Mohamed Khaider University, Biskra

Faculty of Economics, Commerce and Management Sciences

Commerce Department

Module: English
Branch: Finance and International Trade
Level: Second year Master

Lecture 05: Cash-in-Advance Method

1-Definition

With the cash-in-advance payment method, the exporter can eliminate credit risk or the risk of non-payment since payment is received prior to the transfer of ownership of the goods. Wire transfers and credit cards are the most commonly used cash-in-advance options available to exporters. With the advancement of the Internet, escrow services are becoming another cash-in-advance option for small export transactions. However, requiring payment in advance is the least attractive option for the buyer, because it tends to create cash-flow problems, and it often is not a competitive option for the exporter especially when the buyer has other vendors to choose from. In addition, foreign buyers are often concerned that the goods may not be sent if payment is made in advance. Exporters who insist on cash-in-advance as their sole payment method for doing business may lose out to competitors who are willing to offer more attractive payment terms.

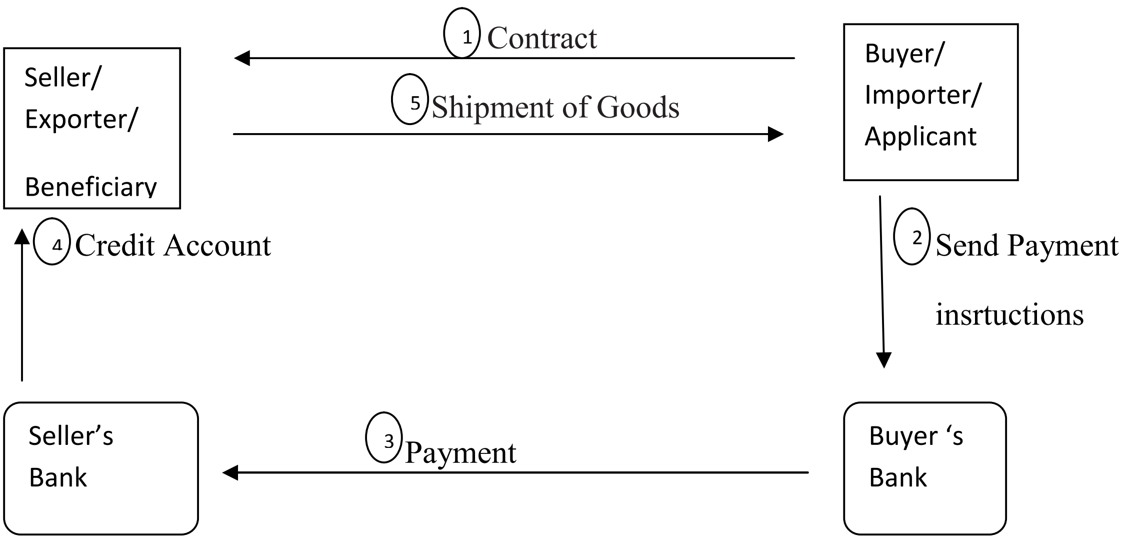

Figure 1: Payment in Advance

2-The course of the payment process via Cash in Advance

• Full or signifcant partial payment is required, usually via credit card or bank or wire transfer

or escrow service, before the ownership of the goods is transferred.
• Cash-in-advance, especially a wire transfer, is the most secure and least risky method of international trading for exporters and, consequently, the least secure and an unattractive method for importers. However, both the credit risk and the competitive landscape must be considered.
• Exporters may select credit cards as a viable cash- in-advance option, especially for small consumer goods transactions.
• Exporters may also select escrow services as a mutually benefcial cash-in-advance option for small transactions with importers who demand assurance that the goods will be sent in exchange for advance payment.
• Insisting on cash-in-advance could, ultimately, cause exporters to lose customers to competitors who are willing offer more favorable payment terms to foreign buyers.
• Creditworthy foreign buyers, who prefer greater security and better cash utilization, may fnd cash-in-advance unacceptable and simply walk away from the deal.

3- Characteristics of Cash – in- Advance Method

- Recommended for use in high-risk trade relationships or export markets, and appropriate for small export transactions
- Exporter is exposed to virtually no risk as the burden of risk
- It is placed almost completely on the importer

- Payment before shipment

- Eliminates risk of non-payment

-May lose customers to competitors over payment terms

-No additional earnings through fnancing operations