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Why credit checks are a daily essential

- **How do you know if the company you are doing business with is good for their money?**
- **How do you know whether the business supplying your raw materials has a good chance of fulfilling your order?**
- **What assurances do your suppliers have that you are going to pay them - and in good time and within terms?**

These are just three of the questions that can be answered in part by buying a credit report on your customers or suppliers and even your own company. This is so important in these 'credit crunch' times and is all part of risk management – yet we often come across businesses that don't do this systematically.

It is very easy indeed if you are prepared to pay a few pounds to have a look at a credit report which gives a credit score against any company or LLP. Reports typically cost around £17 and are available within seconds.

What's more, credit rating agencies now have the ability to analyse how much time it takes your company to pay its bills compared to the average for your sector. So others can compare you against your competitors.

Knowledge is power when it comes to getting the credit you want and portraying the right image to those you do business with. If you are not aware of what your credit score is saying to your customers and suppliers it could be losing you business.

So the first step is to do a credit check on your own company. If you see a score that is not as good as you thought there has to be a reason - and you can probably do something about it. The reason could be that your standard industry code has been input incorrectly and you are not in that sector at all; or the nature of your business may be unknown by the credit agency; or you could have too many charges listed against the company when old ones should have been cleared some time ago. This list is not exhaustive, but these are common examples.

Be aware that much of the information for the credit reports comes from a company's filed accounts. So critically look at your own accounts before they are filed and consider whether your rating may be affected by the latest set that is going to Companies House.

Managing a credit score headache

In July 2011 we structured the exit of a shareholder from a client company which reduced the balance sheet of the company from £1.5m to £750,000. The balance sheet looked pretty solvent after the buyback and was still very strong. Indeed the buyback was merely a mechanism for a shareholder exiting, the business was secure, it was growing and it was strong.

Despite this, the fall in net assets reported at the year-end caused a credit rating agency to downgrade the client rating from "below average risk" to "above average risk".

We anticipated this and warned our client in advance. We advised the client to draft a letter to its major customers and suppliers to let them know what had happened. The letter went out two weeks before the accounts were filed and the response back from customers and suppliers was fantastic.

They thanked the Managing Director enormously for the advance notice, it was proactive and everyone understood the position. The company continues to trade and grow successfully.

How can we help?

Do contact us if you would like further help or advice on this subject.