

A BASIC GUIDE TO
EXPORTING



THE OFFICIAL
GOVERNMENT
RESOURCE
FOR SMALL AND
MEDIUM-SIZED
BUSINESSES

10TH EDITION
REVISED



METHODS OF PAYMENT

In This Chapter

- Different ways to receive payment when selling your products internationally
- Selection of a payment method
- Currency issues and payment problems

PRUDENT CREDIT PRACTICES

Experienced exporters extend credit cautiously. They evaluate new customers with care and continuously monitor older accounts. You may wisely decide to decline a customer's request for open-account credit if the risk is too great, and you may propose instead payment-on-delivery terms through a documentary sight draft or an irrevocable confirmed letter of credit—or even payment in advance. For a fully creditworthy customer, however, you may decide to allow a month or two for payment or perhaps even extend open-account terms.

Other good credit practices include being aware of any unfavorable changes in your customers' payment patterns, refraining from going beyond normal commercial terms, and consulting with your international banker on how to cope with unusual circumstances or in difficult markets. It is always advisable to check a buyer's credit (even if the safest payment methods are used). A U.S. Commercial Service International Company Profile (ICP) provides useful information for credit checks (see Chapter 6). For a fee, you may request an ICP on companies in many countries. The ICP contains financial background on the company and a discussion regarding its size, capitalization, years in business, and other pertinent information, such as the names of other U.S. companies that conduct business with the firm. You can then contact those U.S. companies to find out about their payment experience with the foreign firm.

Because being paid in full and on time is of the utmost concern to you, the level of risk you are willing to assume in extending credit is a major consideration. There are several

FACT:

Many companies think that exporting is too risky.

INSIGHT:

You can reduce risk to a safe level. Letters of credit, export credit insurance programs, and reference checks through banks and international credit reporting agencies can help protect you. Trade laws are often straightforward, and legal advice about them is easily obtained.

ways in which you can receive payment when selling your products abroad, depending on how trustworthy you consider the buyer to be. With domestic sales, if the buyer has good credit, sales are typically made on open account; otherwise, cash in advance is required. For export sales, those are not the only common methods of payment.

Listed in order from most secure for the exporter to least secure, the basic methods of payment are

- Cash in advance
- Documentary letter of credit
- Documentary collection or draft
- Open account
- Other payment mechanisms

CASH IN ADVANCE

Receiving payment by cash in advance of the shipment might seem ideal. In this situation, your company is relieved of collection problems and has immediate use of the money. A wire transfer is commonly used and has the advantage of being almost immediate.

Payment by check may result in a collection delay of up to six weeks—perhaps defeating the original intention of receiving payment before shipment.

Many exporters accept credit cards in payment for consumer goods and other products that generally have a low dollar value and that are sold directly to the end user. Domestic and international rules governing credit card transactions sometimes differ, so U.S. merchants should contact their credit card processor for more specific information. International credit card transactions are typically handled by telephone or fax. Because those methods are subject to fraud, you should determine the validity of transactions and obtain the proper authorizations before sending goods or performing services.

For the buyer, advance payment tends to create cash flow problems and to increase risks. Furthermore, cash in advance is not as common in most of the world as it is in the United States. Buyers are often concerned that the goods may not be sent if payment is made in advance or that they will have no leverage with the seller if goods do not meet specifications. Exporters who insist on advance payment as their sole method of doing business may find themselves losing out to competitors who offer more flexible payment terms.

DOCUMENTARY LETTERS OF CREDIT AND DOCUMENTARY COLLECTIONS OR DRAFTS

Documentary letters of credit or documentary collections or drafts are often used to protect the interests of both buyer and seller. These two methods require that payment be made on presentation of documents conveying the title and showing that specific steps have been taken. Letters of credit and drafts may be paid immediately or at a later date. Drafts that are paid on presentation are called *sight drafts*. Drafts that are to be paid at a later date, often after the buyer receives the goods, are called *time drafts* or *date drafts*. A transmittal letter is used, which contains complete and precise instructions on how the documents should be handled and how the payment is to be made (see Sample Form 14.1).

Because payment by these two methods is made on the basis of documents, all terms of payment should be clearly specified in order to avoid confusion and delay. For example, “net 30 days” should be specified as “30 days from acceptance.” Likewise, the currency of payment should be specified as “US\$30,000.” International bankers can offer other suggestions.

Banks charge fees—mainly based on a percentage of the amount of payment—for handling letters of credit and smaller amounts for handling drafts. If fees charged by both the foreign and U.S. banks are to be applied to the buyer’s account, this term should be explicitly stated in all quotations and in the letter of credit.

The exporter usually expects the buyer to pay the charges for the letter of credit, but some buyers may not agree to this added cost. In such cases, you must either absorb the costs of the letter of credit or risk losing that potential sale. Letters of credit for smaller amounts can be somewhat expensive because fees can be high relative to the sale.

Letters of Credit

A letter of credit adds a bank’s promise to that of the foreign buyer to pay the exporter. A letter of credit issued by a foreign bank is sometimes confirmed by a U.S. bank. This confirmation means that the U.S. bank (the confirming bank) adds its promise to that of the foreign bank (the issuing bank) to pay the exporter. If a letter of credit is not confirmed, it is “advised” through a U.S. bank and is thus called an *advised letter of credit*. U.S. exporters may wish to have letters of credit issued by foreign banks confirmed through a U.S. bank if they are unfamiliar with the foreign bank or are concerned about the political or economic risk associated with the country in which the bank is located. An Export Assistance Center or international banker can assist exporters in evaluating the risks to determine what might be appropriate for specific export transactions.

A letter of credit may be *irrevocable*, which means that it cannot be changed unless both parties agree. Alternatively, it can be *revocable*, in which case either party may unilaterally make changes. A revocable letter of credit is inadvisable because it carries many risks for the exporter.

FACT:

Credit cards are a popular method of payment for exports.

INSIGHT:

Because international credit card transactions are typically handled by telephone or fax, fraud can be an issue. Determine the validity of transactions and obtain the proper authorizations before sending goods or performing services.

To expedite the receipt of funds, you can use wire transfers. You should consult with your international banker about bank charges for such services.

A TYPICAL LETTER OF CREDIT TRANSACTION

Here are the typical steps in issuing an irrevocable letter of credit that has been confirmed by a U.S. bank:

1. After the exporter and the buyer agree on the terms of a sale, the buyer arranges for its bank to open a letter of credit that specifies the documents needed for payment. The buyer determines which documents will be required.
2. The buyer's bank issues, or opens, its irrevocable letter of credit and includes all instructions to the seller relating to the shipment.
3. The buyer's bank sends its irrevocable letter of credit to a U.S. bank and requests confirmation. The exporter may request that a particular U.S. bank be the confirming bank, or the foreign bank may select a U.S. correspondent bank.
4. The U.S. bank prepares a letter of confirmation to forward to the exporter along with the irrevocable letter of credit.
5. The exporter carefully reviews all conditions in the letter of credit. The exporter's freight forwarder is contacted to make sure that the shipping date can be met. If the exporter cannot comply with one or more of the conditions, the customer is alerted at once because an amendment may be necessary.
6. The exporter arranges with the freight forwarder to deliver the goods to the appropriate port or airport.
7. When the goods are loaded aboard the exporting carrier, the freight forwarder completes the necessary documentation.
8. The exporter (or the freight forwarder) presents the documents, evidencing full compliance with the letter of credit terms, to the U.S. bank.
9. The bank reviews the documents. If they are in order, the documents are sent to the buyer's bank for review and then transmitted to the buyer.
10. The buyer (or the buyer's agent) uses the documents to claim the goods.
11. A sight or time draft accompanies the letter of credit. A sight draft is paid on presentation; a time draft is paid within a specified time period.

EXAMPLE OF A CONFIRMED IRREVOCABLE LETTER OF CREDIT

Sample Form 14.2 illustrates the various parts of a typical confirmed irrevocable letter of credit. In this example, the letter of credit was forwarded to the exporter, Walton Building Supply Company, by the confirming bank, Megabank Corporation, as a result of a letter of credit issued by the Third Hong Kong Bank, Hong Kong, for the account of the importer, HHB Hong Kong. The date of issue was March 8, 2006, and the exporter must have submitted the proper documents (e.g., a commercial invoice in one original and three copies) by June 23, 2006, for a sight draft to be honored.

TIPS ON USING LETTERS OF CREDIT

When preparing quotations for prospective customers, you should keep in mind that banks pay only the amount specified in the letter of credit—even if higher charges for shipping, insurance, or other factors are incurred and documented.

On receiving a letter of credit, you should carefully compare the letter's terms with the terms of the pro forma quotation. This step is extremely important because the terms must be precisely met or the letter of credit may be invalid and you may not be paid. If meeting the terms of the letter of credit is impossible or if any of the information is incorrect or even misspelled, you should contact the customer immediately and ask for an amendment to the letter of credit.

You must provide documentation showing that the goods were shipped by the date specified in the letter of credit or you may not be paid. You should check with your freight forwarders to make sure that no unusual conditions may arise that would delay shipment.

Documents must be presented by the date specified for the letter of credit to be paid. You should verify with your international banker that there will be sufficient time to present the letter of credit documents for payment.

You may request that the letter of credit specify that partial shipments and transshipment will be allowed. Specifying what will be allowed can prevent unforeseen problems at the last minute.

Documentary Collections or Drafts

A draft, sometimes called a *bill of exchange*, is analogous to a foreign buyer's check. Like checks used in domestic commerce, drafts carry the risk that they will not be honored. However, in international commerce, title does not transfer to the buyer until the buyer pays the draft.

FACT:

Some letters of credit are revocable, which means that you or the buyer can unilaterally make changes. As a result, such letters of credit carry more risk than irrevocable letters of credit.

INSIGHT:

Smart exporters insist on irrevocable letters of credit.

SIGHT DRAFTS

A sight draft is used when the exporter wishes to retain title to the shipment until it reaches its destination and payment is made. Before the shipment can be released to the buyer, the original “order” for the ocean bill of lading (the document that evidences title) must be properly endorsed by the buyer and surrendered to the carrier. It is important to note that air waybills do not need to be presented for the buyer to claim the goods. Risk increases when a sight draft is used with an air shipment.

In actual practice, the ocean bill of lading is endorsed by the exporter and sent by the exporter’s bank to the buyer’s bank. It is accompanied by the sight draft, invoices, and other supporting documents that are specified by either the buyer or the buyer’s country (e.g., packing lists, commercial invoices, and insurance certificates). The foreign bank notifies the buyer when it has received these documents. As soon as the draft is paid, the foreign bank turns over the bill of lading, thereby enabling the buyer to obtain the shipment.

There is still some risk when a sight draft is used to control transferring the title of a shipment. The buyer’s ability or willingness to pay might change between the time the goods are shipped and the time the drafts are presented for payment. There is no bank promise to pay standing behind the buyer’s obligation. Also, the policies of the importing country could change. If the buyer cannot or will not pay for and claim the goods, returning or disposing of the products becomes the problem of the exporter.

TIME DRAFTS AND DATE DRAFTS

A time draft is used when the exporter extends credit to the buyer. The draft states that payment is due by a specific time after the buyer accepts the time draft and receives the goods. By signing and writing “accepted” on the draft, the buyer is formally obligated to pay within the stated time. When this is done, the time draft is then called a *trade acceptance*. It can be kept by the exporter until maturity or sold to a bank at a discount for immediate payment.

A date draft differs slightly from a time draft in that it specifies a date on which payment is due, rather than a time period after the draft is accepted. When either a sight draft or time draft is used, a buyer can delay payment by delaying acceptance of the draft. A date draft can prevent this delay in payment, though it still must be accepted.

OPEN ACCOUNT

In a foreign transaction, an open account can be a convenient method of payment if the buyer is well established, has a long and favorable payment record, or has been thoroughly checked for creditworthiness. With an open account, the exporter simply bills the customer, who is expected to pay under agreed terms at a future date. Some of the largest firms abroad make purchases only on open account.

However, there are risks to open-account sales. The absence of documents and banking channels might make it difficult to pursue the legal enforcement of claims. The exporter might also have to pursue collection abroad, which can be difficult and costly. Another problem is that receivables may be harder to finance, because drafts or other evidence of indebtedness is unavailable. There are several ways to reduce credit risk, including export credit insurance and factoring.

Exporters contemplating a sale on open-account terms should thoroughly examine the political, economic, and commercial risks. They should also consult with their bankers if financing will be needed for the transaction before issuing a pro forma invoice to a buyer.

CONSIGNMENT SALES

International consignment sales follow the same basic procedures as in the United States. The goods are shipped to a foreign distributor, who sells them on behalf of the exporter. The exporter retains title to the goods until they are sold, at which point payment is sent to the exporter. The exporter has the greatest risk and least control over the goods with this method. Also, receiving payment may take a while.

It is smart to consider risk insurance with international consignment sales. The contract should clarify who is responsible for property risk insurance that will cover the merchandise until it is sold and payment is received. In addition, it may be necessary to conduct a credit check on the foreign distributor.

FOREIGN CURRENCY

A buyer and a seller who are in different countries rarely use the same currency. Payment is usually made in the buyer's or seller's currency or in a third mutually acceptable currency.

One of the risks associated with foreign trade is the uncertainty of future exchange rates. The relative value between the two currencies could change between the time the deal is concluded and the time payment is received. If you are not properly protected, a devaluation or depreciation of the foreign currency could cause you to lose money. For example, if the buyer has agreed to pay €500,000 for a shipment, and the euro is valued at \$0.85, you would expect to receive \$425,000. If the euro later decreased in value to \$0.84, payment under the new rate would be only \$420,000, meaning a loss of \$5,000 for you. If the foreign currency increased in value, however, you would get a windfall in extra profits. Nonetheless, most exporters are not interested in speculating on foreign exchange fluctuations and prefer to avoid risks.

One of the simplest ways for you to avoid such risk is to quote prices and require payment in U.S. dollars. Then the burden of exchanging currencies and the risk are placed on the buyer. You should also be aware of any problems with currency convertibility. Not all currencies are freely or quickly converted into U.S. dollars. Fortunately, the U.S. dollar is

widely accepted as an international trading currency, and U.S. firms can often secure payment in dollars.

If the buyer asks to make payment in a foreign currency, you should consult an international banker before negotiating the sales contract. Banks can offer advice on the foreign exchange risks that exist with a particular currency.

PAYMENT PROBLEMS

In international trade, problems involving bad debts are more easily avoided than rectified after they occur. Credit checks and the other methods that have been discussed in this chapter can limit the risks. Nonetheless, just as in a company's domestic business, exporters occasionally encounter problems with buyers who default on their payment. When these problems occur in international trade, obtaining payment can be both difficult and expensive. Even when the exporter has insurance to cover commercial credit risks, a default by a buyer still requires the time, effort, and cost of the exporter to collect a payment. The exporter must exercise normal business prudence in exporting and exhaust all reasonable means of obtaining payment before an insurance claim is honored. Even then, there is often a significant delay before the insurance payment is made.

The simplest and least costly solution to a payment problem is to contact and negotiate with the customer. With patience, understanding, and flexibility, you may often resolve conflicts to the satisfaction of both sides. This point is especially true when a simple misunderstanding or technical problem is to blame and there is no question of bad faith. Even though you may be required to compromise on certain points—perhaps even on the price of the committed goods—your company may save a valuable customer and profit in the long run.

However, if negotiations fail and the sum involved is large enough to warrant the effort, your company should obtain the assistance and advice of its bank, legal counsel, and the U.S. Commercial Service, which can often resolve payment problems informally. When all else fails, arbitration is often faster and less costly than legal action. The International

FACT:

Even exporters who take precautions occasionally experience payment problems.

INSIGHT:

If you experience payment problems, try these three avenues:

1. Try to negotiate directly with the customer.
2. Work with your bank, legal counsel, and the U.S. Commercial Service—particularly if negotiations fail and the sum involved is large.
3. Try arbitration through the International Chamber of Commerce if other means fail. This route is often faster and less costly than legal action.

Chamber of Commerce handles most international arbitration and is usually acceptable to foreign companies because it is not affiliated with any single country. For information, visit the Web site of the U.S. Council of the International Chamber of Commerce at www.iccwbo.org.

SAMPLE FORM 14.1 DRAFT TRANSMITTAL LETTER

	U.S. \$ 1 _____	_____ 2 20 _____
	_____ 3 _____ of this FIRST of Exchange (Second unpaid)	
	Pay to the Order of _____ 4 _____ 5 _____ United States Dollars	
	for Value received and charge the same to account of _____ 6 _____	
	To _____	
	No. _____ 7 _____	_____ 8 _____ Authorized Signature

9 _____ 10 _____
 Date

Gentlemen:

We enclose Draft Number 11 _____ and documents below

12 _____
☐ for collection,
☐ for _____
☐ for payment/negotiation under L/C

13

BILLS OF LADING	B/L COPY	COMM. INV.	INS. CTF.	CTF. ORIG.	CONS. INV.	PKNG. LIST	WGT. CTF.	OTHER DOCUMENTS

Please handle in accordance with instructions marked "X"

☐ Deliver all documents in one mailing. 14

☐ Deliver documents in two mailings.

☐ Deliver documents against payment if sight draft, or acceptance if time draft. 15

☐ All charges for account of drawee. 16

☐ Do not waive charges.

☐ Protest for non-payment 17

☐ Do not protest.

☐ Present on arrival of goods.

☐ Advise non-payment by airmail giving reasons. 18

☐ Advise non-acceptance by cable

☐ Advise payment by airmail

☐ Advise acceptance by cable 19

IN CASE OF NEED refer to:

Name _____ 20 _____

Address _____

who is empowered by us:

a ☐ To act fully on our behalf, i.e., authorize reductions; extensions, free delivery, waiving of protest, etc.

b ☐ To assist in obtaining acceptance or payment of draft, as drawn, but not to alter its terms in any way.

OTHER INSTRUCTIONS: 21 _____

Please refer all questions concerning this collection to:

☐ Shipper

☐ Freight Forwarder: 22 _____

_____ 23 _____
 Authorized Signature

INSTRUCTIONS FOR SAMPLE FORM 14.1, DRAFT TRANSMITTAL LETTER

1. U.S. dollars. Enter the entire amount to be collected; if not in U.S. dollars, specify the currency.

2. Date. Enter the date the draft is issued.

3. Terms of payment. Enter the terms of payment (also called the tenor of the draft); for example, at 45 days, at sight, or at 30 days bill of lading. "Second unpaid" refers to the duplicate copy of the draft (which reads "of this Second of Exchange, First unpaid"); once payment has been made against either copy, the other becomes void.

4. Pay to the order of. Enter the name of the party to be paid (seller or payee). This party may be the seller or the seller's bank and will be the party to whom the foreign buyer's bank will remit payment.

5. United States dollars. Enter the amount from Field 1 in words; if payment is not to be made in U.S. dollars, cross out "United States Dollars" and enter the correct currency.

6. Charge to account of. Enter the name and address of the paying party (buyer or drawee). For letter of credit payments, enter the name and address of the buyer's opening bank as well as the letter of credit number and issue date.

7. Number. Enter the identification or draft number, as assigned by the seller to reference the transaction.

8. Authorized signature. The signature of the authorized individual for the seller or the seller's agent (drawer) should be entered here.

9. Forwarding name and address. Enter the name and address of the party to whom the draft is being sent. Unless there is a letter of credit being negotiated in the United States, enter the name and address of a foreign bank.

10. Forwarding date. Enter the date the draft is being sent to the bank in Field 9.

11. Draft number. Enter the seller's draft number, as noted in Field 7.

12. Purpose of draft. Check the applicable box if the draft is part of letter of credit negotiation, a collection, or an acceptance.

13. List of documents. Enter the number and type of each original and duplicate document to be included with this transmittal letter. Any document attached will eventually be released to the buyer.

14. Deliver all documents. Check either "Deliver all documents in one mailing" or "Deliver documents in two mailings." Generally, documents are delivered in one mailing.

15. Deliver documents against payment or acceptance. Ensure that the type of draft attached (Field 3) is compatible with the "deliver against" instructions. Sight drafts should accompany "deliver against payment" instructions, and time drafts should accompany "deliver against acceptance" instructions.

16. Bank charges. The correspondent bank will not pay unless all charges are collected. Depending on your agreement with the buyer, indicate which party is responsible for both remitting and presenting the bank's charges. If you check "All charges for account of drawee," the buyer is responsible for these charges; if the buyer does not pay (or is not to pay) these charges, and if "Do not waive charges" has not been checked, the seller will be billed for expenses incurred.

17. Protest. Check "Protest" (specify "for non-payment" or for "non-acceptance," depending on the type of draft attached—see instructions for Field 15) if you wish the correspondent bank to process written,

notarized documentation in the event that the buyer refuses to pay or accept the draft. Additional bank expenses associated with a protest are usually charged to the seller.

18. Present on arrival. Check if you wish the draft to be presented on the arrival of the goods to the buyer.

19. Advise. Check the appropriate fields and cross out the non-applicable terms if you wish to be advised of payment or acceptance (or of non-payment or non-acceptance).

20. In case of need. Enter the representative of the seller in the country to which the draft and documents are going, if one exists; check the box that describes the representative's authority.

21. Other instructions. Enter any instructions to the remitting or correspondent bank, such as remittance instructions, clarification of protest procedures, and multiple-draft instructions.

22. Refer all questions. Enter the name of the contact in the seller's country, along with his or her address and telephone number. Specify whether this contact is employed by the shipper (seller) or the seller's agent (freight forwarder).

23. Authorization. Enter the person authorized to sign the transmittal letter (see Field 8), the date it was prepared, and the authorized person's signature.

SAMPLE FORM 14.2 **CONFIRMED IRREVOCABLE LETTER OF CREDIT**

INTERNATIONAL BANKING GROUP
Megabank Corporation

ORIGINAL

P.O. BOX 1000, ATLANTA GEORGIA 30302-1000
CABLE ADDRESS: MegaB
TELEX NO. 1234567
SWIFT NO. MBBABC 72

OUR ADVICE NUMBER: EA0000091
ADVICE DATE: 08MAR2006
ISSUE BANK REF: 3312/HBI/22341
EXPIRY DATE: 23JUN2006

**** AMOUNT****
USD****25,000.00

BENEFICIARY:
THE WALTON SUPPLY CO.
2356 SOUTH N.W. STREET
ATLANTA, GEORGIA 30345

APPLICANT:
HHB HONG KONG
34 INDUSTRIAL DRIVE
CENTRAL, HONG KONG

WE HAVE BEEN REQUESTED TO ADVISE TO YOU THE FOLLOWING LETTER OF CREDIT AS ISSUED BY:

THIRD HONG KONG BANK
1 CENTRAL TOWER
HONG KONG

PLEASE BE GUIDED BY ITS TERMS AND CONDITIONS AND BY THE FOLLOWING:

CREDIT IS AVAILABLE BY NEGOTIATION OF YOUR DRAFT(S) IN DUPLICATE AT SIGHT FOR 100 PERCENT OF INVOICE VALUE DRAWN ON US ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

- 1. SIGNED COMMERCIAL INVOICE IN 1 ORIGINAL AND 3 COPIES.
- 2. FULL SET 3/3 OCEAN BILLS OF LADING CONSIGNED TO THE ORDER OF THIRD HONG KONG BANK, HONG KONG NOTIFY APPLICANT AND MARKED FREIGHT COLLECT.
- 3. PACKING LIST IN 2 COPIES.

EVIDENCING SHIPMENT OF : 5000 PINE LOGS—WHOLE—8 TO 12 FEET
FOB SAVANNAH, GEORGIA

SHIPMENT FROM : SAVANNAH, GEORGIA TO: HONG KONG
LATEST SHIPPING DATE : 02JUN2006

PARTIAL SHIPMENTS NOT ALLOWED TRANSSHIPMENT NOT ALLOWED

ALL BANKING CHARGES OUTSIDE HONG KONG ARE FOR BENEFICIARY'S ACCOUNT.
DOCUMENTS MUST BE PRESENTED WITHIN 21 DAYS FROM B/L DATE.

AT THE REQUEST OF OUR CORRESPONDENT, WE CONFIRM THIS CREDIT AND ALSO ENGAGE WITH YOU THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED BY US.

PLEASE EXAMINE THIS INSTRUMENT CAREFULLY. IF YOU ARE UNABLE TO COMPLY WITH THE TERMS OR CONDITIONS, PLEASE COMMUNICATE WITH YOUR BUYER TO ARRANGE FOR AN AMENDMENT.

Source: U.S. Department of Commerce.

INSTRUCTIONS FOR SAMPLE FORM 14.2, CONFIRMED IRREVOCABLE LETTER OF CREDIT

This sample form illustrates the various parts of a typical confirmed irrevocable letter of credit. In this example, the letter of credit was forwarded to the exporter, Walton Supply Company, by the confirming bank, Megabank Corporation, as a result of a letter of credit issued by the Third Hong Kong Bank, Hong Kong, for the account of

the importer, HHB Hong Kong. The date of issue was March 8, 2006, and the exporter must submit the proper documents (e.g., a commercial invoice in one original and three copies) by June 23, 2006, for a sight draft to be honored. For tips on using letters of credit, see page 181.

CASE STUDY:

LuLu's Dessert

"When it comes to exporting, don't do everything by yourself."

—Maria de Lourdes Sobrino, founder, president, and chief executive officer, LuLu's Dessert

THE COMPANY

For Maria de Lourdes Sobrino, it all began in 1982 in a 700-square-foot storefront in Torrence, California, with a milk crate for a chair and her mother's Mexican-style recipe for gelatin. From humble beginnings and driven by her entrepreneurial spirit, Sobrino, known as LuLu to her friends and customers, began preparing tasty treats—and soon thereafter founded her own company, LuLu's Dessert.

Starting with snacks from her childhood, such as jalapeno-flavored carrots and roasted peanuts, Sobrino soon graduated to making jiggly fruit-flavored taste treats known in Spanish as *gelatina*. Unlike Jell-O®, which then was made only in powdered form, Sobrino's gelatin was ready to eat from the time a customer bought it—a concept that Jell-O® would not market for another 11 years.

With gelatins such as Fruit Fantasia, Orange Blast, Creamy Vanilla with Cinnamon, and Sugar Free-De-Light, LuLu's has something for everyone. With total sales projected to reach \$10 million for 2005, LuLu's is

pleasing the palates of customers in the United States and Mexico.

THE CHALLENGE

Sobrino began exporting to Mexico in 1992 and opened offices and a distribution center there, but despite her knowledge of the Mexican market, she faced great difficulty in selling her product because of her inexperience in the export process.

She often had only vague information on potential distributors of her product and did not know how to ensure that they were qualified and legitimate. She also did not have the most updated market research reports on Mexico.

After reading an article about Sobrino in a local newspaper, however, Tony Michalski, a trade specialist at the U.S. Commercial Service's Export Assistance Center in Newport Beach, California, contacted her to see how he could help her realize her exporting goals. Michalski and Sobrino soon began their partnership.

THE SOLUTION

With the help of Michalski, who provided services such as export counseling and market research, Sobrino began to make progress. She was put in touch with organizations such as the California Trade and Commerce Agency and the U.S. Agricultural Trade Office. As a result, LuLu's Dessert began to have greater success in foreign markets, especially Mexico.

Today, the company competes with local food manufacturers in Mexico, having contracts at grocery chains like Wal-Mart and Oxxo and an exclusive distributorship in the Mexican state of Baja California.

The success of LuLu's Dessert in foreign markets has been boosted considerably by the assistance of the Western U.S. Agricultural Trade Association (WUSATA), which has provided money to LuLu's Dessert and other companies for marketing outside of the United States. The funds gave Sobrino the opportunity to travel, to participate in trade shows, and to create brochures targeted to overseas markets while being reimbursed a large percentage by WUSATA.

Today, Sobrino has far-reaching goals for LuLu's Dessert. Currently, exporting accounts for 2 to 3 percent of the company's total revenues, but with a greater production capacity, LuLu's is on a course for explosive growth, especially internationally. Sobrino would like to expand her sales beyond Mexico and into other parts of Latin America. "We think that all the world deserves one of our treats," says Sobrino. "The Commercial Service saved our company time and money, and I highly recommend their services for firms looking to increase their export sales."

LESSON LEARNED

Sobrino says that the biggest lesson learned early on was not to try to do it alone when it comes to exporting. At the time Sobrino began exporting, she had no idea that government resources, like those of the Commercial Service and the Export-Import Bank, were available. "I spent 10 years trying to make international sales and continued to run into all kinds of problems—especially buyers who wouldn't pay or couldn't afford letters of credit."

Sobrino says that one time she even went to Chile to try to collect a debt from a customer but had no luck. By using Commercial Service and Export-Import Bank services that provide background checks on potential partners and letters of credit to guarantee payment, she has much more confidence in doing business with foreign partners.

Sobrino also says she could have benefited from the Commercial Service's customized market research reports much earlier in her export endeavors. She advises that companies be diligent about trademark protection, because in

one European country, LuLu's trademark was stolen and used by another company.

Sobrino also found that customers abroad often prefer sweeter desserts than do people in the United States. "When it comes to exporting, don't do everything by yourself," she says. "When I go out to speak, I give businesses a good lesson in exporting."

ACTION

How can you get the assistance you need?

- **Use the resources of government agencies.** For financing assistance, contact the Export-Import Bank, which can provide seller as well as buyer financing at very competitive rates. For more information, visit www.exim.gov. The Small Business Administration (SBA) provides a full range of export assistance to small businesses, particularly those new to exporting. Counseling is provided at no cost. To learn more about the SBA, visit www.sba.gov.
- **Talk to the U.S. Commercial Service.** Make your nearest U.S. Export Assistance Center the first stop on your road to export success. The Commercial Service offers market entry strategies, export counseling, and much more.

- **Do your research.** Good market research can help you determine which markets are right for your product. For a complete listing of the market research the Commercial Service offers, visit www.export.gov/mrktresearch. Once you find the right market, the Commercial Service can also help you find international buyers in that market with services such as the International Partner Search and the Gold Key Matching Service.



Maria de Lourdes Sobrino, president and chief executive officer of LuLu's Dessert in Anaheim, California, established a significant market share in Mexico for her gelatin recipes. She is now pursuing opportunities throughout Latin America.

A BASIC GUIDE TO

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