

5 Simple Steps to Maintaining a Healthy Credit Score

An Experian white paper



Introduction

As a business owner you realise the importance of credit. Being at the centre point of the credit flow you need to be sure you are eligible to acquire credit from business suppliers and lenders.

For some, managing your own credit may seem an arduous task! The good news is that there are many simple steps you can take in order to improve and maintain your own business's credit score

In this white paper, we will discuss the following:

- **5 Simple Steps to Maintaining a Healthy Credit Score**



"For some businesses, managing your credit score is seen to be like a game of chess. The reality is that it does not need to be so complicated, you can take 5 simple steps to better management of your own credit."

By following these steps, you can unlock much more credit available to you with simple management of your credit score.

5 Simple Steps to Maintaining a Healthy Credit Score

In the current business environment, cash flow is king. Maintaining a good credit score and having a high credit limit can help you get new credit facilities or extend existing terms which in turn can have a positive effect on your cash flow. Companies need to ensure they are cognisant of the many risks associated with a poor business credit score. The good news is that there are many steps you can take to improve your business's credit score and maintain a high credit score as your company grows. In the following pages, we shall discuss the 5 simple steps you should follow to improve your company's credit score.

Step 1: Check

Your business credit report is used by creditors to make important decisions about your company—how much lenders will loan, rates of credit insurance, how much credit suppliers will extend and what interest rates to charge. This is why it is crucial to know and understand the information contained in your credit report. A good starting point would be to view your Business Report information in the Experian database. You can also use this tool to verify the information and request a correction where necessary¹.

What if I Don't Have a Credit Score?

Your business may not have a credit score with Experian. Experian requires certain information in order to generate a business credit report and score. If your business doesn't meet the necessary requirements then a credit report and score cannot be 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, register your business.

Unlike a sole proprietorship, registering a business 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 start-up steps such as getting a business license, meeting local and state 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. Thus it is key that you make sure this information 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, judgments or bankruptcies
- The status, frequency and amounts of any applicable 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

Monitor Your Business Credit Report

Monitor your business credit report regularly as this could fore-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 unfavourable decisions that negatively impact on 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 Credit Reports 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 dedicated 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 lead to 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.

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 Credit Reports 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 millions of credit-active company records, the data includes:

- Business credit scores
- Accurate information from objective sources (no self-reported information)
- Extensive trade data
- Business public record data including judgments, business registrations, bankruptcies and 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.

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.

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. 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 CRO number. 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 trade lines
- 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.

Step 5: Grow

It's no exaggeration to say that your business credit rating 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 obtain funding and lines of credit for your business. With a strong business credit, you will find it much easier to acquire the capital and lines of credit you require in order to expand 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. Experian and the marks used herein are service marks or registered trademarks of Experian Information Solutions, Inc. Other product and company names mentioned herein may be the trademarks of their respective owners.