



Strategies

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By **Rhonda Abrams**, USA TODAY

No one likes discussing credit, but, now more than ever, it's critical to improve your credit as part of running your small business. Fortunately, there are ways to improve your credit even if your credit is lousy now. I did it. You can, too.

I now have good credit — very good credit. My banker loves me. I'm on terrific terms with my vendors. I've got high limits on my credit cards. But my credit picture wasn't always so rosy. I was — I am — a typical small-business entrepreneur. I'd rather be out there generating sales instead of sending out invoices or paying bills. I'd pay late and get paid late. I'd get in trouble, and my credit score and history suffered.

How did I change my credit so dramatically? And what can you do to improve your credit?

- Get help! The single most important thing I did was I outsourced my financial management. I realized I was terrible at taking care of my bills. Entrepreneurs want to handle everything themselves, especially their money, but, like me, they're not always good at it.

One of my contractors, Rebecca Gaspar, wasn't good at it either. "One of the big lessons I learned from my first go-round as a freelancer was that taking care of my finances was not one of my strong points — keeping track of invoicing, payments and taxes. Quarterly taxes sneak up on you fast. I'd be all messed up." So when Rebecca became an independent consultant again, she changed. "I hired a small-business accounting firm. They make sure my invoices get out, I receive payments, that tax money comes out, and I pay my quarterly taxes. It's a relief for me not to deal with that stuff, and I can stay focused on client projects."

- Check your credit score. When you own a small business or are self-employed, your personal credit score and your business credit are entwined. Typically, you're going to have to give a personal guarantee for business loans, to your vendors, to sign a lease or buy a van. Business creditors are going to check your personal credit score. So pay attention!

Once a year, by law, you're entitled to a free credit report from all three of the major credit agencies. Here's where you go to get it: www.AnnualCreditReport.com. Beware!! There are many other sites that purport to offer you free credit reports — this is the one and only official site.

Take steps to challenge or clean up any mistaken information on your credit report. Even filing a statement on your credit report explaining a problem can help you.

- Use different types of credit. Most entrepreneurs rely on personal credit cards to help finance their business expenses. I did too, and sometimes still do. Credit cards are easy to use, and if you pay them off, convenient and cheap.

But credit card companies have significantly tightened credit lines and increased interest rates and fees in the last couple of years. Pay late and it's very expensive. Moreover, it mixes your personal credit with your business credit even more. (Another downside: Credit cards used for business are not subject to the recently passed consumer credit protections.)

More mature small businesses rely on a variety of types of credit, including:

- Lines of credit are like a credit card from your bank, but with a lower interest rate. They're designed for short-term expenses. Typically, you have to pay it down to zero for at least 30 days a year.

- Term loans are loans you pay off in installments over time — perhaps five years or more.

- Vendor financing involves payment terms from your suppliers enabling you to pay your bills over a period of time instead of the typical 30 days. You may be able to get lower rates than from a bank or credit card company, especially for terms of a few months. Ask!

- SBA loans are financing from banks and private lenders guaranteed by the federal government. Some SBA loans are for working capital for companies that wouldn't otherwise qualify for bank loans; other SBA loans include financing for real estate or equipment.

In this economic climate, I'm finding that even my ability to get credit is tightening. More than ever, managing your credit is part of running a good business.

*Rhonda Abrams is president of The Planning Shop, publisher of books for entrepreneurs. Her newest book is [Hire Your First Employee: the entrepreneur's guide to finding, choosing, and leading great people](#). Register for Rhonda's free business tips at www.PlanningShop.com. For an index of her columns, [click here](#).
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