

## **Top tips - improve your credit rating**

Many small and larger firms have a bad credit rating and it tends to deteriorate further in a recession. Having a good credit score is not only important to enable you to borrow funds, but will also affect your ability to secure good terms on trade credit. A poor rating can also reduce the value of a business making it harder to achieve the maximum selling price. Follow these ten tips to improve your credit rating.

### **1.) Find out what your credit score is**

Credit scores are designed to help lenders assess the risk that you will not repay them what you owe them, reliably and promptly, by comparing your situation and credit history with databases showing how others have managed their repayments in the past. You can pay to receive your credit report from reference checking agencies such as Equifax and Experian. These agencies offer a range of paid-for services, from basic credit reports to more detailed reports including analysis and advice on how to improve your score.

### **2.) File your Companies House documents on time**

If your firm is a limited company, the credit reference agency will mainly refer to documents you file at Companies House, so you must file regularly and update any changes in directorship. A lack of information can negatively affect your rating as can late filing. The Directors of a business are responsible for this NOT the Company auditors.

### **3.) Chase late paying customers immediately**

Ensure you have an efficient, computerised credit control process and use it to chase customers before the payment terms are stretched. You may need to take further action if contacting the debtor doesn't result in payment. Consider using a local solicitor to send official looking reminders to debtors, it doesn't cost much and may speed up payment. The normal standard payment period is 30 days, after which you might consider charging late payment interest.

### **4.) Be prepared to provide information directly to suppliers**

If you are an unincorporated firm you are not legally required to register your financial information, so there will be a lack of data held by Companies House. Suppliers may ask for information directly so it is highly recommended that you produce monthly management accounts and have trading figures available.

### **5.) Ensure you maintain a good personal credit rating**

Credit reference agencies can review the personal credit profile of business owners if they can't find what they need in the business. Your personal credit score is based on the same principles as a company rating so ensure you keep up to date with payments on personal loans, credit cards, utility bills and your council tax.

### **6.) Don't collect county court judgments**

If you fail to repay debts, you could appear on the register for up to six years. Credit reference agencies will take this into account when assessing your rating. Before you enter into credit or finance contracts, ensure that you will be able to meet the repayments throughout the term of the agreement. Being taken to the small claims court by a supplier could be damaging to the businesses chance of expansion and development.

### **7.) Pay suppliers promptly**

Your business credit rating is based on the likelihood that you will pay your bills on time. Good supplier relationships are important as agencies may approach suppliers for references. Contact suppliers and try to negotiate easier payment terms that you can realistically manage. Keep talking to them or the rumour mill will start and they will think you have gone bust on them. Don't forget that when the economic situation improves you may still want to buy from them so avoid burning bridges.

### **8.) Credit check all of your customers**

It is crucial to know that your customers are going to pay you promptly so that you can pay suppliers. Monitor their accounts regularly to ensure they don't leave you short of cash. Keep your ears open in your market, as you may pick up feedback on a debtor from other people who are also owed money i.e. Are they going out of business?

### **9.) Ensure your sales Terms and Conditions are clear**

Set out realistic credit limits and payment terms for customers in initial contracts and include them on all invoices. Ensure your Terms and Conditions are legally sound to avoid challenges from customers trying to buy time and not pay you, so it is recommended you get a local lawyer to assist you.

### **10.) Review your credit rating regularly**

This should be done twice a year to help ensure you are aware of what information is being held on you, and that it is correct. If you spot anything that is inaccurate, contact the lender or credit provider with copies of documents that support your claim. You have the right to challenge incorrect information but not derogatory information that is true.

## **REMEMBER!!**

**Businesses have a lot to contend with in the current economic climate, as everyone tries to gain that competitive edge. Don't put your company at a disadvantage by having a poor credit rating. Make it one of your core business values and use Key Performance Indicators (KPI's) to flag up potential problems before they occur. Experienced business advisors can help you make the right decisions.**