

Export Topics - Oversimplified!!!

Plain talk about international trade topics

Means of Payment

Obviously, getting paid for goods sent to customers is very important. International shipments present the opportunity to use means of transferring funds that are rarely used in domestic commerce. Let's look at the two most common means of payment for domestic transactions, their international counterparts, and then some alternates that are mostly used in international business.

Domestic transactions are either a cash sale or a credit sale. Cash sales can include payment in advance, credit card sales, advance wire transfers or electronic funds transfers. In any case the shipper is expecting to be paid before the goods are shipped. The implied statement is "send me the money and I will send you the goods". Credit sales are shipped with the understanding that the payment will be made after the shipment. Credit is extended to customers who have a good credit rating, a good past payment history, or who order in small quantities. The implied statement is "I'll send you the goods and you send me the money". Your company's credit terms are made known to the customer in advance by several means, for example your catalog, your sales representative, etc. and are usually indicated on your commercial invoice.

For international transactions, either of the above methods can be used. Payment in advance can be a very good method for small orders or first-time shipments. The collection or administrative costs are low or nonexistent, but your potential customer may not want to trust you or may not be able to transfer funds, especially in larger amounts, from his country. You may not want to grant credit status to unknown overseas customers, especially in countries where there are political and/or financial problems. Offering credit terms to international customers just as is done with domestic customers should be the ultimate objective, but is not always possible or practical. If we are to make the sale and neither of the above means of payment will work then we must examine some other alternatives.

One possibility is a "draft", the simplest kind of documentary collection. A draft is a demand for payment, kind of like the reverse of a check. Drafts in international trade are documentary, that is, there are documents attached to the draft, when the draft is paid the person who pays gets the documents. Drafts are classified according to their *tenor*, or time of payment such as sight, time or date. Sight means pay when presented, while time or date mean payment at some future date or number of days. Here's how the process works, when the shipment is made the documents are attached to the draft and sent to a bank in the buyer's country, usually a bank specified by the buyer. The documents usually include the transport document (bill of lading or air waybill), the commercial invoice, the packing list, and other possible items. The bank then calls the buyer, and when the buyer pays the sight draft or agrees to pay the time or date draft, the bank gives the buyer the attached documents. The buyer or his customs broker then uses the documents to make customs entry of the goods.

Practical Considerations for Common INCOTERMS

E terms (EXW)

Pro:

1. Requires least amount of work by exporter.
2. Exporter not responsible for poor carrier performance.
3. Less information needed in order to do quotes.

Con:

1. Seller must deal with buyer's selected forwarder/carrier. No local office, poor command of English, questionable expertise.
2. More trucks at shipping dock for pickups.
3. Not recommended for shipments involving documentary collection of funds (Drafts, Letters of Credit) because buyer's selected agent must prepare transport document.
4. No assurance of proper export clearance.

F terms (FCA,FOB)

Pro:

1. Shipper controls how/when goods leave plant.
2. Buyer still selects "main" carrier.
3. Still relatively easy to do quotes.

Con:

1. Seller must deal with buyer's selected main carrier.
2. Not recommended for shipments involving documentary collection of funds (Drafts, Letters of Credit) because buyer's selected agent must prepare transport document
3. No assurance of proper export clearance.
4. Named port/airport may not be same as quoted and involve extra expense to transport.

C terms (CFR,CIF,CPT,CIP)

Pro:

1. Seller selects forwarder/carrier.
2. Possible reduction of transport costs due to seller's buying power or negotiation skills.
3. Seller maintains more control over shipment and documents.
4. More control over export clearance.

Con:

1. Shipping weights and dimensions must be known at time of quote in order to be accurate.
2. Shipping prices may change between quote and shipment.
3. Poor carrier performance will reflect on seller's judgement.
4. Shipper must provide insurance (CIF,CIP)

D terms (DDU,DDP)

Pro:

1. Less work for buyer.
2. Shipper maintains more control.
3. Shipper may designate acceptable charges (VAT paid/unpaid)

Con:

1. Seller must know overseas charges in advance to provide accurate quote.
2. Carrier/forwarder may not be able to invoice all charges at time of shipment.
3. Duty/Tax estimates (DDP terms) may be wrong if classification not accepted by customs in destination country.
4. Forwarder/broker overseas may "pad" charges when providing estimate.
5. Forwarder/broker is less motivated to provide prompt service and reasonable prices for unknown overseas client than for customer in his country.
6. More exposure to currency fluctuations.