

For Immediate Release

Small Businesses Should Take Careful Steps To Establish Business Credit

Columbia, Maryland: February 17, 2006—Small business owners are often preoccupied with developing new products or services, sales activities, establishing a place of business and other endeavors, but often they neglect something that may increase their odds of financial survival—establishing business credit. The National Association of Credit Management (NACM) recommends that small business owners take steps to establish credit in the name of their business as a way to preserve cash flow for necessary business operations, purchases and rental payments.

In order to establish business credit, in many cases small business owners must initially be willing to personally guarantee their business's credit until credit becomes established in the name of the business. Of course, in order to extend personal credit to one's business, the business owner or owners should have good personal credit. Therefore, getting one's personal credit in good shape is a good idea before establishing a business.

"You will be asked many times to sign a personal guarantee," said Johnnie White, Credit Services Manager for Advertising with the *Houston Chronicle*. "Make sure you have good personal credit." White, who is a member of NACM South Texas, one of the nationwide networks of NACM Affiliates, also recommends that when credit *is* extended, bills are paid on time. She pointed out that doing so not only helps solidify your relationship with that vendor, but it also may provide you with a good credit reference when trying to establish credit with other suppliers. "If you pay us on time and we can reference for you, we will," White said.

Dean Wangsgard, CCE, President of NACM Business Credit Services in Salt Lake City, recommends that small business owners make personal sacrifices to help pay their business's bills on time in order to establish good business credit. "Small business owners have to be willing to go without a paycheck for a while if necessary... they've got to pay their bills first."

Trish Pendleton, President-COO of NACM Nashville, Inc., noted that providing a personal guarantee to back your business's credit demonstrates that you have faith in your company, too. "If you don't have enough confidence in your company to pay that bill, why should I? What it boils down to is that I'm loaning you money for 30 days (assuming 30-day payment terms for goods or services). Why shouldn't I ask you for your guarantee?" A personal guarantee may persuade a vendor to extend credit to a new business that it would otherwise decline. "New small business owners have to realize: if they want to start a relationship with a vendor, they have to provide a level of comfort," Pendleton added.

Dottie Rath, President/COO of NACM Southwest, recommends asking vendors to give credit-reporting services a reference for your business. NACM Southwest, like many NACM Affiliates, provides business credit reporting services to its members and non-members. "If you can just get one company to give you limited credit—even just \$500—and have them report it to us, that will help establish your business credit."

Wangsgard pointed out that small businesses must also produce a sound business plan and financial statements. He said this is important because vendors will often look to these when making a decision to extend credit to businesses for the purchase of goods and services. A good business plan and financial reports will help assure vendors that the small business they are selling to on credit is sound, and represents an acceptable credit risk.

Business credit is a two-way street also, Wangsgard noted: the same care and level of scrutiny suppliers give your small business should be expended by you when selling to your customers. Selling goods and services can only help a business's cash flow if customers make timely payments for them.

He pointed out that unscrupulous customers often seek out new businesses in order to buy goods or services on credit that other companies refused to grant. "The thing that happens to new people in business, is that the bad guys will flock to them," Wangsgard said. "You're better off having your inventory in a warehouse, rather than shipped out to somebody that's not going to pay you. If you don't take care of your accounts receivable, you're going to go out of business." In order to make good credit decisions when selling to potential customers, Wangsgard said that small business owners "need to set up credit applications, policies and procedures."

NACM Affiliates provide information and services needed by small business owners. To find the Affiliate nearest you, or to request membership information, call 800-955-8815.

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