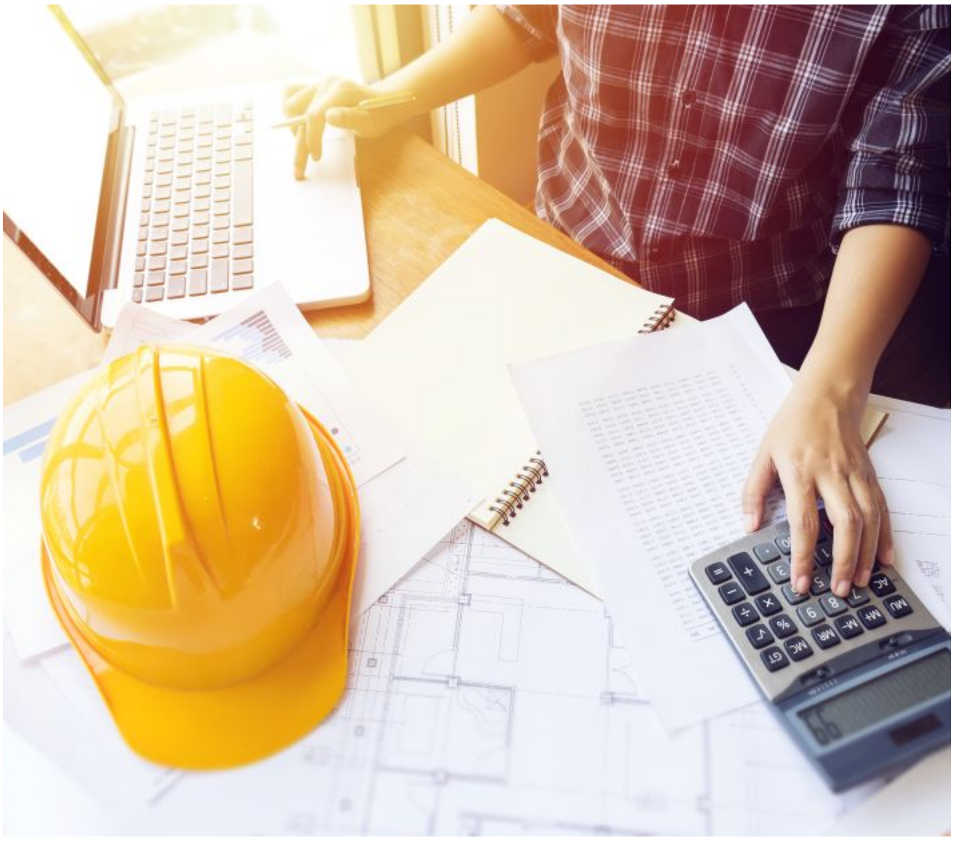
FINANCIALS AND CASH FLOW

Managing your business's international finances

How does conducting international business impact your business financials? Here are key questions to consider.



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Tags: international business cash flow management business financials

How do I develop a long-term overseas pricing strategy?

To effectively manage your profit margins, plan for several additional costs in international business:

- Fluctuations in currency values
- Shipping fees beyond international shipping rates, such as fuel, dimensional weight, and extended area surcharges
- Customs fees, duties, and taxes
- Expenses related to returns

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Gregg Napoli, Managing Director and Head of Foreign Exchange Services at \ changing of currency values is extremely important to consider and represen challenges for business owners interested in conducting international transa exchange rates are unpredictable, and that makes it very difficult to know yo purchasing something or to bill someone in a foreign currency and get the e: money in for your sales."

How can I recognize revenue from international transactions?

There are five primary approaches to payments between overseas partners.

1. **Cash-in-advance** is when a payment is made to the exporter as the shi This structure tends to be appealing for exporters and a riskier approac... payments are frequently conducted through wire transfers, credit cards, and escrow accounts.

2. **A commercial letter of credit (L/C)** is a payment activity, extended by the importer's (i.e., buyer or applicant) bank — dependent on any sales contract on which it may be based. The issuing bank is irrevocably committed to making a payment to the exporter (i.e., beneficiary or seller) provided that their required document presentations comply with the terms of the L/C. The involvement of a trusted bank minimizes risk for both sides. A L/C helps alleviate non-payment relative to political, economic, and foreign custom risks.

3. **Documentary collections** means the handling of documents, in accordance with the specific instructions received from the exporter, in order to obtain payment. The banks hold the documents until payment is received or until the exporter's instructions are completed.

4. **Open account transactions** are attractive for importers because they don't pay for a shipment until it's shipped and/or received. Since this arrangement is less beneficial to exporters, they may hedge the inherent risk with export credit insurance.

5. **Consignment** requires products be shipped, received, and sold to customers before the importer pays the exporter. This plan requires a high level of trust from the exporter — and proactive financial planning — so they'll frequently insure the goods are in transit or in possession of the foreign distributor.

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What can I do to streamline cash flow with an international partner?

Due to varied business structures and needs, exporters and importers have fundamental differences in payment expectations.

To find mutually agreeable payment terms, continue to refine trade finance agreements as your relationship evolves with your trading counterpart. You can contribute to the relationship's trust by ensuring you're prompt and communicative with your operations. To expedite payments, consider using a foreign exchange wire transfer, Napoli suggests.

"Wire transfer is the most common way for making an international payment, and most banks, like Wells Fargo, offer a variety of channels to make it as easy as possible to initiate a transfer." According to Napoli, some of those options may include going to a branch to initiate a wire, going through a website like wellsfargo.com, or setting up phone wires with a personal pin number.

What role do currency exchange rates play in international business transactions?

Although your preference may be to work only in U.S. dollars, Napoli says he has seen many instances where a business owner's foreign customer insists on working in their own currency. This may benefit your business as well, however. "In some cases, a vendor might offer a discount if the U.S. buyer is willing to pay in the seller's local currency," says Napoli.

With constantly shifting currency values, your profits or losses can vary significantly from week to week or month to month. Napoli recommends locking in the rate of exchange in advance, when possible.

"Let's say you're a design firm and you've decided to order high-end Swedish cabinets for a project you are working on for one of your customers. You have to pay the cabinet m
krona, but you're billing your customer for the cost of the cabinets in U.S. dol
that out when (the value of) the Swedish krona is moving until the moment y
you lock in the rate of exchange in advance, you would know the dollar amou
you could charge your customer for the cost of the cabinets in dollars," says N

Any time your business operations include transactions that aren't in U.S. dol
rates play a fundamental part in your business model and financial calculatio
relationship with a foreign company, remember that planning for these varia

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