



Understanding the importance of business credit

BY TRACY BECKER

Today more than ever, small businesses need to be proactive in protecting their very important credit asset. In this still fragile economy credit scores and indexes could make the difference between a company's ability to fail or



succeed and to grow and prosper. As with consumer scores, business credit scores play a big part in determining whether financing of all types will be approved.

The right business credit score is of great value when negotiating lower lease payments, approval for business loans or when a potential client picks a company for business-to-business (B2B) services.

Credit challenges can come in many forms. The sad fact is one late payment on the wrong account or a collection account for a specific debt listed on the businesses

report can drop a score by 40-plus points. This will immediately place a company into the high risk category.

The amount of information processed into consumer and business credit scores is large and complex. Here are important things small business owners should know to give a business access to financial tools that can help them land bigger clients and earn higher revenues.

Dun & Bradstreet (D&B) credit score and rating - Dun & Bradstreet (D&B), which recently merged with Trans Union, is the best

Paydex score - This score is based on payment patterns and is dollar-weighted by the creditor and vendor accounts listed on a business' report. Paydex scores range between 1 and 100. A strong Paydex score (80) gives a business access to financial tools that can help them land bigger clients and earn higher revenues. Below 60 could mean many defaults or very little credit history. In this case, it is likely a business will have problems being approved for loans, credit extensions or at best, pay much higher rates on leases.

Financial stress score - This score was designed to help predict a business' potential for failure. It indicates the likelihood that a company will obtain legal relief from creditors or cease operations without paying all creditors in full over the next year. The score uses the full range of D&B information, including financials, comparative financial ratios, payment trends, public filings, demographic data and more.

Don't let credit issues lag - One of our clients, a fast growing provider of network and IT solutions, was caught in a frustrating negative cycle. When their existing clients delayed timely payments, it caused a domino effect of slow payments to their vendors.

It was agreed they needed the service of daily credit monitoring and improvement to offset the dilemma of the current credit problem. To date, as soon as an issue arises, it is addressed and scores are maintained - if not increased.

Keep risk rating above a 6 - Once scores fail to meet necessary requirements, suppliers can find their orders canceled and products pulled off the racks.

Being proactive and making sure credit is managed by a professional or someone within the company who can efficiently and responsibly handle this task can save enormous financial cost and stress. It is essential for small business owners to stay abreast on current score requirements. In this economy the right sources providing cutting edge information can make a world of difference.

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