Transacting global business

Structuring export sales to get paid

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The risk of exporting can seem overwhelming

- Customer risk
- Political risk
- Culture risk
- Shipping risk
- Legal risk
- Foreign exchange risk
- Cash flow complications

Is this what exporting means?

“Throw me the idol; I’ll throw you the whip”

In fact, international business is … just business

- When you sell to any customer (domestic or foreign), how do you know you'll get paid?
- With exporting, yes, customers are foreign, but tested methods and tools exist to mitigate the risk.
- In a digitally-connected, jetliner-linked world, it's easier than ever.
- It's just business …
- … and business is good.

Proficiencies that an exporter must develop

- Ability 1 – to evaluate customers and identify viable customers
- Ability 2 – to structure sale to assure you get paid
- Ability 3 – to structure sale to sell as much as possible
- Ability 4 – to provide for your cash flow needs
- Ability 5 – to use competitive advantages available to US firms

Export success means…

- Moving from reactive to proactive approach to export opportunity
- Balancing risk and reward
- Knowing your customer
- Understanding counterparty needs and concerns
- Having a sales/credit policy that's responsive to a continuum of buyers
- Developing tools for clear communication

Advantages of US exporters

- Access to **good credit intelligence**
  - International commercial credit reports are available

  http://www.creditworthy.com/providers/credit_ra.html

- Well-developed banking system with **low US interest rates**
  - Low US interest rates vs. high foreign interest rates can mean competitive advantage

  http://www.global-rates.com/interest-rates/central-banks/central-banks.aspx

  - e.g. base rate in: Mexico = 4.0% ↔ US = 0.25%

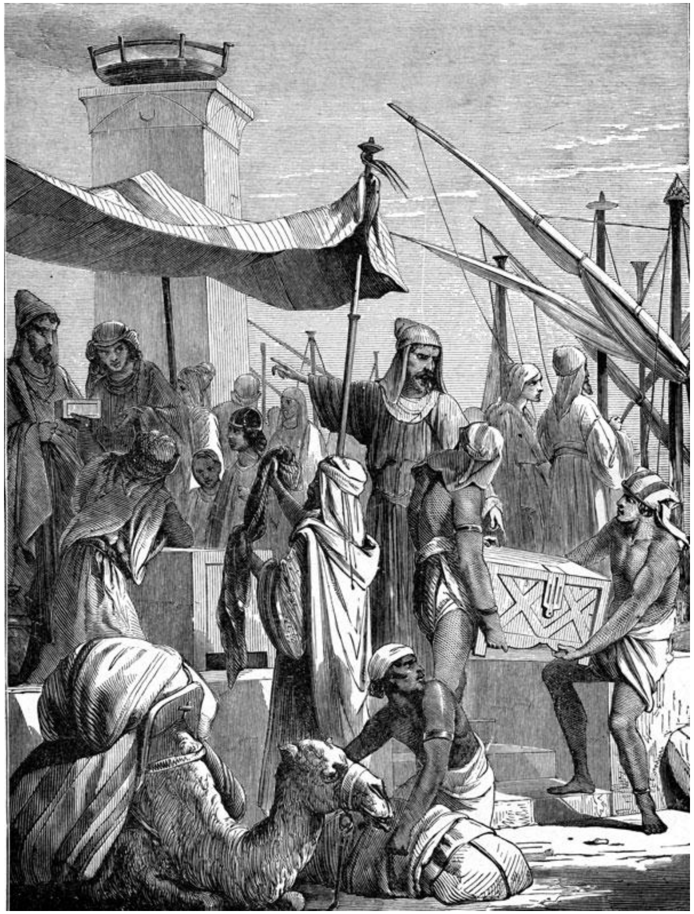
- Ready acceptance of **selling in USD**

- **US Government programs** that support US exporters

Options for structuring export sales

1. **PREPAYMENT**
2. **LETTER OF CREDIT** – about 8% of international transactions
3. **DOCUMENTARY COLLECTION** – about 3% of international transactions
4. **OPEN ACCOUNT** with or without export credit insurance – majority of international transactions

(but only 15% of US companies use this!)



See handout: Trade Finance Guide

Prepayment

- Full or partial prepayment – very safe for exporter; but not very competitive.
- Good place to start as an exporter, but probably not much of an export growth strategy

Documentary Collection **(foreign bank acts as delivery agent)**

- Exporter ships the goods without first being paid, but delivers the title documents to a reliable foreign bank.
- Foreign bank exchanges documents for full payment and transmits payment to the exporter.

Letter of Credit (**foreign bank undertakes to make payment**)

- Exporter and buyer agree to these terms in advance.
- Buyer applies to their bank for a letter of credit.
- Foreign bank notifies exporter that they have agreed to pay the exporter for their shipment provided certain documents are delivered demonstrating shipment.
- Exporter completes the order, ships the goods, and provides the documents to the foreign bank.
- Foreign bank confirms the documents are in order and pays the exporter.
- Foreign bank is reimbursed for its payment by the foreign buyer, its customer.

Open Account (**most competitive approach**)

- Exporter ships and agrees to await payment – gives credit terms – e.g., 60 days.

- Exporter is essentially providing financing for the seller.

- Credit limit and term is based on buyer relationship and risk.

Export Credit Insurance **(to mitigate open account risk)**

- US Government or private sector insurance is available to insure against nonpayment of export A/R.
- **Foreign A/R insurance** – against nonpayment due to:
  - Country risk (revolution, war, foreign gov't trade action, currency freeze)
  - Commercial risk (buyer insolvency, bankruptcy, default)
- **Coverage**
  - Country risk: 85% - 100% protection
  - Commercial risk: 80% - 95% protection
  - Not covered is non-performance by exporter

Export Finance Assistance

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