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Take a businesslike approach to improving your credit

 **Brady Porche**
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Want to boost your credit score and increase your borrowing power? Ask a small business owner for financial advice.

In September, the credit reporting agency Experian [released data](#) that show small business owners have better personal credit scores and higher credit limits than consumers. Experian said the average credit score for a small business owner is 721, which is 48 points higher than the average score of 673 for consumers. Small business owners have an average credit limit of \$56,100 – more than twice that of the average \$26,900 available to consumers.

While entrepreneurs also have a higher debt load than consumers, the numbers above prove they are generally better than others at managing the money they borrow. Is it because running a successful small business requires you to keep up to date on your bills? Otherwise, if your company can't pay its expenses, the business will fail and your dreams will be at least temporarily shattered.

“There’s a direct connection between sound business management and personal cash management for small business owners,” said Donald Smith, director of the Small

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Business Administration's (SBA) Office of Entrepreneurship Education. "Their livelihood is tied directly to their business."

Or, is it because business owners quickly learn that the better they manage credit, the more successful they are in the eyes of lenders? After all, you can't get approved for a business credit card or a business loan without being able to show a strong personal credit history.

Successful small business owners say it's a combination of both. Ravi Ramnarain, founder of a CPA firm in Fort Lauderdale, Florida, that specializes in technical accounting and taxation, said good personal finance habits translate well to the business world.

"The people who succeed in business already were successful to some degree as far as their individual finances," Ramnarain said. "They didn't have very low credit scores and they didn't have collection agencies calling them."

Managing your personal finances well, however, doesn't always guarantee business success, and business financial acumen is often hard-earned. Jeremy Knauff, CEO of Tampa, Florida-based web design firm Spartan Media, said his first company failed in part because at the time he knew little about the financial side of running a business.

"If you don't know what money is coming in or what money has to go out, or you don't budget for unexpected expenses, it really makes a big difference," said Knauff, whose current firm has been in business for 11 years. "If you don't know that information, you're probably also not planning and forecasting. You're just kind of winging it by the seat of your pants and that's a recipe for disaster."

The formative years of a new business can serve as a boot camp of sorts for using credit. Jeremy Schaedler, president of Schaedler Insurance Agency in El Dorado Hills, California, said debt can help during the startup phase, in which expenses usually exceed revenue.

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“Getting into debt is very common, but I think the longer you are in business you realize how dangerous than can be,” Schaedler said. “You’re always trying to work toward a position of using as little leverage as possible.”

Your life as a business

Starting a business is not for everyone, and it certainly isn’t just a credit-building strategy. Statistics from the SBA show about one-third of small businesses fail after two years, and the five-year survival rate is 50 percent. While many of us are not cut out for the entrepreneur’s life, there are good financial practices we can borrow from small business owners to improve our personal credit.

- **Think of your creditors as vendors.** Small business owners often depend on credit lines from suppliers that sell them materials and services they need to operate. “Let’s say you have a light manufacturing business,” SBA’s Smith said. “You don’t generate your own raw resources to refine, so those would come from another vendor. If you aren’t paying your bills on time, you can’t get that extension to get the raw materials you need to manufacture.” By the same token, many consumers depend on credit card issuers for the financial flexibility to make necessary large purchases without busting their budgets. If you don’t pay your bills on time, your credit score falls and it gets harder to obtain credit for things you will always need in your everyday life, such as vehicles and household appliances.
- **Appoint a household CFO.** A typical successful business employs an accounting whiz to keep a close eye on its books. If you’re married or live with a significant other, decide which of you is best able to track every dollar that goes in or out of your bank accounts and make it that person’s role. If neither of you fits the bill – or you live alone and you don’t fancy yourself an accountant – ask for help from a relative or a trusted friend or consider working with a financial planner.
- **Become spreadsheet-savvy.** Spreadsheets have become a symbol of business operations because they’re must-haves for organizing and analyzing data. Microsoft

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Excel and Google Sheets can be effective tools for maintaining a household budget. Many of those programs' most basic functions can be mastered by computer neophytes, and there are other budgeting-specific programs available to those who are more digitally inclined. If you're intimidated by technology, you can always buy a paper accounting ledger and track your credits and debits by hand.

- **Avoid frivolous spending.** Responsible business owners don't invest in equipment or other assets that won't help them turn a profit. A similar standard can be applied to personal spending. If a luxury item you're thinking of buying is sure to sink your budget while not adding much value to your life – such as a third car for a two-driver household or a 50-inch TV to replace a 42-inch bedroom TV – pass on it and save for the necessities. “If you're going to buy something for X, make sure you're making X plus 1,” Ramnarain said.
- **Prepare for the unexpected.** Contingency planning is a vital part of running a successful business. Schaedler said underutilized credit lines, low debt levels and savings can serve as a first line of defense during times of fluctuating prosperity. A personal savings account can serve as a “rainy day fund” in the event of a financial emergency caused by an unexpected job loss, sudden illness or even a critical home or car repair. A conservative approach to using credit can certainly help you build up a savings account and earn interest more quickly.

Keeping card balances manageable and saving money for emergencies can safeguard you against missing payments and using too much of your available credit – the two biggest factors that can lower your credit scores.

“It's the same whether it's business or personal,” Knauff said. “It comes down to planning and establishing a budget. If you're just kind of guessing, I guarantee every time you're going to spend way more than you thought you were.”

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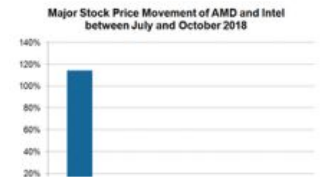


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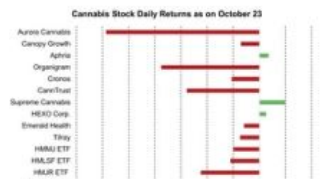
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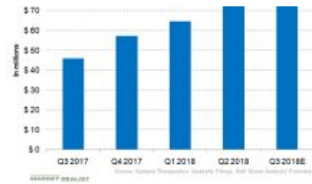
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