Chapter 11. Collections

There is an inevitable gap from the moment that an export sale is made to the moment that payment is received. Even if the exporter has goods in inventory, they must still be packed and shipped, passed through customs and delivered to the final destination. The exporter is unlikely to undertake all of this effort without some reasonable assurance that payment will be made. On the other side, the buyer may not be willing to release funds until the goods are inspected and accepted. Financing instruments address these uncertainties and delays by providing assurances to both sellers and buyers that payment will be made as long as the shipment conforms to all the terms specified in the purchase agreement.

Methods of Payment

There are four basic payment methods, which carry different credit risks and financing costs for sellers and buyers. At one end of the spectrum, payment in advance results in minimal risk to the exporter and maximum risk to the importer. At the other, trading on open account carries a maximum risk to the exporter and minimizes the risks borne by the importer.

Advance Payment

Cash in advance, or prepayment, usually involves payment for the goods either at the time that they are ordered, or prior to shipment. Another type of prepayment involves progress payments for the design and manufacture of specialized equipment before it is delivered to the foreign buyer.

Once payment has been made, the buyer has little leverage over the timing of the shipment, the quality of the goods or the receipt of documentation. Consequently, it is unlikely that such terms will be readily agreed to by most foreign buyers.

However, payment in advance, either full or partial, eliminates the need for financing, eliminates any risk to the exporter and bolsters working capital. Therefore, it may be worth trying to negotiate such an arrangement, especially in service contracts where charging an initial fee ("on signing") followed by progress payments, is a relatively common practice.