

INTERNATIONAL CREDIT MANAGEMENT

Besides communication and language barriers, there are four main areas of difference between trading in the UK and trading overseas:

LONGER CREDIT
GOODS IN TRANSIT
POLITICAL FACTORS
METHODS OF PAYMENT

LONGER CREDIT

Almost all domestic trade is conducted on “30 days” or similar terms, sometimes less but rarely more. Debtors and creditors all being on the same terms ought to make for smooth flow of funds into and out of the bank account.

Overseas buyers don't always have the flexibility of a bank overdraft to balance out their funds and have to look to their suppliers for credit to tide them over the transit time and the stockholding or work in progress period.

Local credit is often more expensive than in the financial markets of the industrialised world. For these reasons you may have to sometimes concede up to 180 days credit for consumable goods (not only domestic consumer goods but industrial and commercial supplies) sold to trade buyers.

The export credit manager must deal with a range of credit periods from cash on dispatch to six months credit and because of this longer credit period companies usually have to raise special finance for exports.

GOODS IN TRANSIT

For home trade goods are not normally in transit for more than a few days. A shipment to the Far East may take six weeks and if you deliver to an inland destination, even longer. This means that you have to cater not only for goods already in the buyer's hands, but also for goods in transit, often referred to as “the pipeline”.

Depending on the terms of sale, the goods in the pipeline may become the buyer's property as soon as they are shipped or only when you pass the necessary documents to them at a later date. This obviously affects insolvency risk.

POLITICAL FACTORS

In many countries you may run the risk that a willing buyer will be prevented from taking up the goods, or paying, by reason of government intervention or political events, such as war or civil unrest. Buyers may also be prevented from taking the goods if an embargo is imposed after they have been shipped.

Much the worst risk, however, is an **exchange transfer delay**. Buyers will normally hold their own currency and some may be forbidden to hold any other.

To settle a debt in sterling or Great British Pounds (GBP), as they are most often referred to nowadays, buyers must ask their bank to arrange with a bank in the UK to transfer GBP to your account.

The Buyers bank can do this because any bank which handles foreign payments has credit accounts with other banks throughout the world. Using the appropriate exchange rate it will charge buyers a sum in their own currency. The whole procedure should take a few days. In some countries, however, because of an imbalance between debts for imports and earnings from exports, "GBP balances" could be in short supply and Central Banks impose strict controls to try to clear the backlog of GBP debts.

The same difficulty usually applies to all "hard" (that is easily convertible) currencies simultaneously and the less developed countries face acute exchange shortages.

METHODS OF PAYMENT

Methods of payment in the export trade are different because they have to reconcile cost and risk and allow for exchange of currencies.

In general terms these are ways in which the buyer can arrange payment to you:

1. By cheque (or perhaps a banker's draft).
This is a cumbersome and time-wasting method-quite apart from the risk of loss in the post. A cheque drawn on a first-class UK bank can take several weeks
2. By International bank transfer or Telegraphic transfer
3. By Sight Draft or Term Bill of Exchange
4. By Documentary Letter of Credit

Inevitably, the longer periods of credit, different methods of payment and the payment risks of export trade give rise to more complex **terms** of payment!

The process of granting credit is affected by the countries and the special considerations of overseas accounting.

The process of credit collection has to begin at a much earlier stage – perhaps even at the order stage - so credit managers can begin planning the documentation. Prompt collection of export receivables depends on "having everything in the right place at the right time".

Other problems in export credit stem from differences of law, commercial practice, time differences, the remoteness of the buyer (despite modern telecommunications) and from ethnic and social sensitivities.

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