IMPROVING YOUR CREDIT BY PAYING BILLS LATER, RATHER THAN SOONER!

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Every business will get to the point where suppliers will offer terms on bills, rather than requiring payment up front or on delivery. Their bills will probably be marked "2/10, net 30." This means you get a 2% discount if you pay within 10 days, and the bill is due within 30 days.

Many business owners will jump at the opportunity to save the 2% by paying early, and rightfully so. However, believe it or not, they can help their credit rating by paying at the end of 30 days.

How is this so? It's all a matter of your business' CREDIT HISTORY. All of the companies who offer you terms will be reporting your history to various credit bureaus. These bureaus are who gets consulted by banks when they decide whether or not to give you a loan.

By always taking advantage of the 2% discount, a business establishes a paying pattern. Thus, if you've been paying a company's bills in 5 days for the past year, this is what they will expect from forthcoming bills. Now, say one month has a tighter cash flow than normal, and you must take 20 days to pay that bill. This sends up a red flag for the billing company.

You normally pay in 5 days, why are you now paying in 20? Even though you paid the bill well within the deadline, you have given a sign that you had a cash flow problem. This uneven paying pattern can show up on your credit rating. Even though all your bills are paid on time, an uneven paying pattern can jeopardize your future chances for more and larger credit limits.

Now, if you always pay your bills on the 25th day of the due period, even when you can pay them early, that cash poor month won't look any different to the billing company. Most companies would rather grant terms to a company that always pays on the 25th day, than one that sometimes pays early, sometimes pays later, as this reflects an image of disorganization and uneven cash flow.

Also, always paying toward the end of the due period will aid your cash flow. If you pay your bills consistently, at the same time every month, you will not be surprised by a sudden cash shortage. For example, say you decide to pay a bill early one month. Then, the next week, your main supplier calls to tell you about a closeout deal he has that would double your profits.

Only problem is he can't offer terms, it has to be cash.
Because you paid that bill early, you can't take advantage of the special deal. If you would have waited to pay it, your cash flow would have allowed the purchase, and the resulting higher profit margin would have yielded the cash to pay the bill.

So, you see, paying bills later, and not taking advantage of any early payment discounts, CAN work to your advantage. You need to consider your future plans and decide if saving 2% now is really worth it.