

How to Establish Business Credit for the First Time

Access to cash and credit is a business's lifeline. Business credit allows a company to borrow money that can be used to purchase products or services. It is based on the trust that payment will be made in the future.

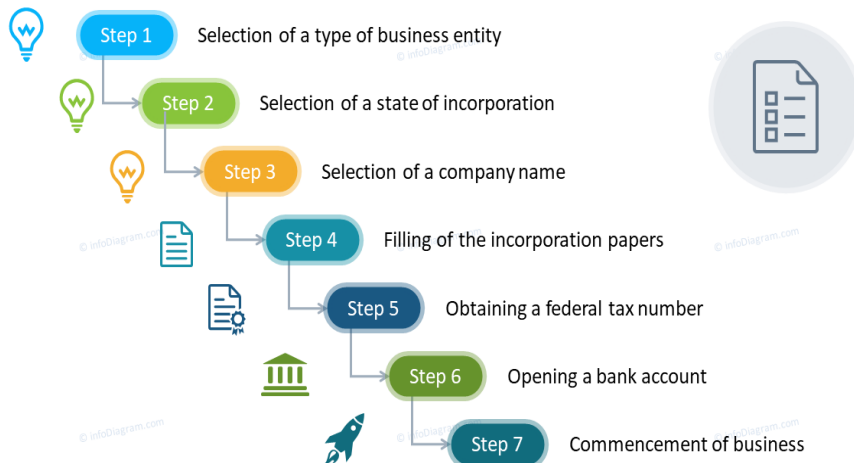
Why establish business credit? For business owners, having a separate legal entity, such as a corporation or limited liability company, provides the unique ability to create a credit identity with business credit reporting agencies, also known as a business credit profile.

A business credit profile is important because it is used by credit grantors to determine whether or not to extend credit to a business.

Before you establish business credit for the first time, the first step is to structure your business as a separate legal entity. Next, you will need to apply for a tax identification number, also known as an employer identification number. This is the number used to identify a business entity for tax filing and reporting purposes.

Timeline Of Company Formation Process

Selecting Name, Type, Incorporation Papers, Tax Nr, Bank Account



Once your business has been properly formed and in operation, the next step is to apply for credit in your company's name. There are several basic types of business credit you can acquire as a newly formed startup or existing business with little to no credit identity established.

Vendor Credit – Vendor credit is when an individual or business offers products or services that your company can purchase on short term financing (typically net 30 terms). There are many vendors willing to extend credit to startups with minimal requirements. In some cases, a vendor may require an initial purchase or deposit prior to extending credit terms.

Supplier Credit – This type of business credit is when a supplier is willing to provide supplies to your business and defer the payment for a later date. This type of financing is great for conserving cash flow because it gives you time to sell the products you receive from the supplier before having to pay for them.

Retail Credit – Many small and major brand retailers offer store credit cards for businesses. Unless they're co-branded, the card can only be used in a specific store. This type of business credit may make sense if you have a specific store you regularly use for business purchases.

Service Credit – The easiest form of business credit you can establish for the first time is service credit. Your internet, cell phone, cable, satellite TV, web hosting and other utility services are all agreements your company makes with providers.

Business Credit Cards – One of the most important tools to keep your personal and business purchases separate is a secured or unsecured business credit card. It's essential that you apply for a business credit card that reports only to the business credit agencies so you can protect your personal credit as well.

These are five ways you can establish credit for your business for the first time. It's important to closely monitor your business credit reports and scores on a regular basis to ensure the information reporting is accurate and up to date.

Remember, by establishing business credit; banks, lenders, suppliers, retailers, insurers & investors will now be able to better access the viability and creditworthiness of your business. Ultimately, your business credit report will impact the amount of credit, payment terms, interest rates and insurance premiums your business will pay.

