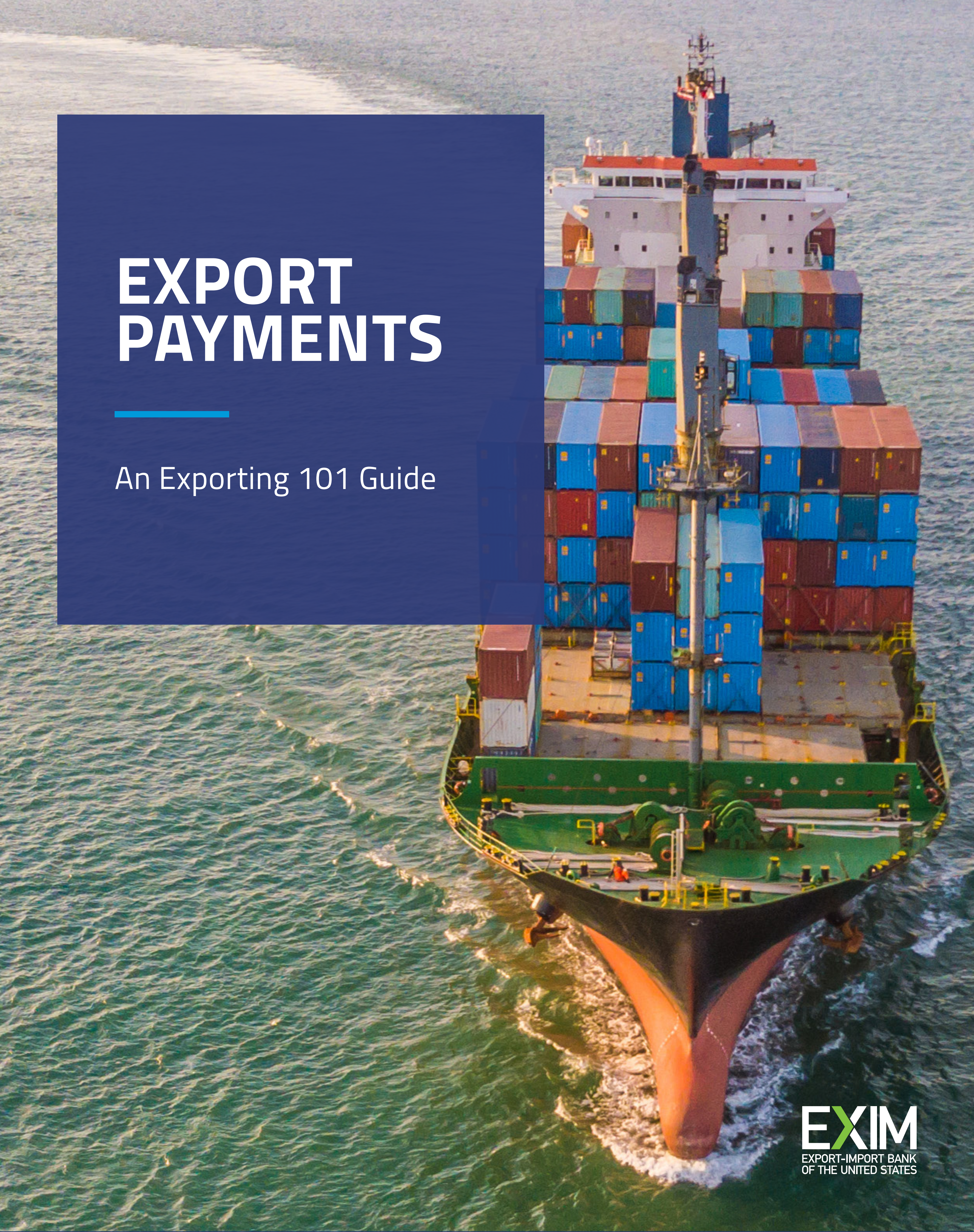
EXPORT PAYMENTS

An Exporting 101 Guide



EXPORT-IMPORT BANK OF THE UNITED STATES

GETTING PAID FOR EXPORTS

More than 300,000 small and medium-sized U.S. companies are growing by exporting products to foreign buyers. When deciding to export, business owners consider several things including:

- Do we understand what it takes to export profitably?
- Does exporting align with the company's growth strategy?
- How do I get paid?

As with all sales, being paid in full and on time is key to exporting successfully, and like most negotiations, financial transactions are influenced by local customs, cultural norms and common practices. Thus when choosing a payment method, a company needs to minimize risk while adjusting to the needs of the buyer.

Offering open account credit terms to foreign buyers increases risk, but the upside may be a more competitive position in the market and greater growth in revenue.

TIP: This article is a synopsis of **Chapter 14: Methods of Payment** from A Basic Guide to Exporting, a free eBook developed by our partners at the Department of Commerce. To learn more about payment methods and other common exporting questions or concerns, download the full guide.

Safeguards for U.S. Exporters:

Balancing attractive payment terms against the risk of nonpayment can be tricky. Luckily, this risk can be mitigated by products such as EXIM's Export Credit Insurance.

METHODS OF PAYMENT

Domestic sales to U.S. customers with good credit are typically made on open account. If these customers do not have the required credit level, cash in advance is common. When examining export sales there are five common methods of payment:

- Consignment *(least secure)*
- Open Accounts
- Documentary Collections
- Letters of Credit
- Cash in Advance *(most secure)*

01

Least Secure:

Consignment

Consignment, often used for heavy equipment and machinery, is a form of open account where goods are shipped to a foreign distributor who pays only for those goods that are sold. Unsold goods may be returned to the exporter after a specified time period. While consignment is clearly very risky, it may enhance an exporter's competitive position and reduce the direct costs of managing inventory.

02

Open Account

Open accounts are advantageous and can be a viable method of payment for foreign buyers who are well established, have a proven track record of favorable payment, or have been thoroughly checked for credit worthiness. Open accounts are often used in highly competitive markets, particularly if there is strong competition from local suppliers. This can add a risk of nonpayment, but that risk can be mitigated by products like Export Credit Insurance.

03

Documentary Collections

Documentary collections, also known as sight drafts, are a less expensive alternative to letters of credit. It delegates payment collection to the U.S. company's bank, which sends documents to the foreign buyer's bank with instructions to release the documents to the buyer in exchange for payment. Documentary collections can either be paid on sight or on a specified date. Both the exporter's and the foreign buyer's banks act as facilitators of documentary collections, but because there is no verification process there is limited recourse in the event of nonpayment.

04

Letters of Credit

Versatile and secure, a letter of credit is a commitment on behalf of the foreign buyer that the exporter will be paid when the terms and conditions stated in the letter of credit have been met, as evidenced by the presentation of specified documents. A letter of credit may be irrevocable, which means that it cannot be changed unless both parties agree or it can be revocable, in which case either party may unilaterally make changes. A revocable letter of credit is not advisable because it carries risks for the U.S. company.

A letter of credit can also be an expensive option, requiring additional bank fees that add to the overall product cost.

05

Most Secure:

Cash in Advance

On the surface, cash in advance may seem ideal for the exporter. It eliminates collection problems, and wire transfers make payment almost immediate. For the buyer, however, cash in advance increases risk and may create cash flow problems. Exporters who insist on advance payment may lose out to competitors who offer more flexible payment terms.

Export Advice:

In international trade, it is easier to avoid problems involving bad debts than to rectify them after they have occurred. Whenever possible, try to prevent payment-related issues before they happen.

Export Credit Insurance is a great strategy to limit the risk of nonpayment.

WHAT'S **NEXT?**

EXIM is here to support you on your exporting journey. We offer a wide range of financing tools for your company's unique needs, as well as free consultations, educational material, exporter resources, and more. You can:

Talk to an Expert

EXIM specialists are ready and waiting in your area to give you a free consultation:

grow.exim.gov/consultationrequest

Learn Exporting Basics

This free eBook, The Basic Guide to Exporting, will teach you everything you need to get started:

grow.exim.gov/export-guide

Protect Your Business from Risk

Avoid the danger of buyer nonpayment with Export Credit Insurance:

grow.exim.gov/eci-guide

Unlock Your Business's Cash Flow

Learn how EXIM works with your lender so you can compete internationally:

grow.exim.gov/wclg-guide

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