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Service, Development, Growth

Doing Business in the Middle East

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Agenda

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- My professional background
- What this webinar will be about
- Mapping your market conditions
- Building your safety net
- What to expect with collection?

Export payment terms:

- Documentary collection
- Letter of Credit
- Using terms as risk mitigation options

Professional Background

- 8 years experience in the Credit field
- 5 years with a EMEA exposure

- No local offices
- No local plants or Credit customer visit
- No particular expertise in understanding Middle East macro economics (main source of information is regular media + FCIB)

- Still… as of today no Bad Debt reserved with Exports in Middle East

What this webinar will be about?

- You don't have to be an expert to do business in the Middle East

BUT

- You should be prepared and well informed about the trips & falls
- Identify the safety nets available within your organization
- Use them
- Draw the limits

=> Doing business in the Middle East starts with a self-reflection about your (company) risk appetite

Mapping you market conditions

- What is the current position of your company?
  - Product quality
  - Price (and margins)
  - Product availability vs. competition
  - Importance of your product within your customer production ecosystem
  - Short term & long term strategy in the Region

- One time deal, stock depletion campaigns and made to order products should be considered as higher risk

*** **International Boycott** *** if you are a foreign entity of a US based company

Building your safety net

- Prepayment
- Secured payment terms
- Credit insurance (open terms)
- Parent or bank guarantee
- Credit reports and / or financial results

- Know your customer
  - Local Sales office and Sales force
  - Local agent (commissions including collection success)
  - Customer visit, familiarize with the culture
  - Understand the legal entity structure

What to expect with collection?

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- Slow payment is a cultural norm and commercial practice:
  - Companies' cash flows are impacted by usual long terms
  - Religious holidays slow down the economy of the entire region
- Relationship is important, automatic dunning might be ignored
- Anticipate collection by sending monthly account statements
- Once account is past-due, send reminders regularly (be courteous but persistent)
- Block pending orders and communicate it
- Be cautious with payment advice and promise of payment
- Legal actions are rarely successful

Understanding the level of security of
Exports Payment terms

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Exports Payment Terms

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- **Documentary Collection**
  - Document Against Payment
  - Document Against Acceptance of a Dated Draft
  - Pro's and Con's
- **Letter of Credit**
  - Steps
  - Pitfalls to avoid
  - Pro's and Con's

Documentary Collection

- A formal agreement with the bank which will secure ("guarantee") the transaction of the documents without taking any responsibility on the result of the operation
- The bank does not check any documents, it relies on instructions

PROCESS :

- The seller sends the document set to the remitting bank with instructions for collection of payment
- The remitting bank forwards the document and instructions to collecting bank
- The buyer pays the collecting bank and collects his document in exchange

Documentary Collection (2)

- **Documents Against Payment:**

"Cash Against Document" or "Cash on Delivery"
The bank releases the documents to the customer in exchange of the payment

- **Document Against Acceptance:**

In this case the payment will be executed at a future due date.
The documents will be sent to the buyer's bank. The bank will release the documents to the buyer only after he signs the time draft.
It becomes a binding obligation to pay by the due date shown on the draft because of the signed acceptance

Documentary Collection (3)

- Best to be used when:
  - The seller and buyer know each others to be reliable
  - The seller is confident about the buyer's ability to pay
  - Political and economical conditions in the buyer's country are stable
  - The importer's country does not have restrictive foreign exchange control
  - The goods can be easily sold to another customer if needed (in case of non payment of the initial Cash Against Document buyer)

Pro's and Con's

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- **Cash Against Document** :

+ the goods remain seller's property until the customer has paid

+ reduces the credit risk

+ simple, relatively cheap

+ convenient also for small size orders

- does not reduce the past-due risk (the customer might pick up goods later than planned)

- suitable for sea freight only

- **Bank draft :**

+ simple, relatively cheap

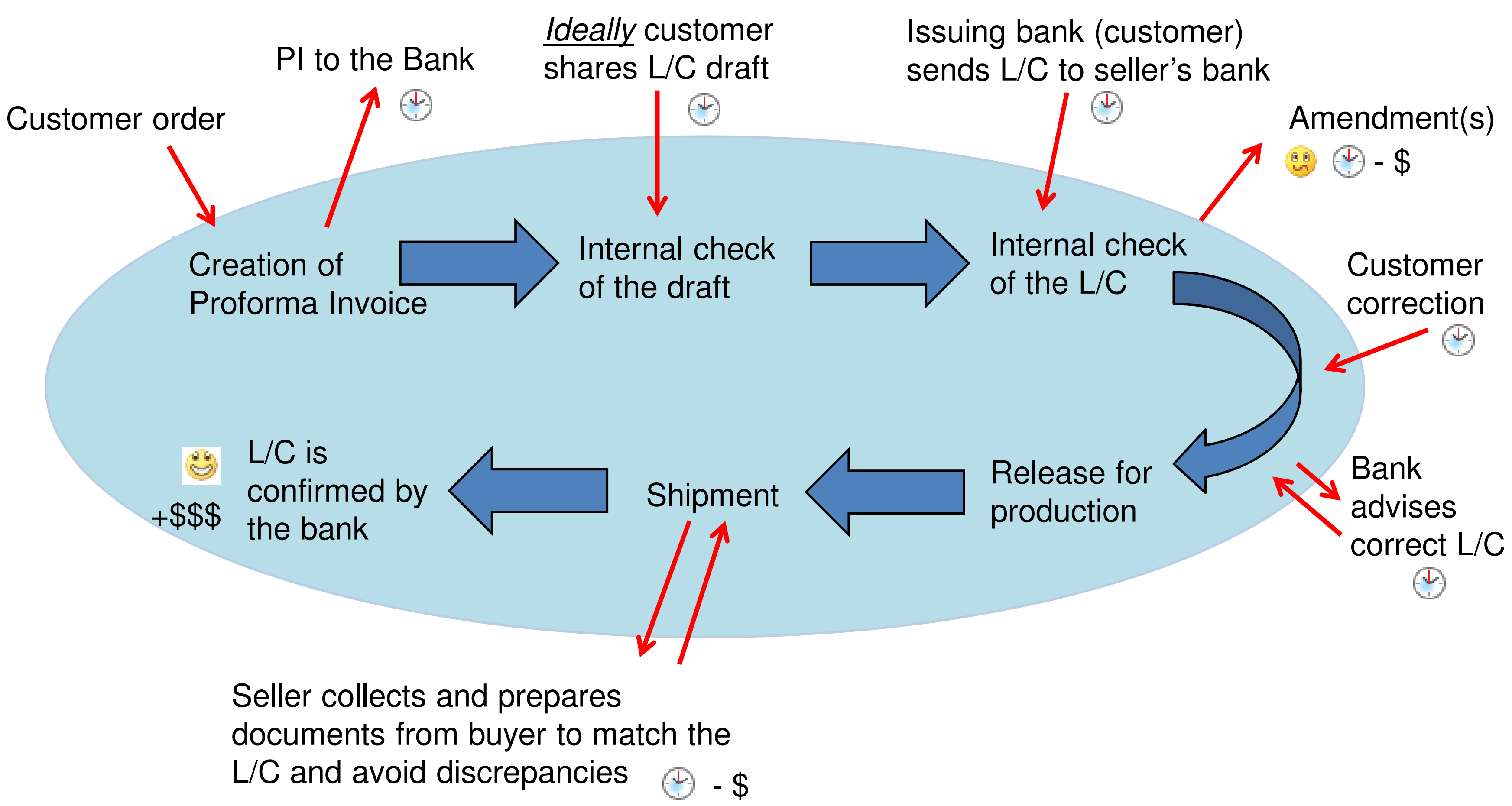
- the bank is not responsible to enforce the payment if the buyer has no funds

Letter of Credit

- **L/C, L.O.C or Documentary Credit**

A letter from an issuing bank guaranteeing that a buyer's payment will be received.
If the buyer is unable to make a payment for the purchase, the bank will be required to cover the amount. The only condition is that the documents are sent in accordance to the clauses of the L/C.

Letter of Credit steps



Letter of Credit - What can go wrong?

- **Tolerance x % as per your instruction**

  If the shipment exceeds the L/C initial amount, the seller will not get paid for the difference => negative impact on gross margin

- **Expiration date, documents need to be sent before the L/C expiration date**

  A shipment organized 10 days before an L/C expiration => not enough time to collect & prepare the documents => payment at risk

- **Confirmed L/C**

  If the L/C is not confirmed, the seller will have to ask his own bank to confirm it => additional costs

  In case no bank can guarantee a L/C => payment at risk

- Anything promised by Sales Team without understanding the process => adds complexity / might trigger amendments or discrepancies / delays the whole L/C process

Pro's and Con's

- Letter of Credit

\+ guaranteed by the bank

\- slower process than prepayment

\- work intensive for Credit / Customer Service departments

\- dependant of customer's reactivity

\- costly $$$

\- only applicable for full container load and sea freight

\- in case of the customer's bank insolvency or bankruptcy => L/C at risk (additional reliability check needed)

Going through your options

- Now that you know what you know… taking a decision should be easier ☺

Final tips:

- Partial prepayment
  - x % at order placement – rest open balance
  - x % at order placement / x % at shipment date / remaining balance at good reception
- Spread orders over time so that you always have a leverage on a shipment when an invoice is falling due
- Start with secure payment terms for 6-12 months and then gradually offer flexibility as you build trust with your customer

Questions