5 Ways to Get Paid for Exports

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More than 300,000 small and medium-sized U.S. companies are growing by exporting products to foreign buyers. When deciding to export, business owners consider several things including: does exporting align with the company's growth strategy; do we understand what it takes to export profitably; and maybe most importantly, ***how do I get paid?***

As with all sales, being paid in full and on time is key to exporting successfully, and like most negotiations between companies, financial transactions are influenced by local customs, cultural norms and common practices. Asking buyers for cash in advance, for example, is not as common in most of the world as it is in the United States. Offering credit terms to foreign buyers increases risk, but the upside may be a more competitive position in the market, and greater growth in revenue. And products like export credit insurance mitigate that risk.

Domestic sales to U.S. customers with good credit are typically made on an open account, otherwise, cash in advance is required. For export sales, five common methods of payment, listed in order from most secure for the exporter to least secure, are:

- Cash in advance
- Letters of credit
- Documentary collections
- Open account
- Consignment

Here are brief descriptions of each and some suggestions for how to mitigate risk:

Cash in Advance
On the surface, cash in advance may seem ideal for the exporter. It eliminates collection problems and wire transfers make payment almost immediate. For the buyer, however, cash in advance increases risk and may create cash flow problems. Exporters who insist on advance payment may lose out to competitors who offer more flexible payment terms.

Letter of Credit
Versatile and secure, a letter of credit is a commitment on behalf of the foreign buyer that the exporter will be paid when the terms and conditions stated in the letter of credit have been met, as evidenced by the presentation of specified documents. The more secure letters of credit are irrevocable, meaning that it cannot be changed without the agreement of both parties.

Documentary Collections
Documentary collections, also known as sight drafts, delegates payment collection to the exporter's bank, which sends documents to the foreign buyer's bank with instructions to release the documents to the buyer in exchange for payment. Documentary collections can either be paid on sight, or on a specified date. Both the exporter's and the importer's banks act as facilitators of documentary collections, but it is less secure than other methods and there is limited recourse in the event of non-payment.

Open Account
Open accounts are advantageous for the importer and can be a viable method of payment for foreign buyers who are well established, have a proven track record of favorable payment or have been thoroughly checked for credit worthiness. Open accounts are often used in highly competitive markets, particularly if there is strong competition from local suppliers.

Reduce Your Risk!
The good news is that there are a number of safeguards U.S. exporters can use to be competitive in international markets while reducing risk. The risk of non-payment, for example, can be mitigated by trade finance products like export credit insurance offered by commercial lenders and the Export-Import Bank of the United States (EXIM Bank). These institutions also offer pre-export working capital loans to finance production and improve cash flow while waiting for payment.

Learn More
Interested in learning more about the nuts and bolts of exporting? This article is a synopsis of Chapter 14: Methods of Payment from "A Basic Guide to Exporting." You can learn more by

downloading the entire guide here. Developed by our partners at the Department of Commerce, the "Basic Guide to Exporting" outlines many issues that both new and experienced exporters should know about when competing for deals or entering a new market overseas.