

Generally, open account trading is used where the seller has established a trusted and ongoing relationship with the buyer. In effect, the trading partners move to the simplest possible payment procedures once a relationship has been established.

As Canada's trading relations with Mexico expand and develop, it is likely that more transactions will be settled on open account terms. The strengthening of links among North American financial institutions and credit agencies will undoubtedly facilitate this process.

If a firm chooses to deal on open account terms, it should do a thorough credit check on the client. It should speak with the buyer's bank, suppliers and clients personally. A firm should not deal on open terms until it is completely satisfied with the financial risk it is assuming. Terms of payment should include an incentive to pay on time. For instance, the buyer could be advised that all payments received on time will receive a 10 percent credit or rebate.

If the buyer fails to respond to the invoice, collection procedures have to be undertaken. In Mexico, collection often occurs in person. What is important is that the exporter determine the reasons for non-payment and secure a commitment to pay. If this proves impossible, it may be necessary to place the matter into the hands of a collection agency. Dun & Bradstreet Canada offers collection services worldwide through their international affiliates. Fees are calculated as a percentage of the amount collected. The Canadian exporter can also contact a Mexican collection agency or legal firm directly, although particular care must be taken to ensure that the costs of collection do not outweigh the expected proceeds.

MANAGING RISK

COMMERCIAL RISK

The biggest risk facing the exporter is that the buyer might default on the agreement. Credit management is a key concern for most businesses in dealing with their foreign customers. Often it is necessary to extend credit in order to win and retain foreign customers, but precautions should be taken to confirm the buyer's creditworthiness.

- Do a thorough credit check of foreign customers.
- Use a sales contract: this constitutes a legal agreement.
- Make sure the goods shipped are exactly as described, taking care to follow the importer's instructions with respect to documentation.