

Business Credit

What You Don't Know *Can* Hurt You



Understanding Your Business Credit Score

Did you know that, just as you have a personal credit score, your business has a credit score – and that maintaining a good credit score is as crucial to your business as your personal credit score is to you?

Like personal credit scoring, business credit scores provide a quick view of risk potential based on where the score falls on the scale. The higher the score, the lower the risk. Unlike personal credit scoring, business credit scores use a scale that ranges from 0 to 100.

QuickLink

Check your business's credit score with [SmartBusinessReports](#).



A business credit report is used to present a current, objective picture of how a business manages its financial obligations. Information in business credit reports provided by Experian® is either from a third-party source or is third-party verified. This non-biased, reliable data allows for an objective view of a company's overall financial health.

What's in a Business Credit Report?

A business credit report may include:

- Actual trade payment experiences: number of trade experiences, balances outstanding, payment habits, credit utilization, trends over time
- Public record information: recency, frequency and dollar amounts associated with liens, judgments, bankruptcies
- Company background
- Collections information
- Comparative data placing a



Credit Score Q&A

Q: Does every business have a credit score?

A: Not necessarily. Credit reporting companies require a minimum amount of information to generate a business credit report and score. If your business doesn't have a credit score, establish one by ensuring that your business vendors are reporting your payment history to one of the major credit reporting companies, such as Experian. This will help to build your commercial credit profile.

Q: Why can't I just use my personal credit score to get business funding?

A: Half of all small businesses use some form of personal credit to finance their businesses. However, there are many dangers in relying solely on personal credit. If your business ever becomes at risk, your personal credit score will be at risk as well. What's more, many creditors are moving away from relying on personal credit alone when judging the financial health of a small business. Instead, they use blended commercial scoring tools that integrate both personal and business credit attributes to predict small business risk.

Q: Who can view my business credit report?

A: Unlike personal credit reports, which are regulated and can be viewed only with the permission of the report holder, commercial credit reports are available to the public. This means that anyone—including potential lenders and suppliers—can view your business's credit report.

company's payment performance in context within its industry

- Demographic information: years on file, Standard Industrial Classification (SIC) code, business size

Why Does My Business Credit Score Matter?

Business credit scores are vitally important to your business. Of course, good credit is a must for obtaining funding for launching or expanding your business. But that's only the beginning. Here are just a few of the many benefits of a good business credit score.

- **It can save you money.** Lenders offer better interest rates to businesses with good credit.
- **You can obtain business credit without the need for a personal guarantee.** This reduces your personal liability and protects your personal assets.
- **It can help you stay ahead of your competition.** You can pass your interest savings onto your customers or keep a larger margin of profit for yourself.
- **You can make decisions with confidence and get the money you need.**

Most lenders reference your commercial credit score when making lending decisions. In today's competitive market, a bad credit score can dramatically affect your business's bottom line.

QuickLink

To find out how your business's credit score compares to that of similar companies in your region or industry, use Experian's interactive [Business Benchmark Report](#).

5 Simple Steps to Maintaining a Healthy Credit Score

As you can see, there are many risks associated with a poor business credit score. The good news is, there are many things you can do to improve your business's credit score and maintain a high credit score as your company grows. In the following pages, we'll show you 5 simple steps you can take to improve your company's credit score.

QuickLink

Check your business's credit score with [SmartBusinessReports](#).

Step 1: Check

Your business credit report is used to make important financial decisions about your company – how much money lenders will loan, how much credit suppliers will extend and what interest rates to charge. That's why it's so important to know what your business credit report contains.

To get started, visit [SmartBusinessReports](#) to see if Experian has your business in its database, and view your report information. You can also verify the information and request a correction, if necessary.

What if I Don't Have a Credit Score?

Your business may not have a credit score with Experian. Experian requires certain minimum information (one tradeline and/or one demographic element, such as years in business or number of employees) to generate a business credit report and score. If your business doesn't meet the requirements, a credit report and score is not generated.

Because a business credit score is so important, you'll want to establish a business credit report for your company. Here are the steps to take:

1. **If you haven't already done so, incorporate or form an LLC for your business.** Unlike a sole proprietorship, incorporating or forming an LLC enables you to build business credit separate from your personal credit profile.
2. **Take the proper steps to meet the requirements of the credit market.** Follow basic startup steps such as getting a business license; meeting local, state and federal requirements; and having a business address and phone line.
3. **Prepare financial statements and a business plan.** Most credit grantors will want to see these before granting credit.
4. **Find companies that will extend credit to your business without requiring a personal guarantee or checking your personal credit.** Make sure that companies that grant you credit report your prompt payments to business credit bureaus such as Experian. This is a key step in building your business's credit score.

Step 2: Correct

Your business credit profile is the basis for many of the decisions others make about your company. It is used to determine how much money lenders will loan you, how much credit suppliers will extend to you, what interest rates you'll be charged and what you'll pay for insurance premiums. That's why it's important to know what's in your business credit report, make sure it is accurate and correct any errors or outdated information.

What Factors Affect My Credit Score?

There are a number of factors that can negatively affect your company's business credit score. These include:

- The presence of derogatory public records on the business profile, such as collections, liens, judgments or bankruptcies
- The status, recency, frequency and dollar amounts of any applicable liens, judgments, or bankruptcies
- An increased trend toward slow payment
- An increase in the number of business credit inquiries or applications generated by the business or owner
- The number of trade experiences, balances outstanding, payment habits, credit use and trends over time
- Years in business, line of business or Standard Industrial Classification (SIC), size of business and other demographic data

QuickLink

Experian's [Business Credit Advantage](#) makes monitoring your business credit simple.

QuickTip

Checking your business credit report does not affect your business credit score. Pulling your own business credit report is considered a "soft" inquiry. Soft inquiries do not affect your business credit score, and they are not revealed to potential lenders or creditors.

Monitor Your Business Credit Report

Monitor your business credit report regularly using Experian's [Business Credit Advantage](#), and sign up for alerts that warn you of changes that could indicate fraudulent use of your business credit information. For instance, you may want to be alerted when your report shows credit inquiries or new trade lines.

Correct Errors and Outdated Information

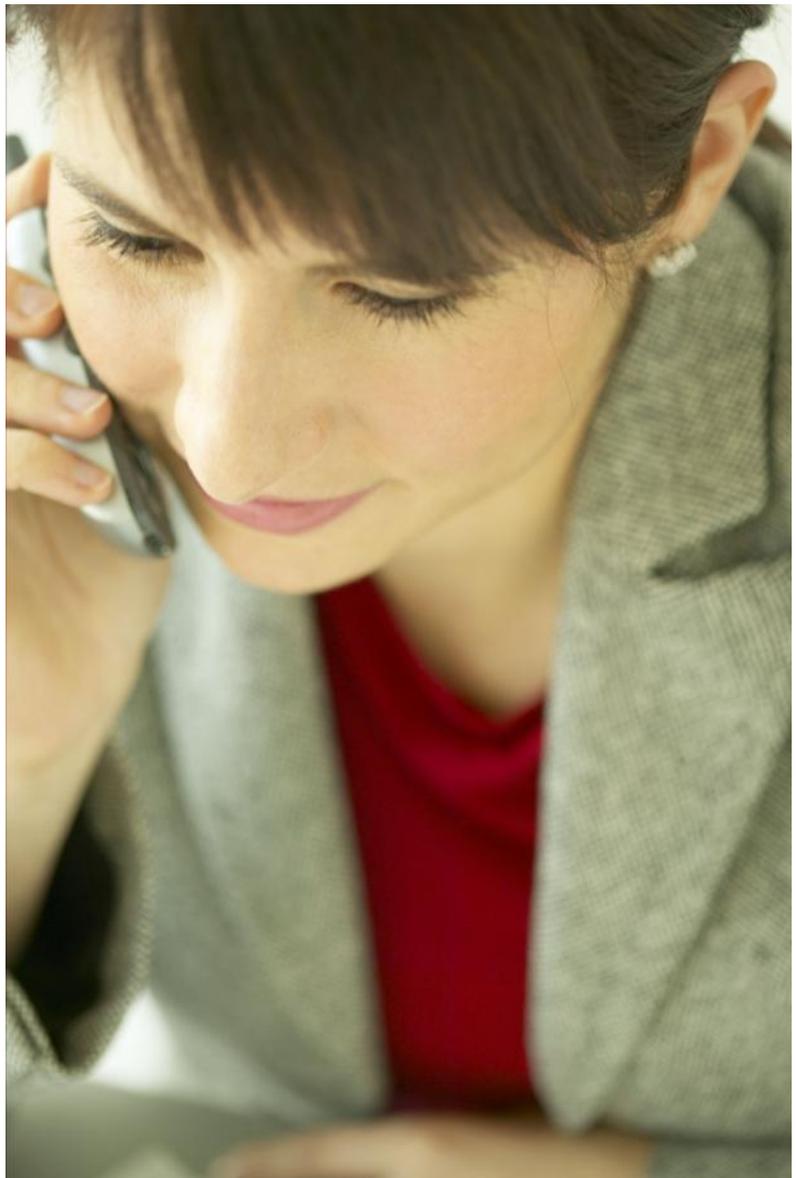
Your credit report paints a picture of your business for the world to see. Outdated or incorrect information can give the wrong impressions about your business, resulting in unfavorable decisions that negatively impact your bottom line. To keep your credit score in good shape, it's important to be proactive. Monitor your business's credit score regularly with Experian's [Business Credit Advantage](#) to make sure your business information is accurate and up-to-date.

Step 3: Protect

We've talked about monitoring your business's credit report as a way to maintain your credit score. There's another important reason to monitor your credit information: It helps protect your company against business identity theft and other types of fraud.

While much media attention is given to consumer identity theft and fraud, the average financial loss from business fraud is three to 10 times *higher* than the loss from consumer fraud. Business fraud costs American companies billions of dollars each year; some 30 percent of all business credit losses are attributable to misleading or fraudulent information. Beyond the financial loss, business fraud can cause problems with creditors and suppliers, and can even affect your business's reputation.

Checking your business's credit report once is not enough to protect your company from fraud. It's essential to monitor your business's credit report on an ongoing basis. Using Experian's [Business Credit Advantage](#) enables you to monitor your credit report regularly, which can help alert you to any unusual activity that could signify fraud.



QuickLink

Before doing business with potential partners and vendors, check their credit using Experian's [SmartBusinessReports](#).

Experian's [Business Credit Advantage](#) provides unlimited access to your business credit report for one full year. Plus, this service monitors your profile daily and sends you e-mail notifications of any changes to your business credit report or score.

Check Vendors' and Partners' Credit Reports

To combat commercial fraud, you need to check the credit of companies you do business with. This is a simple yet crucial process that many companies skip, but it could mean the difference between working with legitimate businesses and losing money – or even losing your business.

Experian's [SmartBusinessReports](#) provide business background, comprehensive financial information and credit risk facts in an easy-to-read, online format. Drawn from the largest business database in the industry, including more than 27 million credit-active company records, the data include:

- Business credit scores
- Accurate information from objective sources (no self-reported information)
- Extensive banking, trade and collection data
- Standard and Poor's financial information on more than 10,000 public companies
- Business public record data including liens, judgments, business registrations, bankruptcies and Uniform Commercial Code (UCC) filings

Just as with your own business credit score, you need to check the credit reports of the companies you do business with on an ongoing basis.

QuickTip

Another smart way to protect your business is to set up a fraud alert with Experian and any of the other credit bureaus. Once an alert is placed on your Experian business credit report, Experian will add a message to your business credit report asking that you be notified prior to any lender extending business credit.



Step 4: Separate

When you first start your business, you need to use personal guarantees and personal credit to get your company off the ground. But as your business grows, it is important to separate your business credit from your personal credit.

QuickLink

Experian's [Business Credit Advantage](#) gives you unlimited access to your business credit report and score so you'll always know what's in your business credit profile and be able to make it work to your advantage.

How Do Business and Personal Credit Differ?

You're undoubtedly familiar with the concept of a personal credit report and credit score. As soon as you get a job or a credit card, credit reporting agencies create a profile for you tied to your Social Security number. Information about credit inquiries, credit applications, or changes of address is reported to the credit bureau by the companies that issue credit to you. As more information is added, your personal credit report gradually paints a very detailed picture of your financial situation and ability to repay debt.



Business credit reports work in the same way. When one business issues credit to another, it's called *trade credit*. Credit bureaus such as Experian gather information

about these transactions to create your business credit report, which is linked to your business name, address and federal tax identification number (FIN) or employer identification number (EIN). Companies use your business credit report to determine how creditworthy your company is.

Are You Putting Yourself and Your Business at Risk?

Many small business owners make the mistake of using their personal information to apply for business credit, loans or leases. Failing to separate business and personal credit has several risks:

- You risk lowering your personal credit score.
- You don't build business credit tradelines.
- You're not building your business credit score.
- You limit your business's ability to get credit—and its growth potential.
- If your business ever becomes at risk, your personal credit score is at risk.

The Benefits of Separating Business and Personal Credit

Separating business and personal credit helps your business in many ways. Here are just a few:

- You can obtain more working capital for your business.
- You can borrow money at lower interest rates.
- You simplify tax preparation.
- Your personal credit is protected if your business ever gets into financial difficulty.

To build your business credit history and improve your credit score, look for companies that will offer your business credit without using your personal credit information. Make sure those companies report your prompt payments to credit bureaus such as Experian.

QuickTip

If you're a sole proprietor or a business owner with fewer than 20 employees, your personal and business credit scores are closely linked in the eyes of banks and other lenders—so it's important to protect both, just as you would protect any other assets.



Step 5: Grow

It's no exaggeration to say that your business credit is the single most important factor in growing your business. Your business credit score is one of the first things that lenders, suppliers and even some customers look at before deciding to do business with you. A poor business credit score can make it difficult, or even impossible, to get funding and obtain lines of credit for your business. With good business credit, however, you can obtain the capital and lines of credit you need to grow your business and serve new customers.

The first step in improving your score is to become aware of the factors that drive your current company credit score. By managing these more effectively, you can make a positive impact on your credit score, which can lead to more opportunities to grow your business.

You must continually work to improve your business's credit score by monitoring your credit report and working with your partners and suppliers. Just like your personal credit report, Experian only accepts company credit and payment history from creditors and suppliers. Choose lenders, suppliers and creditors that report your payment history to the credit bureaus. If your current creditors or suppliers do not report to Experian, you can request that they do so. Last, but not least, manage your finances well and make all of your payments on time so you build a strong credit history.



About Experian

Experian is the leading global information services company, providing data and analytical tools to clients in more than 90 countries. The company helps businesses to manage credit risk, prevent fraud, target marketing offers and automate decision making. Experian also helps individuals to check their credit report and credit score and protect against identity theft.

About Experian's Business Information Services

Experian's Business Information Services partners with organizations to establish and strengthen customer relationships, enabling them to mitigate risk and improve profitability. The company's business database provides comprehensive, third-party-verified information on U.S. companies of all sizes, with the industry's most extensive data on the broad spectrum of small and midsize businesses. By leveraging state-of-the-art technology and superior data compilation techniques, Experian is able to provide market-leading tools that assist clients in processing new applications, managing customer relationships and collecting on delinquent accounts.

About GrowBiz Media

This e-book was designed and edited by [GrowBiz Media](#), a content and consulting company that helps entrepreneurs start and grow their businesses. GrowBiz Media CEO Rieva Lesonsky was formerly Editorial Director of *Entrepreneur Magazine*. Follow her on Twitter at [Twitter.com/Rieva](#), and visit [SmallBizDaily.com](#) to read her small business blog.

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