

## Exporter Trade Credit Techniques

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Selling outside the U.S. presents companies with a number of complexities that don't exist in a domestic transaction. But the rewards of navigating the export frontier can be increased profit and revenue growth.

Business opportunities in export markets require new trade finance skills. Granting credit terms to non-U.S. companies involves additional risk, and to mitigate those risks, exporters should take some simple steps to ensure that the transaction goes smoothly. Knowing your new customer is an important first step. What follows are some simple tools for acquiring information about your customers and prospects.

### Trade References

Knowing your customer's track record with other vendors will help predict their performance with you. The tried and true trade reference can be a good resource. You should request the contact name, email address, and fax number of the vendor. That way, you can fax or email a request and not have to face a non-English speaker, or deal with time differences

### Evaluating Trade References

Look for high credit limits close to the amount you are negotiating. Also, the vendors should be suppliers in a similar line of business. If the only trade reference they can supply is, for example, their office supply or fuel vendor, caution is advised. Be prepared for payments in some regions to be 30 days slow rather than our customary prompt payment in the U.S. The U.S. government's ExIm Bank program defines "prompt payment" as payment within 60 days of the due date! You may receive the reference denominated in a currency other than U.S. dollars. Currency conversions are available from several web sites, one easy-to-remember site is [www.xe.com](http://www.xe.com) .

### Credit Reports

Just as you would order a D&B or Experian report on a customer if you were negotiating a large U.S. transaction, you should order a credit report on your large foreign customers, too. D&B does offer foreign reports; expect to pay significantly more than for a U.S. report. There are other sources for credit reports, also. A couple of online sites are: [www.creditreportsworld.com](http://www.creditreportsworld.com) and [www.owens.com](http://www.owens.com). Coface also offers credit reports through their agency offices.

### Evaluating Credit Reports

Evaluation criteria for the credit report should include:

Location: is the address you have for the company correct?

Line of business: are they in a line of business that matches your transaction?

Years in business: are they very new?

Suits and judgments – the credit report should include a public record search, and reveal whether the company is in good standing with the legal environment in-country

Credit reports may include some financial information, but not always.

### Financial Statements

For transactions that exceed \$500,000 as a rule of thumb, you should request financial statements directly from your customer. Their ability and willingness to provide these financial statements should be part of your consideration. Your analysis should include their profitability, and net worth – both indicators of their ability to pay your invoice. Some other items worth looking at include: current ratio (current assets/current liabilities), and cash balance. Keep in mind that financial statements might also be in a currency other than U.S. dollars.

### Summary

Extending trade credit to a non-U.S. customer using the above guidelines can be very similar to the process your credit department employs to approve a U.S. customer for a credit limit. If the profile you develop does not present the picture of a credit-worthy company, consider requiring cash in advance for at least part of the transaction value, sight draft payments, or for larger sums, a letter of credit. You can also mitigate your international credit risk by using export credit insurance.

For more information about international trade finance, you can contact Brett Tarnet Insurance Services, a specialist company in export credit insurance at: 805-375-2373, email: [brett@btarnet.com](mailto:brett@btarnet.com).