Transacting global business
Structuring export sales to get paid

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Office of International Trade – www.sba.gov/oit
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

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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

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Advantages of US exporters

• Access to **good credit intelligence**
  
  – International commercial credit reports are available
    
    [http://www.creditworthy.com/providers/credit_ra.html](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
    
  
  – e.g. base rate in: Mexico = 4.0%  ↔  US = 0.25%

• Ready acceptance of **selling in USD**

• **US Government programs** that support US exporters

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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.

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**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

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Export Finance Assistance

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