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5 Things to Know About Credit and Cash Management for Your Small Business



The health and viability of your small business is, in part, based on your ability to have positive and reliable cash flow. This allows you to meet your financial obligations and operate successfully. One key measurement of the health of your business is your business credit score.

Here is a fact you may not know: If you are sole proprietor of your business, banks and other lenders could assume a close link between your personal credit and your business credit. And it's possible that you have excellent personal/consumer credit, but your business credit score may not be in the same condition. Or the reverse.

Let's review information about credit, credit scores and cash management for your small business, and changes you could make in challenging times.

1. **Personal credit scores and business credit scores are calculated differently.**

Here are some similarities and differences.

Personal credit score (via major credit bureaus)

- Range from 300-850
- An excellent personal credit score is typically above 750
- You can access your consumer credit score for free, once annually.
- Credit bureaus can sell your credit information even if you have not initiated a credit transaction, if it's used for a firm offer of credit (like a preapproval). However, you can opt out of this practice, known as pre-screening, at OptOutPrescreen.com.
- Consumer credit reports are private.

Business credit score (via major credit bureaus)

- Range from 0-100
- An excellent business credit score is typically above 75
- You have no legal right to a free annual copy of your business credit report – most business credit reporting agencies will charge you a fee. However, you can request a copy of your report within 90 days if a lender has turned you down.
- Business credit bureaus can legally sell your information.
- Business credit reports are not private.

2. **There are many bureaus and sources that business lenders may access for business credit scores.**

The most popular business credit scores utilized by business lenders are:

- Dun & Bradstreet (PAYDEX Score)

- Experian Business (Intelliscore Plus™)
- Equifax (Business Credit Report)
- FICO (LiquidCredit™ Small Business Scoring Service)

3. Business credit bureaus collect information and data from multiple sources to create a business credit report for small businesses.

According to the Small Business Administration¹ these include:

- Data Furnishers (vendors, creditors, other companies, etc.)
- Public Records (liens, judgments, bankruptcies, incorporations, etc.)
- UCC Filings (a legal notice a lender files with the secretary of state when they have a security interest against one of your assets)
- State, county, and local business registrations
- Corporate financial reports/annual reports
- Federal government contracts, grants and loans
- Internet data mining
- Press releases and media stories
- Print directories
- Self-reported data

4. Monitor your business credit rating and potentially impact your scores by taking some simple, practical steps.

There are many things you can do to help maintain your score or improve a score that is less than optimal.

Review your current credit report. If there are any mistakes on your report, address them right away. If the lender refuses to correct the error, you can file a dispute with the credit bureau. The lender will then have 30 days to verify the information, or it will be removed.

Ensure your vendors are reporting your payments to the bureaus. Vendors are not required to report trade credit transactions, and many do not. If you have a positive relationship with a vendor, consider asking them to contact Experian or D&B. The more vendors that report a positive credit history with you, the higher your rating could be.

If you have a positive history with a business credit account, don't close the account. Closing accounts will likely not help repair your business credit score—in fact, it could do damage. If you have a business credit card you have not used in a while, consider making a small purchase and paying it off immediately. Keeping an account open can increase your overall debt availability, which could raise your business credit.

Repair any current credit damage. Once you identify problem areas, see what you can do to move things in the right direction. Consider these steps:

1) reduce debt on revolving credit accounts

2) obtain a secured bank loan

3) ensure you have at least two open credit accounts—so “no credit” doesn’t mean “bad credit”

Pay off your credit balances. Paying off your debt is one of the best ways to help fix (or build) your business credit rating. Decreasing the amount owed on your business credit cards could have an immediate impact on your score.

Keep your debt load low. Try to keep your credit balance at 20 percent to 30 percent of the credit limit, if possible.

5. You may have heard the phrase “cash is king.” What happens during lean times, when cash is harder to come by?

There are two general ways to impact cash flow:

1) create additional income or

2) reduce expenses.

Some businesses are fortunate to have ample cash reserves or access to lines of credit to help carry them through the COVID-19 (or any other) crisis. However, many businesses do not. If you fall in this second category, it’s a good idea to create and implement an action plan to deal with your cash flow challenges. Here are some ideas to help get you started:

REVIEW

Set a timeframe for your plan (common timeframes are between three months and twelve months).

Count your cash. Identify all cash accounts your business can access (not credit cards, if you can avoid it.) Leverage operating accounts, reserve accounts, revolving loans, lines of credit, etc.

Determine your fixed expenses. These could include your mortgage, equipment leases, bank loans, lines of credit, etc. Many experts recommend prioritizing these expenses to get paid first. These crucial items can help you with business continuation, and missing these payments could have the largest negative impact on your credit report.

Create a spreadsheet with your projected operating activity. Typically, this would include your projected revenue and expenses over the next 12 weeks (and in the future, in 12-week increments). These figures are important as you develop your cash flow plan.

Be realistic and pay special attention to your normal operating and labor costs, with the objective of identifying any cash shortfalls or gaps you might experience.

TAKE ACTION

Cut costs right away, if necessary and possible. One option you may have already considered is reducing your labor costs, by cutting employee hours or eliminating positions. Even small things could make a difference, like canceling subscriptions, not ordering unnecessary office supplies, and other “extras.”

Investigate the potential for restructuring or negotiating payments. You could contact your landlord to seek a payment holiday—deferring one or two months of payments to later in the year. Contact your bank to explore the possibility of interest-only payments in the near term. Talk with other creditors about extended payment terms, payment holidays, or other cash-stretching measures they may be able to offer.

Identify new, temporary, or innovative income ideas. Investigate small business loans, see if you qualify, and if they would be a good fit for you. Brainstorm new products or services you can sell, either in the short-term or for the long haul. This is a great time to think outside the box and pivot. Even consider a hobby or passion that could be a potential money-maker.

Communicate frequently and clearly. Maintain open lines of communication with your customers, employees, lenders, vendors, and suppliers. You need their support now, more than ever.