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Effective International Marketing Materials

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Effective International Marketing Materials

- **Difficult for SME's to develop effective international marketing materials**
  - Trend is to try to make domestic materials work
  - Same brochure with translation
  - Printing services exist which drop translation into existing marketing materials
- **Care should be taken with any translations**
  - Ideally done by a native speaker
  - Back translations
  - Avoid using slang or jargon
- **Also, keep cultural differences in mind**

Delivering Marketing Support

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Delivering Marketing Support

Your international customers expect the same level of market support that you provide domestically.

- **Translating domestic levels of support to international customers is a major challenge**
  - Language complications
  - Cultural differences
  - Technological infrastructure
  - Difference in time zones/ distance
- **If your product requires significant marketing support, your long-term success will depend on how well you deliver it**
  - Not letting small problems become large ones

Delivering Marketing Support

Starting point: Review your current customer support:

- **Training of distributors or end-users**
- **Repairs and delivery of spare parts**
- **Warranty service requirements**

How can you duplicate these activities internationally?

- **Quickly**
- **At an affordable cost**

Delivering Marketing Support

Option One: Handle customer support from HQ

- **It is very expensive to try to manage repairs or get a part to a customer quickly from the home market**
  - Try sending a technician who speaks only English
    - Expensive
    - Slow
    - Difficult to communicate

Delivering Marketing Support

- **Option Two: Engage your distributor to handle your market support functions**
  - Parts, repairs, and product-related problems
  - Customer support and training
- **In country support is most effective**
  - Minimizes down time if repairs or parts are needed
  - Often transfers information more effectively and completely
  - Engenders confidence in your products with impact of future sales
- **No distributor?**
  - Get a third party to handle repairs
  - 3P distribution is a solution for parts

Delivering Marketing Support

Making international customer support work:

- **All relevant materials need to be translated**
  - Training materials
  - Repair manuals
  - Warranties
- **Review your warranty conditions**
  - Some limitations may not be legal in all countries
  - Seller is usually liable for damages from defective products
- **Keep cultural differences in mind**
  - Primary contact with customer should be involved
  - Customers in countries placing importance on relationships might be offended if they are contacted only by service technician

Export Pricing

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Pricing Module Topics

- Identify important components determining the international pricing of goods and services.
- Understand landed cost & pricing escalation
- Understanding pricing strategies

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International vs. Domestic Pricing

How are international prices different?

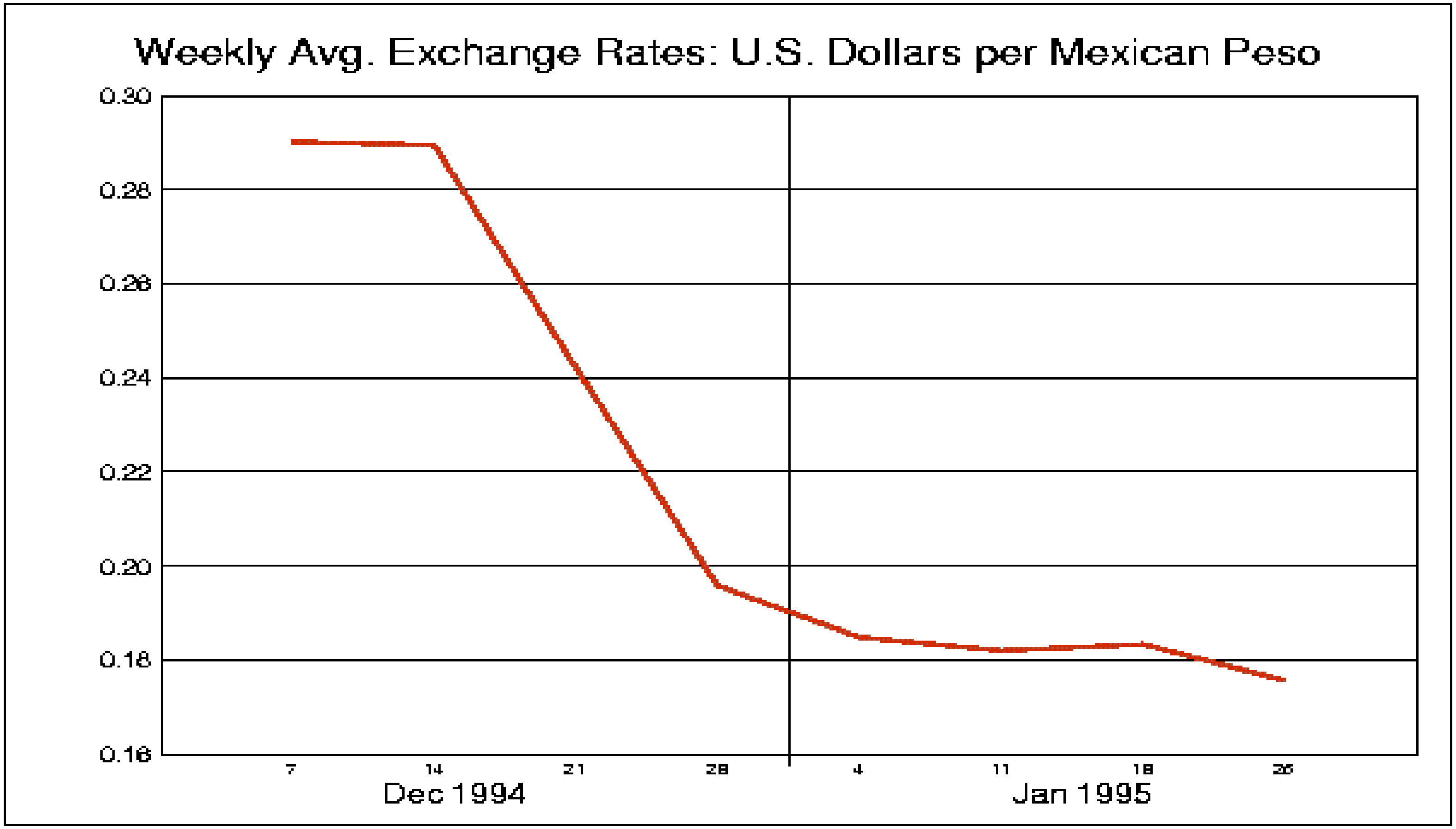
- **Consider the impact of:**
  - Foreign Exchange Rates
  - Import Taxes & Tariffs
  - Freight and Logistics
  - International marketing costs

Impact of Foreign Exchange Rates

- **Movements in exchange rates can both reduce/ enhance product competitiveness**

- **Possibility of becoming <u>too expensive</u> for the market**
  - Cost of your product is now too high due to exchange rate changes
- **Possibility of becoming <u>more competitive</u> in a market**
  - Cost advantage due to exchange rate changes
  - Chance for higher margins

Impact of Exchange Rate on Pricing Mexico: December 1994-January 1995



U.S. products became 67% more expensive

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Impact of Tariffs

Tariff rates vary by country

- Most tariffs calculated on:
- Cost + Transportation + Insurance (CIF)

Impact of VAT + other taxes

- Tariffs can significantly raise the price of a product
- Competitors may have preferential tariff rates

Impact of International Freight & Logistics on Cost

- Higher transportation costs
- Higher packing costs
- Cost of freight forwarders and customs brokers

Other Factors Affecting International Costs

- **Non-Tariff Costs (Non-Tariff Barriers)**
  - Product packaging/ labeling costs
  - Regulatory compliance/ testing
  - Cost of Product modifications
- **Financing costs**
  - Fees for letters of credit (buyer cost)
  - Export credit insurance (seller cost**)**

What is Landed Cost?

- **Determining landed cost**
  - What are its components?
- **Understanding pricing escalation**
  - How easily your product's price can increase
  - A Brazilian pricing example
    - Worst case example!

Landed Cost

Technical definition:

- **The total cost of a landed** *shipment—including purchase price, freight, insurance, and other costs* to **a named foreign destination**

Functional definition:

- **The cost of getting your product to buyer: + tariffs and taxes, port charges, and onward transportation to customer location**

Beyond Landed Cost

Landed cost is only the starting point.

- **What about the impact of margins:**
  - Importer
  - Distributor
  - End-user
- **Depth of marketing channels can critically impact cost to end-user**

Basic Landed Cost for Customs

Most countries base their customs using the C.I.F. price as their cost basis:

- Cost of Product Ex-Works +
- Freight from exporter's shipping location to port of entry +
- Insurance (normally for 110% of Ex-Works Cost)

Common Landing Charges

Tariffs	Handling Fees	Miscellaneous Costs
Import duty @% C.I.F	Customs Brokerage Fee	Merchant Marine Tax
Other Taxes e.g. VAT	Terminal handling charges	Storage costs
	Warehousing	Bank Costs
	Expediting fee	
	Onward Shipping Costs	

Landing Cost Example

- **A U.S. exporter is selling $10,000 (10,000 jars) of hot sauce to a buyer in Brazil**

- **What is the landed cost?**
  - What will it cost to get the product <u>to Brazil</u>?
  - What will it cost to get the product <u>into Brazil</u>?
  - What is the impact of these costs on the products final price in Brazil?

Calculating Landed Cost

Cost Item	Amount
Price Ex-Works (Los Angeles)	$10,000
Freight (Los Angeles to Port of Santos, Brazil)	$1,250
Insurance	$225
C.I.F. Cost	**$11,475**
Import tariff (20% of C.I.F.)	$2,295
Industrial Products (IPI) Tax (2% x Landed Cost + Tariff)	$275
PIS Tax (1.65%) x CIF+ Tariff + IPI)	$232
Coffins Tax (7.6% x CIF +Tariff +IPI)	$1,067
ICMS Tax (18% x CIF +Tariff+ IPI +Coffins + PIS)	$2,762
Total Landed Cost Before Port Charges	**$18,106**

Calculating Landed Cost

Cost C.I.F. + Taxes	**$18,106**
Port Charges + Onward Transportation	
Merchant Marine Tax (25% of freight)	$313
Warehousing & Expeditors Fee (0.65% C.I.F.)	$75
Terminal Handling Charges ($315/ container)	$315
Customs Broker's Union Tax (2% C.I.F., $160 maximum)	$160
Custom's Brokerage Fee (Average for Santos)	$700
SISCOMEX Fee	$30
Bank Costs (1%-3% of Ex-Works Price)	$200
Total Port Charges + Onward Transportation	**$1,993**
Total Cost Delivered to Sao Paulo Buyer	**$20,099**
Increase in cost	**101.0%**

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Calculating Price to Brazilian Consumer

Total Cost Delivered to Sao Paulo Importer	**$20,099**
Importer Markup (33%)	$6,633
Selling Price to retailer	$26,732
Retailer Markup (40%)	$10,693
Retail Price to Brazilian Consumer **$3.74 per jar**	**$37,425**
Increase over Ex-Works Price	**274.3%**

Cost Escalation-Comparison

Cost	USA	Brazil	Argentina
Ex-Works	$10,000	$10,000	$10,000
Freight	$1,250	0	$1,250
Insurance	$225	0	$225
C.I.F. Cost	$11,475	$10,000	$11,475
Tariff + taxes	$6,631	$2,786	$2,786
Port Charges + Ground	$1,993	0	$1,993
Landed Cost	$20,099	$12,786	$16,254
Distributor Markup (33%)	$6,633	$4,219	$5,364
Selling Price to retailer	$26,732	$17,005	$21,618
Retailer Markup (40%)	$10,693	$6,802	$8,647
Retail Price to Brazilian Consumer	$37,425	$23,807	$30,265
Increase over Ex-Works Price	274.3%	138.1%	202.7%

Pricing-What Flexibility Exists?

- **If pricing escalation makes a product uncompetitive, what can be done?**
- **Where does pricing flexibility exist?**
  - Logistical costs?
  - Production simplification?
  - Marketing channel costs?
  - Marginal cost analysis?

Impact of Logistics on Cost

Logistics costs can strongly impact competitiveness

- **Shipping is often viewed as an after-the-fact activity**
- **When CIF basis is used for calculating import tariffs, shipping needs to be viewed as a major cost factor**
- **Exporters are at a disadvantage against domestic suppliers or suppliers from countries with lower transportation costs or tariffs**

Logistical Flexibility on Pricing

- **Logistics =Strategic activity**
- **Exporters need to find the lowest cost shipping options**
  - Which is the cheapest mode of transportation?
  - Which ports have the best rates?
  - Consolidation vs. Full Container
- **Small reduction in shipping costs can increase your competitiveness**
- **Exporters with higher volumes with specific carriers often get better rates**
  - Implication for Incoterm used/ who arranges shipping

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Product Features & Pricing

- **Can a product be simplified to lower its cost?**
  - Change in ingredients, packaging?
- **Can a product be modified?**
  - Reduce features to lower cost?
  - Add features at low cost to justify higher price?
- **Can the HS Classification be changed legitimately?**
  - Reclassification must be justifiable
  - HS Code shopping risky

Product Distribution Alternatives

Can you reduce the depth of marketing channels to lower cost?

- **Sell directly to major retailers/ end-users?**
- **Distributors willing to accept lower margins?**
- **Using 3P distribution?**
  - In a free trade zone?

Marginal Cost Analysis
Recalculating the Cost of Goods Sold

Marginal cost analysis increases a company's pricing flexibility

- **Objective is to rebuild price, based on actual cost factors for international sales**
- **Critical tool to lower base price of product by removing duplicated or non-applicable costs**
- **Too many companies use their domestic price, tack on additional international costs, and end up with an artificially high or uncompetitive price.**

Marginal Cost Analysis
Recalculating the Cost of Goods Sold

Possible cost elements for price reduction:

- **Marketing expense**
  - Too many companies do not remove domestic marketing expenses from a product's international price
- **Fixed Overhead**
  - Using a standard ratio for overhead may add non-relevant costs
  - Possible to exclude, e.g., R+D costs, depreciation, front office costs?
  - Often feasible if exports remain a relatively small percent of total sales
- **Profit Margin**
  - Can a lower profit margin be accepted?
  - Average export sales are often larger than domestic sales

If Export Price Can't Be Reduced?

- **Can higher price be justified in the market?**
  - Higher quality, performance, or additional features need to be perceived by buyers as worth the cost
- **Option to narrow market focus**
  - Target niche buyers who can afford product
- **A rational strategy may be to not sell in a given national market.**

Export Pricing Constraints

Export pricing is affected by:

- **Market-driven degree freedom to establish a target price**
  - Nature of product + competition
- **Ability to support marketing objectives**
  - Can you include enough marketing expenses to meet your objectives?

These factors are not always compatible

Export Pricing Constraints

Factors affecting your ability to set a price

- **Product characteristics**
  - A commodity or a unique or high quality product?
- **Market position**
  - Customer perception/ knowledge of your product?
  - Freedom to set price is less if product is not known
- **Cultural factors**
  - Some customers not willing to pay a premium price
- **Demand for your product**
  - Affordability?
  - Convenience item or fitting a need?
- **Competition-How will competition react?**
  - Their costs may not be the same as yours

Export Pricing: What Customers Need

- **Need to provide potential customers with a meaningful quote is critical**
  - Ex-Works price or a U.S. price is often meaningless to foreign buyers
  - F or C group Incoterm is minimal price basis
- **Exporters must provide potential customers with price quotes quickly**
  - Inability to do so is a good way to loose potential business

Export Pricing: Other Considerations

- **Beware of “Best Price” syndrome in some countries:**
  - Giving your best price up front can be costly
  - Add a negotiating buffer in list price
- **Payment Terms & Financing**
  - Impact of different payment options on purchase price is often overlooked

International Risk

International Business Risk

Major Types of International Risk:

- **Political Risk +Economic Risk**
- **Credit Risk**
- **Foreign Exchange Risk**
- **Transportation Risk**

International Business Risk

- **All business has risk, but the level of risk depends on well the infrastructure works to reduce risk**

- **U.S. has a tremendous infrastructure to reduce risk**
  - Network of developed financial institutions
  - Credit services
  - Common currency
  - Legal system
- **Foreign countries vary significantly in terms of risk exposure**
  - Exporters have a hard time assessing risk in other countries
  - Increases the importance of using risk reduction tools

International Business Risk:
Common Characteristics

- **Decisions must be made using incomplete information**
  - Timeliness
  - Completeness
- **Increased chance of procedural errors**
  - International transactions more complicated than domestic transactions
  - Complex documentation
  - Two legal systems, governments, and cultures

Political Risk+ Economic Risk

- **Political and economic risk are similar and inter-related**
- **Risk management approaches for each are similar**

Political + Economic Risk

What is economic and political risk?

- **Risk of loss due to changes that occur in a country's economy, government or regulatory environment**

- **Political and economic risk affects both international trade transactions and the value and security of foreign assets**

Political + Economic Risk

- **For exports, political + economic risk may preclude the ability of a foreign customer to pay for a shipment**
  - A foreign customer may have a strong credit record/ willingness to pay
  - Unable to pay due to governmental action or inaction--Outside the control of the buyer
- **Regulatory changes (barriers) can prevent/disrupt market access**
- **For foreign held assets, political + economic risk can result in the loss or impairment of their value**

Other Consequences of Political + Economic Risk

Currency controls:

- **Time controls**
  - Long waiting periods to obtain foreign exchange
  - Venezuela
- **Requirement to use national currency**
  - May be worthless
- **Two-tiered exchange rates**
  - Importer may have to obtain a premium to get foreign exchange
- **Complete or partial blockage of payments**
  - No foreign exchange obtainable, or for
  - “Government-approved” traders

Political-Economic Risk Management

Step One: Risk assessment:

- **Question 1: What is the probability of an adverse political or economic change during the time frame of the economic transaction ?**
- **Question 2: Will underlying political/ economic conditions result in policies or conditions that will:**
  - Prevent payment by foreign clients?
  - Prevent sale or removal of assets from the country

Political-Economic Risk Management

Six ways of handling political-economic risk:

1. **Avoid the country altogether**
   - What is the opportunity cost?
2. **Adjust payment mechanism**
   - Sell only for cash in advance
   - Confirmed, irrevocable letter of credit also an option
     - Caution needed concerning confirming bank
     - INCOTERMS

Political Risk Management

3. **Export Credit Insurance**
   - U.S. Export/ Import Bank programs
   - Private coverage

4. **Establishing a credit limit for a country**
   - Objective: Limit company's exposure in a country—a specified dollar amount
   - Some risk may be inevitable to maintain a competitive position/ maintain customers

Managing Economic Risk

Six ways of managing economic risk:

4. **Foreign currency management**
   - Hedging strategies
   - Netting strategies
5. **Counter-trade agreements**

Political Risk Resources

- **Your international bank may be able to provide country risk information:**
  - Large banks have in-house analysts
  - Ability to get information from foreign branches or from correspondent banks

Political + Economic Risk Resources

- **Country Commercial Guides-Chapter 6**
  - www.export.gov
  - Published annually for most countries
  - Good economic & political overview
- **Overseas Private Investment Corporate**
  - Political risk insurance
  - www.opic.gov
- **OCED Country Risk Grades for 132 countries**
  - http://www.oecd.org/trade/xcred/crc.htm
  - HSBC www.hsbcnet.com/hsbc

International Credit Risk

International Credit Risk

International Credit Risk =

Foreign customer's failure to pay invoice as promised on time due to unwillingness or to internal company problems

International Credit Risk

- **Perception: International business in inherently riskier than domestic business:**
  - A higher probability that foreign customers will not pay
  - Little recourse, if non-payment occurs

- **Several studies suggest that track record of international payments is better than domestically**

- **Does not remove need for due diligence in assessing credit worthiness**

International Credit Risk

- **Credit risk can normally be handled by**
  - Cash in advance
  - Letter of credit
  - Export Credit insurance

- **Match degree of perceived risk with risk minimization tools**
- **Each measure has a cost:**
  - Cash in advance & L/C = buyer cost
  - Receivables insurance = seller cost

International Credit Risk

- **Competitive conditions may require an exporter extend credit/ sell on open account**
  - Sale should not take place without establishing creditworthiness of customer
  - Procedure is same as for domestic customers
- **Need to obtain:**
  - Current financial status & financial history
  - Banking references
  - Review of credit levels offered by other suppliers (If possible)

International Credit Risk

- **Credit information determines flexibility of exporter to set payment terms**
- **Assessment must be balanced by:**
  - The needs of the buyer
    - Single transaction versus revolving credit for regular customers
  - The type of buyer
    - Distributors, end-users
  - What do you know about customer?

Examining an International Buyer's Credit

Basic sources for international credit information

1. International Banks
2. Foreign Commercial Service
3. Industry Contacts
4. International Credit reports

Examining an International Buyer's Credit

1. International Banks:

- International department may already know about company
- Can request information from foreign correspondent banks
- Reasonable cost and may be able to add background risk information

Examining an International Buyer's Credit

2. **U.S. Foreign Commercial Service**

- **International Company Profile (ICP)**
  - Provides details on foreign companies, including bank & trade references, financial data, local reputation, etc.
  - Normally includes physically visiting company
  - Reasonable cost (30-45 working days)

Examining an International Buyer's Credit

3. Industry Contacts

- **Other suppliers to buyer**
  - Company references provided by distributor
    - Better to determine references independently
    - Company Web site may be useful
    - Observations from visiting distributor
- **Industry trade associations (U.S. & foreign)**

Examining an International Buyer's Credit

4. Private credit reporting companies:

- **Dun & Bradstreet www.dnb.com**
- **National Association of Credit Management**
  - Foreign Credit Interchange Bureau requests information from associated organizations abroad
- **Coface (Veritas) www.veritas-us.com**
- **GraydonAmerica <www.graydonamerica.com>**

Examining an International Buyer's Credit

Need for Caution with Foreign Financial Statements & Credit Reports

- **Reporting requirements vary significantly from country to country**
  - Profitability/ liquidity of business may not be easily determinable
  - Problem with information for privately held foreign companies

International Transportation Risk

Risk of loss or damage of an international shipment

- **Danger to exporter**
  - Transportation risk before payment
- **Danger to importer**
  - Transportation risk after payment
- **Importance of Incoterms & Agreement on transportation insurance between buyer and seller**
  - Only two Incoterms specify who should arrange transportation insurance
  - CIF & CIP
  - For other terms, agreement on responsibility is essential
- **Rate is usually based on CIF value + 10 percent**

International Payment Methods

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International Payment Methods

1. Cash in Advance
2. Letters of Credit
3. Documentary Collections
4. Open Account

International Payment Preferences

Seller	Payment Method	Buyer
1 ↓	Cash in Advance	4 ↑
2 ↓	Letter of Credit	3 ↑
3 ↓	Bank Draft	2 ↑
4 ↓	Open Account	1 ↑

CASH IN ADVANCE

Cash in Advance

- **Simplest method for seller**
  - Customer sends 100% payment before product is made or shipped or service provided
  - Lowest risk to seller
- **Least attractive for buyer**
  - Must tie up capital well in advance of receiving product or service
  - Highest risk to buyer

Cash in Advance

Routing of Payment:

- Wire transfer is safest & quickest method
- Beware of checks, money orders, etc.
  - Funds may not be there
  - Bank may not be solvent
  - Quality of money orders varies
  - Allow time for collection

Cash in Advance

Cash in advance is best suited for:

- Unknown or risky clients
- Clients in unstable economies

Benefits:

- Eliminates Political & Buyer Risks
- Significantly Reduces FX Risks

Drawbacks:

- Many customers dislike (cost)
- Competitive disadvantage

Letters of Credit

Letters of Credit

What is a Letter of Credit?

- Document issued by a bank
  - On the behalf of the seller
  - Substitutes the bank's credit for the buyer
  - Assures seller of payment upon presentation of documents that comply 100% with L/C
  - Banks care only about DOCUMENTS

Letters of Credit

What makes a Letter of Credit secure?

- **Transference of payment risk from the buyer to bank**
- **Standard terminology, regulations, and obligations globally that govern issuance and execution**
  - UCP 600 Uniform Customs and Practices for Documentary Credits
  - URR 525 Uniform Rules on Bank-to-Bank Reimbursements
  - Provides both buyer and seller with standard protections

Types of Letters of Credit

- **Sight Drafts**
  - Payment will be made to the seller once documents verifying shipment are presented to the bank
  - Payment normally 2-7 work days from presentation

- **Time Drafts (Issuance L/C's)**
  - Covers a longer payment period-Enabling extended terms
  - Payment is made at specific time after documents are presented for payment.
    - Date normally from the date of presentation or the date on the bill of lading
  - Potential complication: Buyer may need to put up money earlier

Confirmed Letter of Credit

Concerns about a foreign bank's ability to pay?

- **A confirmed L/C transfers the risk of payment from the foreign bank to the advising bank**
  - For U.S. exporters, the advising bank is almost always a bank in the USA
  - Payment moves on shore to the USA
- **Removes buyer, issuing bank, and country risk**
- **Most L/C's are NOT confirmed**
  - Confirmed L/C's most common in emerging markets

Confirmed Letters of Credit

- **Confirming fee based on:**
  - Size of transaction
  - Risk associated with issuing bank
  - Political & economic country risk

- **If a confirmed L/C is required, seller needs to:**
  - Advise buyer to instruct issuing bank to ask correspondent bank in exporting country to both advise & confirm L/C

Letter’s of Credit

Irrevocable vs. Revocable Letter’s of credit:

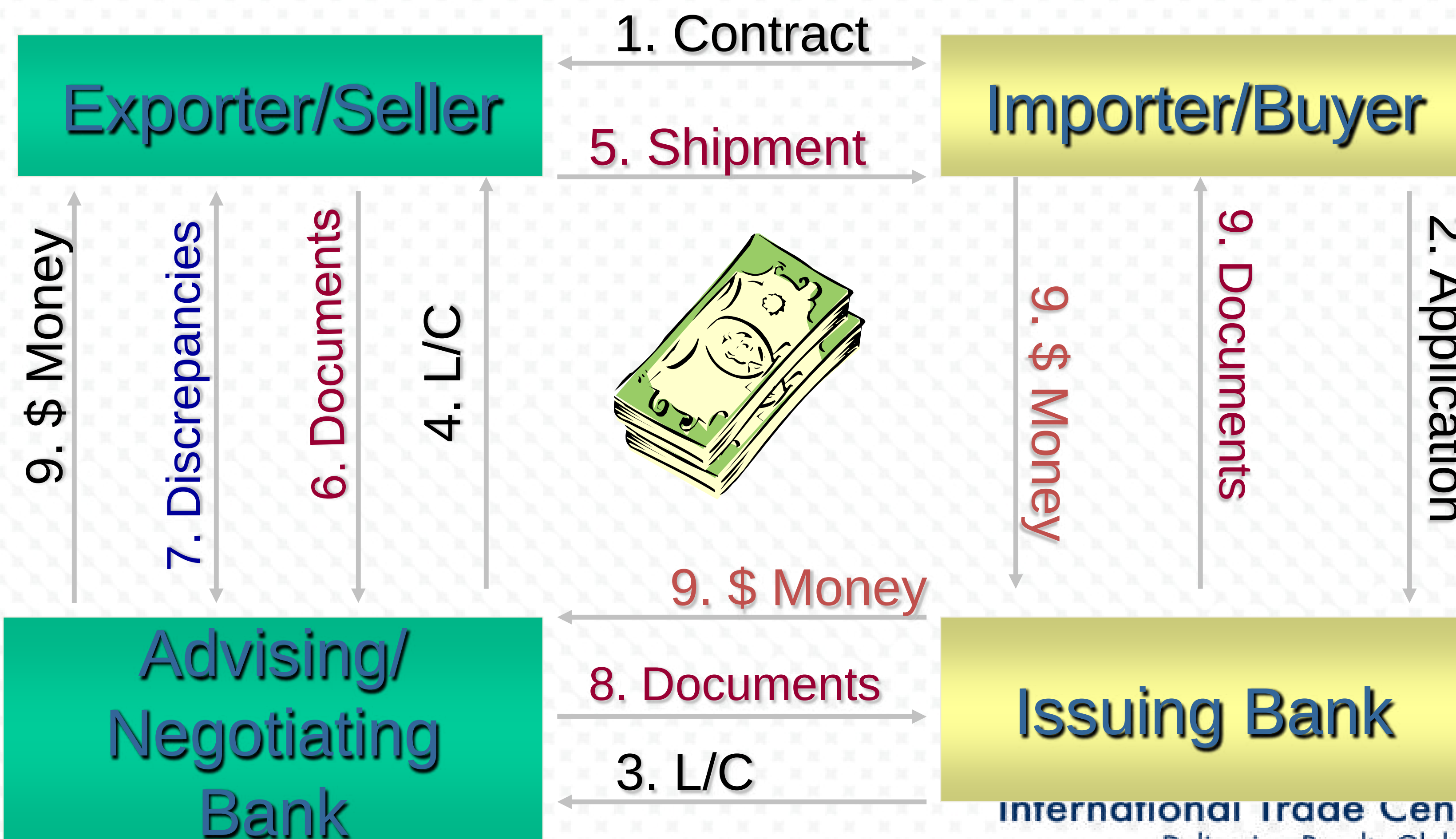
- **Under UCP 600, a L/C can not be unilaterally revoked**
- **Any changes or cancellation must be agreed to by both parties to the L/C**
- **Revocable L/C’s are rare and essentially worthless**

Problems with L/C's

Compliance with L/C terms is critical. Potential problems:

- **Discrepancies**
  - Banks do not have to make payment
- **Presentation requirements**
  - By a specified time
- **Missing shipping date**
- **Partial shipments**
- **Freight Costs**

Letter of Credit Flow



Letter of Credit Benefits

Benefits for the <u>Exporter</u>:

- Assured payment by 3rd party
- Certainty of performance requirements
- Added certainty as to timing of payment
- Mitigates political & buyer risks

Letter of Credit Drawbacks

- Discrepancies are costly to correct & can preclude payment
- Shipping dates can not always be controlled
- Higher transactions cost--passed on to buyer
- Competitiveness—Other suppliers might not require L/C's
- Buyer might not be able to secure L/C

Other Types of Letters of Credit

Stand-By L/C's

- Not a documentary letter of credit, such as sight/ time drafts
- Used to guarantee the performance / compliance of one of the parties in a commercial contact
- Bank is committed to pay to the beneficiary only if the commercial agreement covered by the Stand-By is not observed by the applicant.

Documentary Collections

Banks Drafts

- **The seller (drawer of draft) presents the draft to the buyer (drawee) for payment on completion of the shipment**

- **Payment can be immediate or at some future date**
  - Sight drafts
  - Time drafts

- **Known under different terms**
  - Documentary collections
  - Cash against documents
  - Payment against documents

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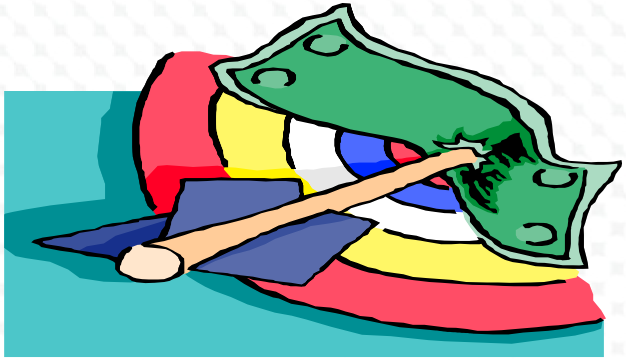
Bank Drafts

- **Clean draft: A draft that is not accompanied by shipping or other documents**
- **Documentary draft: A draft that must be presented with all documents attached as required by terms of sales contract**

Bank Drafts

Reasons for seller to offer Draft Terms:

- **Moderate risk because seller can control title or possession of goods until after draft is paid or accepted.**
- **Bank fees are lower than for a L/C**



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Bank Drafts

Reasons for buyers to request draft terms:

- **Not required to use existing lines of** credit **as they would be with an L/C**
- **Draft does not need to be paid until goods arrive in country**
- **Lower fees than for a L/C**

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Bank Drafts

- **Major difference between a draft and a letter of credit is that the bank is <u>not obligated</u> to make payment.**
  - Bank acts only as a collecting agent

- **If buyer can not pay for goods after draft has been accepted, seller has limited recourse**
  - Finding another buyer (if possible)
  - Return goods (at own expense)
  - Abandon goods
  - Taking legal action

Bank Drafts

Sight Draft: Drafts that are due on sight, or immediately on presentation of documents:

- **When product is shipped, documents are forwarded to buyer's bank which holds the documents until payment terms are met**
- **Buyer will not receive documents until payment as been made.**
- **Buyer has option not to accept documents**

Sight Drafts

- Original negotiable shipping document remains with the importer's bank until payment has been received from importer
- Bank does not have an obligation to enforce payment from importer who may refuse to pay or accept shipment

How Does a Sight Draft Work?

Stage 1: Importer places order with Exporter.

Stage 2: Exporter ships goods to importer

Stage 3: Exporter presents sight draft and shipping documents to exporter's bank

- Forwarder provides a negotiable Bill of Lading

Stage 4: Exporter's bank forwards documents to importers bank.

Stage 5: Importer's bank presents sight draft to importer

Sight Draft Stages

Stage 6: Importer pays importer's bank

Stage 7: Importer's account debited for amount of invoice + bank fees

Stage 8: Importer's bank releases original shipping document to importer so carrier will release goods

Stage 9: Importer's bank transfers funds to U.S. bank

Stage 10: U.S. bank pays exporter

Bank Drafts

Time draft: Drafts that allow payment to be made at a future date.

- **Buyer receives possession of goods before payment**
- **Documents transferred on acceptance of promise to pay at future date**
  - What if account has insufficient funds?

Open Account

Open Account

Time of Payment: After shipment with credit terms

- Goods Available Before Payment
- Risks: Very High Seller- Buyer Low
- Best Suited: Established Clients & distributors

Open Account

Reasons for seller to offer open account:

- **Existing customer with known credit history**
- **Customer preference**
- **Buyer leverage**
- **Competitive advantage**

Wire Transfer

Fastest way to move funds globally:

- **S.W.I.F.T Inter-bank system**
  - In U.S.-Via Federal Reserve System, not through correspondent banks
  - 24-48 hours globally
  - Once transfer hits account, transaction is completed.