IMPROVE YOUR CHANCES OF GETTING CREDIT – THE ESSENTIAL BUSINESS TOOL

Credit is an essential business tool, but the granting of credit is not a given right. Companies will increasingly be asked to evidence their credit-worthiness to existing (and especially new) suppliers before they are able to take advantage of favourable terms. And this means that having a positive credit rating (the term used by the credit reference agencies to asses a company's ability to pay) is critical.

But there is a problem: according to recent research, almost one in three small businesses do not know what their credit rating is, or how they can positively influence it, despite the fact that more than half recognise the importance of their rating in being granted access to credit.

So how can a business look to improve its rating figure? By taking the following steps:

IMPROVING YOUR CREDIT RATING

Maintain a trading track record:
This is especially important for firms and partnerships that are judged on different criteria from PLCs. A successful and profitable trading record with a healthy balance sheet, and good supplier relationships ensuring suppliers are paid to agreed terms are essential for the granting of credit.

Provide detailed information:
The more information the agencies have about you, the better. Lack of data can often be interpreted negatively, so be prepared to talk to the agencies and provide additional information to help improve your credit rating.

Invest time in the validation process:
Information such as the nature of your business and VAT registration numbers should be readily available to ensure your business is easily and accurately identified.

Filing should be full and up-to-date:
Do not delay in recording a change in directors, for example, and observe statutory filing requirement dates. Late filing may create a negative perception. Conversely, filing full rather than abbreviated accounts, even when you don't have to, will be seen in a more positive light and lead to better decisions being made.

Determine your net worth:
A negative net worth is a hazard to ratings and movements will affect your credit rating. When no other explanations are offered, negative net worth will be interpreted as resulting from a loss-making business. Filing a profit & loss account will explain movements and help prevent wrong assumptions being made.

Retain profit in your business:
This will help increase your net worth year-on-year, demonstrating an ongoing investment in your business, and therefore enhance your credit rating.

Review your share capital:
Consider how much credit you would offer to a company where the shareholders are only prepared to put two £1 shares at risk! Capitalising loans made to your company that you have no intention of redeeming will increase net worth and again impact positively on your credit rating.

Record borrowing terms accurately:
Suppliers need to know you can, and will, pay them and inaccurately recording bank and other loans can distort your working capital position. Working capital is a measure of cashflow, so negative working capital (where current liabilities exceed current assets) will affect credit ratings.

Maintain good trading relationships:
Pay your suppliers on time according to the agreed terms as payment data is used increasingly by agencies as a guide to credit-worthiness

Avoid negative information:
CCJs, Decrees, Petitions etc – no matter what the outcome – do not sit comfortably with ratings agencies, and are often seen as a sign of a business that is either poorly managed or under financial strain.

[For more detailed information on how reference agencies calculate credit scores and interpret information go to www.dnb.co.uk (Dun & Bradstreet), www.findoutinfo.com (Equifax), www.experianbi.co.uk (Experian), http://www.graydon.co.uk/content.asp?pageTag=useful-tips (Graydon)]

Be objective:
The creditor will use a credit rating as part of the credit granting process, but rarely in isolation. When credit is key to a transaction, enter into a dialogue with your supplier and give them the information they need to make an informed decision.

It's a two-way street:
While you worry about your own rating, be sure to check the financial stability of your suppliers! Business relationships need to be stable and profitable on both sides, and the wellbeing of your suppliers could be key to your own survival.

CREATING A DIALOGUE

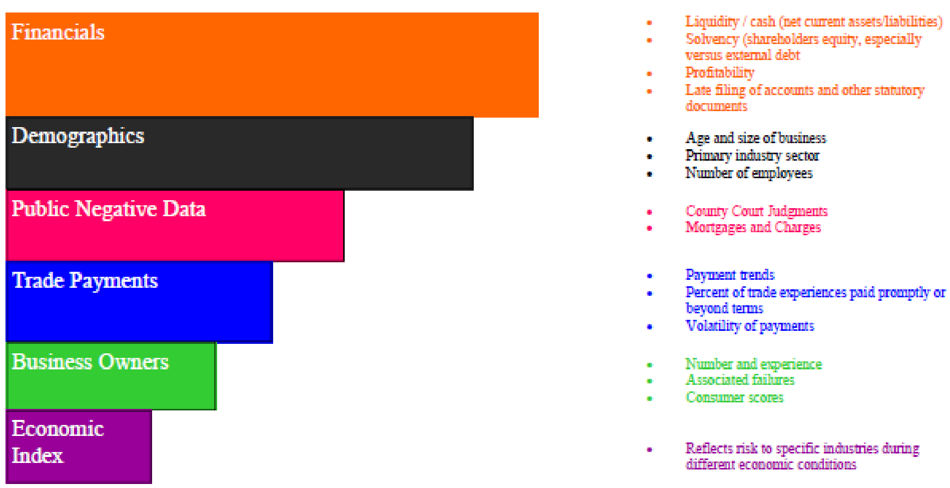
Fundamentally, business is about relationships, and relationships can only be built when a healthy dialogue exists between two companies. But as well as talking to your suppliers, also talk to the experts – the credit reference agencies – about any specific requirements they may have. Every agency and credit-granting organisation uses slightly different decision-making methodology and criteria, so scores are only one piece of the jigsaw.

The granting of credit is often subjective and the process is far from an exact science. Some suppliers don't even bother with credit reports.

Whatever you do, be prepared to be flexible.

Leading credit reference agencies use data from multiple sources in calculating credit scores and the graph below shows the weighting typically applied to the various elements (this can only be used as a rough guide since each score is calculated individually and will be impacted by many variables):

Leading Credit Reference Agencies Use Data From Multiple Sources To Provide Robust Predictive Scoring; Elements Typically Used Include…



The Above Graphic Illustrates A Sample of Different Weightings That Can Be Applied To Different Sources

Produced by the Institute of Credit Management (ICM) in association with The Department for Business, Innovation and Skills (BIS).