Cashflow Planning

A key step in financing any export venture is to determine when costs are likely to be incurred and when expected revenues are likely to be received. Companies can fail if they do not manage their short-term cashflow effectively.

Effective cash management is especially important to the exporter. Compared with a purely domestic enterprise, an exporter must:

- sell to a foreign customer base that may be less susceptible to the usual means of accelerating payment and less accessible in the event of a default;
- contend with a variety of factors that can interrupt, disrupt or delay payments: these can include transmission delays, currency exchange fluctuations, and even the imposition of exchange controls;
- use flexible payment terms as a sales tool both more often and more aggressively than is the case in the domestic market; and
- incur proportionately higher costs (e.g. shipping, transportation, insurance, customs) to achieve the same sales volume.

Some of these factors serve to delay payments, others to make collection more risky, still others to lengthen the gap between incurring a cost and collecting revenues.

Export cashflow planning compares expected cash outlays with revenue inflows over time. Companies can forecast these by using a cashflow planning sheet. Costing estimates should be arranged on the basis of when these items will have to be paid. These pay-outs should then be compared against the dates on which revenues are expected. The cumulative total at the bottom of the sheet should provide a running summary of the company's cash position during any period.

It should be added that cashflow sheets can be prepared for a particular venture, such as exporting to Mexico, to test its impact on the firm. They should then be integrated into the firm's overall cash planning.

A strongly negative cashflow projection should not be taken as a reason for cancelling an export deal. Instead, it should be seen as a warning to the exporter, to make appropriate financial counter-arrangements in advance.

For example, it may be possible to revise the terms under which the goods are sold. Generally, these terms define the relative responsibilities of the buyer and the seller, and specify at what point in the process title to the goods is to be transferred to the buyer and payment is to be remitted. By transferring title to the buyer earlier, the exporter might avoid responsibility for certain costs (e.g. transportation) and receive payment earlier.