Gordon Skaljak on how to improve your credit rating (part 2)

Tell your creditors: **Don't worry, be happy!**

A GOOD credit rating is a business necessity, especially in the post credit crunch era where money is tight and the banks are making it harder for even credit worthy businesses to get funding.

So if you don't want to pay a premium to get the credit terms you need, consider the following financial 'tricks' in this, the second part to improving your business credit rating.

Apart from the need to send in statutory reports and returns in good time, a commonly recommended trick is to retain some profit in the business, thereby increasing the net worth each year. This shows that more is being retained and invested in the business, which gives a favourable prospect for a good credit rating.

Look at share capital – how much have you invested in your own business when you are expecting suppliers to grant credit on unsecured terms.

How much credit would you offer to a company where the shareholders are only prepared to put two £1 shares at risk?

Have you, as a director or shareholder, loaned the company money which you have no intention of redeeming?

Consider capitalising the loan, this will increase the net worth and most likely will have a positive impact on the credit rating.

Record borrowing terms accurately, loans and overdrafts are different! Bank loans, other than the portion falling for payment inside one year, which are included in overdraft values, will have an effect on the working capital position.

Remember that your supplier is interested in ascertaining whether your company can repay them.

Working capital is a measure of cashflow, so it follows that negative working capital (where current liabilities exceed current assets) will be taken into consideration for a credit rating.

As current assets are principally assets that can be easily converted into cash, i.e. stock and debtors and (obviously) cash, a negative working capital position raises a few concerns.

It indicates that the company could be suffering from a cashflow problem, or is overtrading, but at the very least, it would not be able to meet all of its' current liabilities from readily available funds.

Having dealt with the publicly available information from Companies House, it is also important that attention should be paid to current trading relationships:

Pay suppliers within agreed terms – in today's economic environment more and more trade payment data is used by credit agents as a guide to current credit worthiness.

More obviously, avoid negative information, county court judgments, petitions for winding up – no matter what the outcome.

With the current market conditions and in the prevailing 'rescue culture', there are more avenues for mediation than ever before. It is correspondingly interpreted as a sign of financial stress when a small company incurs a series of county court judgments.

Take an objective view of your company and consider for a moment, exactly what information is available to your potential credit supplier. That means a supplier that is prepared to let you have any goods or service, without you paying for it until sometime later, not just loans or finance.

The creditor needs to be able to judge whether they will eventually get their money and they look at various pieces of information upon which to make this judgement, including, but not exclusively a credit reference agency report.

Credit policies are not set by credit reference agencies; they are set and run by the individual supplier.

When credit is key to a transaction, enter into a dialogue with your supplier to enable them to have as much data as possible, so that they can make an informed decision. ***CFJ***

Sources of Information:

- Free company credit report - **www.freesearch.graydon.co.uk**
- Companies House – **www.companieshouse.co.uk**
- Your accountant – advice on rearranging finances to enhance business standing

Gordon Skaljak is an independent financial expert

Dr Eric Brown on yarn fault in a carpet for lawyers

Manufacturer is **taken to the cleaners**

SOME years ago I received a call from a carpet manufacturer. They were aware, after shipping a carpet to Vancouver in Canada, that they had made a mistake in the processing.

The carpet was a tufted 80% wool/20% nylon. The mistake was that part of the yarn delivery had not been scoured after the application of an uptwisting lubricant. That it is to say, a lubricant applied in spinning when the singles yarn was being plied, had not been washed out.

They believed that some 12% of the yarn had missed this process and then had been tufted into carpets. A simple experiment with a full width off-cut confirmed their suspicions.

The off-cut, which had not left the UK was sprinkled across its entire width with vacuum cleaner dust, the dust was rubbed in and then vacuumed off. Approximately one row of tufts in every eight remained as soiled stripes after vacuuming. This is precisely what was happening on the floor.

The problem was that the carpet was laid on three floors of a prestigious office block. The floors were occupied by 28 lawyers! The value of the carpet was 600,000 Canadian dollars. (£300,000)

As this was a refurbishment, and as the law library stood on top of the carpet and the shelves had been filled; and because the disruption had already been more than the lawyers had hoped when the carpet was installed, no one wanted to face replacing the carpet. The obvious answer was to clean the carpet.

Ask any carpet cleaner how easy it is to remove excessive oil from a carpet – whether it is residual lanolin, processing lubricant, mineral oil used as lubricant, or oily draught marking, and they will tell you it isn't.

The problem is that cleaning tends to deal only with the upper portion of the tuft allowing any oil in the bottom half to wick back to the surface after the carpet has dried, and the soiling returns.

The way this was handled in Vancouver was to work alongside a carpet cleaner who visited the premises every Saturday morning and cleaned a particular area using solvents and extraction.

The following week the cleaner would address a different area but revisit the first area to deal with any soiling that had reappeared during the week. In this way, by progressively cleaning, rechecking and re-cleaning the problem was eventually overcome to everyone's satisfaction.

It is fortunate in this case that the customer was both able and prepared to accept remedial treatment rather than replacement.

In a similar circumstance which I encountered in London the carpet, laid this time in a domestic location, was replaced after the second attempt as the owner, who had paid £10,000 for his white carpet, was not willing to permit repeat visits by the cleaner.

I spoke to the Canadian cleaner some years later who told me he had maintained the lawyers' carpet over the next 10 years – at the carpet manufacturer's expense. But that came to much less than £300,000. ***CFJ***

Eric Brown writes manuals on investigating carpet complaints.

- **www.cleaningresearch.org**

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