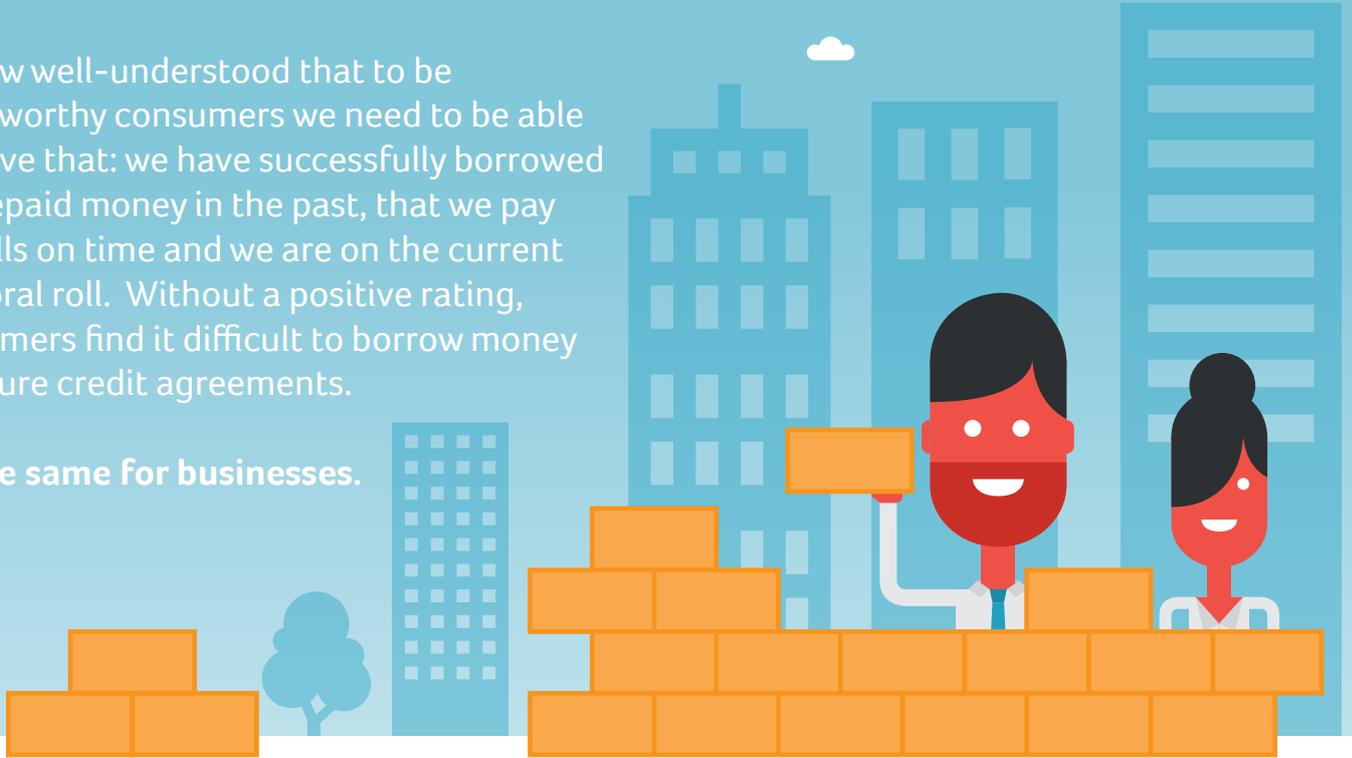


Building a Better Business Credit Rating

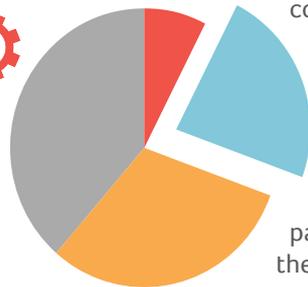
It's now well-understood that to be creditworthy consumers we need to be able to prove that: we have successfully borrowed and repaid money in the past, that we pay our bills on time and we are on the current electoral roll. Without a positive rating, consumers find it difficult to borrow money or secure credit agreements.

It's the same for businesses.



To secure business loans or business credit in the supply chain, companies need to be able to prove solvency and ability to pay their bills. But how much do businesses understand about building a strong credit rating?

Credit reports on every company are now readily available from business credit reference agencies, such as Creditsafe. Like consumer credit records, company reports are based on a range of metrics. In the case of consumer reports, they help to predict how creditworthy an individual is likely to be (i.e. will they be able to repay borrowings).



range of positive and negative business intelligence including County Court Judgments (CCJs).

Credit reference agencies constantly source fresh information to build up a picture of a company and analyse its creditworthiness. Increasingly, they work with third parties and companies themselves (via their accounting systems) to collate data that will help them assess an organisation's financial well-being in real-time.

In the case of company credit reports, ratings are based on the likelihood of an individual company entering insolvency over the course of the next twelve months. That prediction is based on factors such as financial data filed at Companies House, the length of time a company has been in operation, the background of its directors and the full

With all that in mind, is it possible to actively manage your business credit record? The answer is yes and it's simple: having a healthy credit rating is vital, particularly when the amount of money available to borrow is in short supply.

Responsible lending is the order of the day, which means that banks and other alternative finance providers are looking for as much certainty as possible when deciding who to lend money to.

But it's not just banks who are interested in a healthy credit rating. The daily ebb and flow of commerce relies on credit between suppliers and their customers, between partners in the supply chain. In fact, the amount of money available in the form of trade credit is three times bigger than all bank lending combined. Credit ratings are also used to underpin effective risk management.

The transparency agenda means that cosy supplier relationships are under increasing scrutiny and companies need to reduce risk by ensuring that partners can satisfy minimum requirements for solvency. There are many companies that have had their fingers burned by companies who went into insolvency owing money during the recession and who are now more cautious who they trade with as a result.

It is even more important in this post-recession environment to be able to demonstrate a good credit rating, no matter how close or long-standing your relationships with clients or suppliers. But what happens when a business finds out that it has a poor credit rating? How can it avoid building a poor record in the first place, and how can it rebuild a more healthy rating? By following the simple steps in this guide, businesses can improve their chances of building a healthy credit rating and securing the finance that they need.

1. Improve the transparency of the financial data you make available

The more information that is available about you the more accurate your score is likely to be. Abbreviated accounts are generally a bad thing because they don't tell the whole story about your business. So even if you don't have to file full accounts you still can and you probably prepare them anyway in order to run your business. So share your financial data as openly and transparently with other organisations as you can.

2. Pay your bills (mortgage, utilities and telecoms) regularly and on time

Cashflow is a major issue for any business. But companies that change their payment patterns are often demonstrating early warning signs that they are in financial trouble. Reference agencies increasingly build third party payment data into their models. So if you haven't done so already, consider restructuring your payments so they are made by regular direct debit or BACS. If you do receive a CCJ for whatever reason, pay it immediately.

3. Pay suppliers within agreed timescales

This doesn't mean that you have to pay everyone in advance, or even within 14 days, but that you agree timescales for payments with individual suppliers and stick to them.

4. Check your own suppliers' credit records carefully

It's not just your own record that matters, but the records of organisations within your extended supply chain across Europe and beyond. Their ability to deliver on time will impact your own cashflow and ability to pay and thereby your own credit rating. If you check your customers and set terms effectively so that you get paid on time, you can protect your cashflow, pay your own bills and protect your own score.

5. Check out your existing and potential customers on a regular basis

To protect your own credit rating, you need to ensure that you don't deal with customers who order goods but don't have the funds to pay for them. Even if you have long-term relationships with customers and have had no problems with them in the past, circumstances can quickly change.

6. Be on the lookout for suspicious behaviour

Unfortunately there are people and companies out there that are involved in fraudulent activity. As such Creditsafe have developed our Safe Alert system which highlights potentially suspicious company activity. If you are looking to conduct business with a company that has a Safe Alert on there then this company should be further investigated to spot for potentially suspicious behaviour.

“Companies that change their payment patterns are often demonstrating early warning signs that they are in financial trouble”





7. Ensure that everyone in the business has access to credit information

One of the real benefits of online credit reports is that they are easy and simple enough for everyone in the business can use them. Credit checking can spread throughout the organisation - beyond the credit control department – and be used by, for example, the Sales Director to check prospects’ backgrounds, or IT to check on the stability of suppliers. Make credit checking part of everyone’s day-to-day work to manage risk effectively throughout your business.

8. Have a stable board

One of the criteria that credit agencies use when assessing companies is the history of their directors. Directors who are serial recipients of CCJs or have steered multiple companies into insolvency or bankruptcy need to be considered with care. Constant board changes are another red flag – changing a director who has already affected your credit score may only serve to have a further impact.

9. Make sure your accounts are audited

It’s always preferable to have your financial accounts audited than not. When working with auditors, make sure you provide full and transparent disclosure of financial information. You will be scored more highly if you provide positive comments from independent auditors. Conversely, poor comments could have an equally negative effect.

10. Check your own record regularly

Just as you as a consumer, have learned to check your own record regularly to ensure its accuracy, so businesses should keep a constant eye on their company credit record. It makes sense to check that old information is updated to demonstrate change and improve your rating. This is even more important when you consider that agencies change their credit rating algorithms on a regular basis to take account of economic conditions and data availability and to improve levels of predictions of insolvency. Creditsafe’s new rating model blends together disparate data elements to create a new level of predictability.



Conclusion

Company credit reports are playing an increasingly important part in business today. Available online, they offer a wealth of rich data but in an easy to use format and increasingly offer great value for money. Since more and more business decisions are based on the information within credit reports, it makes sense to actively build a healthy record.

To start checking your own credit record, call Creditsafe today on 02920 886500 or visit www.creditsafeuk.com. Then move through the checklist above to ensure you’re doing everything you can to take active control of your business credit record.