

Unit 5

Letter of Credit

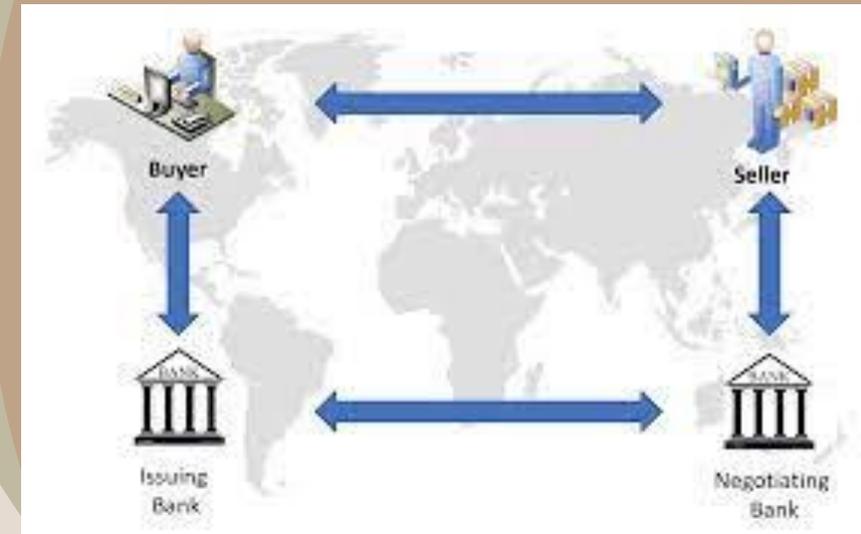


What Is a Letter of Credit?

A LETTER OF CREDIT, OR A CREDIT LETTER, IS A LETTER FROM A BANK GUARANTEEING THAT A BUYER'S PAYMENT TO A SELLER WILL BE RECEIVED ON TIME AND FOR THE CORRECT AMOUNT. IF THE BUYER IS UNABLE TO MAKE A PAYMENT ON THE PURCHASE, THE BANK WILL BE REQUIRED TO COVER THE FULL OR REMAINING AMOUNT OF THE PURCHASE. IT MAY BE OFFERED AS A FACILITY.

How a Letter of Credit Works

Buyers of major purchases may need a letter of credit to assure the seller that the payment will be made. A bank issues a letter of credit to guarantee the payment to the seller, essentially taking responsibility that the seller will be paid. A buyer must prove to the bank that they have enough assets or a sufficient line of credit to pay before the bank will guarantee the payment to the seller.

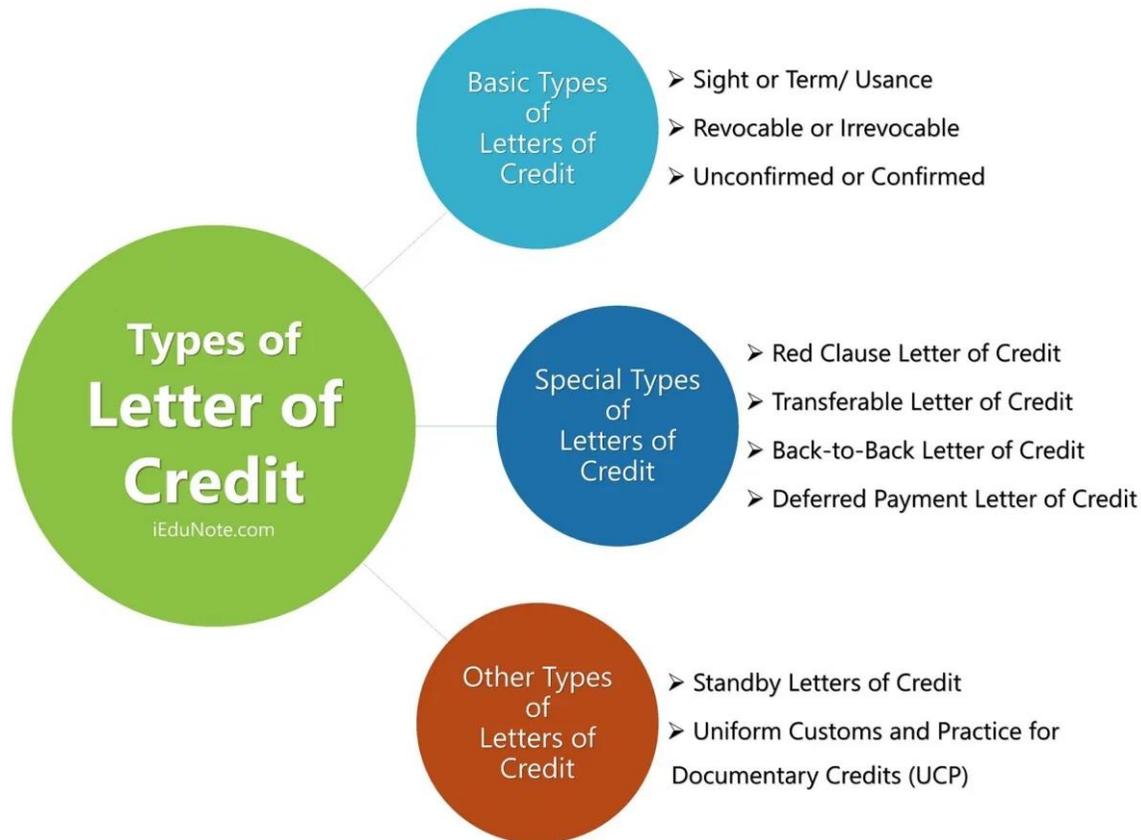


Advantages of LCs



Types of Letters of Credit

The types of letters of credit include a commercial letter of credit, revolving letter of credit, traveler's letter of credit, and confirmed letter of credit.



Types of Letter of Credit



IMPORT AND EXPORT MANAGEMENT

Importing and exporting can open new markets, increase your competitiveness and help your company thrive. However, it is important to be aware of every government's regulations issued by the different departments who oversee these procedures at their borders. International trade is heavily regulated and without the proper licensing you can suffer significant penalties. This is where Atlas Group's professionals can step in and deal with all the necessary legislation to ensure your goods cross over borders hassle free without incorporating surcharges.



Importance of Import Export Management

Three things are very important in international trade and they are availability of the goods, price of the goods and finally the status of the goods for example –

- 1st of all goods are imported from a different country because certain goods are not at all available in a particular country
- 2nd a few products are much cheaper in a different country than in your own country this involves high profit margins in the business
- 3rd and the last reason for importing products from a different country are simply because a few products maintain a very high status of international goods or imported goods.

Process of import and export management



Case study

The product 'carbide' has been produced only by one producer in Europe and the buyers from Turkey and the Middle East were having difficulty buying the product at the right time with the right conditions. They were having long delays in their production cycle and they had to pay higher prices for the same product. Plus they were waiting 3 weeks for the transportation of the product.

Yeye implementation strategy enables buyers to reduce their costs and increase delivery methods.



The solution

- **Plan:** We got in contact with the buyers one by one and list down all the problems happening during the business with the producer. We prepared a tailor-made report for the producer including the status of the market in the Middle East and Turkey, the problems of the buyers, and the barriers which are not allowing them to buy more of the Karbit product.
- **Implement:** We reached the right contact from the producer company and presented ourselves and what we want to. After a few telephone calls, we decided to visit the factory and meet with the people face to face. We presented our report and received their feedback and listened to the reasons for the problems from their side.

The Result (Growth)



With the quarterly planning, buyers can predict the buying & production schedule of their factory and manage the cost vs revenue comparisons. They pay less for the cost of the product and also for the logistics costs. On the other hand, the delivery time is significantly reduced from 3 weeks to 1 week.

This strategy also enabled the producer to sell more to the Turkish and Middle East markets. Listening to the problems of the buyers made them understand the habits, cultural and business differences. The producer company increased its production volume by %60 at the end of the first year of cooperation.

