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Crunch time for credit ratings

Improving your company's credit rating helps ensure you are in the best position to benefit from the upturn.

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The deepening of the Greek credit crisis after its national debt was downgraded to junk status last year shows the crippling effect that a bad credit rating can have.

Clearly, the shockwaves from the credit crisis are still being felt. Indeed, many firms are finding that the real crunch time was not at the beginning of the recession, but it is right now as we are coming out of it.

Maintaining a good working capital is critical to ensuring your business is in the best position to benefit from the upturn and this is where a strong credit rating can definitely help. Whilst most businesses will check the credit worthiness of their own customers, it is just as crucial for them to act on their own credit rating and understand how it can be influenced in a positive way.

Five key tips

The key point to bear in mind is that companies don't need to be super profitable (although it obviously helps!) in order to enhance their credit rating. We have helped clients improve their credit limit by hundreds of thousands of pounds, despite pretty average trading results, by following a few simple rules:

- **Communication** - talk to the credit rating agencies and key suppliers to provide them with up-to-date information.
- **Presentation** - improve the layout of company accounts. Make sure any issues which give your company the ability to trade out of the downturn are highlighted.
- **File accounts early** - even though your company accounts may be delivered on time, filing them close to the deadline is viewed with suspicion by credit rating agencies. Avoid this scenario by filing them in advance.
- **Pay suppliers on time -** stay clear of county court judgements, as these will have a negative impact on your company credit rating. If you anticipate a delay in paying an invoice talk to your supplier and agree an arrangement. This way you reduce the chance they will issue proceedings.

- **Monitor directors' credit ratings** - even though a directors' credit rating does not directly affect a company's credit rating, suppliers and financiers will often carry out additional checks, so it worth making sure these are monitored and any issues addressed.

Summary

Although the most obvious way to a good credit rating is to maintain a strong balance sheet and be profitable, there are many other factors which credit rating agencies take into consideration.

As a starting point, companies should be monitoring their credit rating as a matter of course, as this information is vital to protecting it over the longer term. By making simple changes, such as improving the presentation of company accounts and submitting them to Companies House earlier, firms can increase their credit limit significantly in spite of pretty average trading results.

Of course, achieving a strong credit rating isn't the end of the story - it is vital that your business behaviour is maintaining it. This not only involves checking the credit worthiness of new clients, but paying your own suppliers on time as well!

For more information on improving your company's credit rating, please contact a member of the Business Services team.

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