

Comparison of International Payment Terms

PAYMENT METHOD	PAYMENT TERMS	WHERE USED	ADVANTAGES TO	
			BUYER	SELLER
CASH IN ADVANCE	-Buyer pays seller before goods are shipped or services performed	-New relationships -Smaller transactions -Where buyer is unable to obtain an L/C	-No advantage-pays prior to receipt of goods / services and documents	-Eliminates risk of non-payment
LETTER OF CREDIT	-A bank undertakes to make payment at sight or future date when compliant documents are presented by seller as stipulated in L/C	-When buyer's ability to pay is uncertain -In countries where there is a regulatory requirement -When a seller needs an L/C to obtain bank financing	-Provides reasonable assurance that proper shipment or service is made prior to payment - May obtain lower price due to reduced credit risk to seller	-Substitutes bank's credit for buyer -Assures prompt payment against compliant docs. -Protects against country risk & contract cancellation.
DOCUMENTARY COLLECTION	-Documents are exchanged through a bank for payment with a Bills of Exchange	-Ongoing business relationship -Transactions not requiring the protection & expense of an L/C	-Delays payment until receipt of documents -Buyer can be financed by seller with use of time draft	-Seller retains title of goods until payment if transport doc is doc of title, with protection of Bill of Exchange
CASH AGAINST DOCUMENTS	-Documents are exchanged through a bank for payment but without Bills of Exchange	-Ongoing business relationship -Transactions not requiring the protection & expense of an L/C	-Delays payment until receipt of documents -Buyer can be financed by seller with use of time draft	-Seller retains title of goods until payment if transport doc is doc of title, but w/o protection of Bills of Exchange
OPEN ACCOUNT	- Buyer pays seller after receipt of an invoice, normally after goods are shipped or services performed	- High trust relationship - Intercom any transactions	- Positive Cash Flow - Buyer delays payment until goods inspected &/or inspected/ service performed	-No advantage risks of Non Payment