

THE BUSINESS CREDIT PRIMER

8 Steps to the Business Credit You Want

BUSINESS CREDIT OPPS

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Chapter 1 - Business What?

Business credit. That's what. Sometimes when people hear the words business credit their minds fill with all sorts of negative connotations related to what they have heard about the credit system.

So the first thing we need to get out of the way is the fact that BUSINESS CREDIT and the BUSINESS CREDIT SYSTEM are separate from PERSONAL CREDIT and the PERSONAL CREDIT SYSTEM.

Business credit is credit gotten in the name of a business. Personal credit is credit gotten in the name of a person. These two types of credit run on entirely different and separate systems.

When a lot of people think about credit, they think of the credit bureaus. They think of credit problems. They think of a huge credit system geared against the consumer that rages out of control. But business credit is different.

Aren't there credit bureaus for business credit too?

Yes. But it's not anything like the credit system that rules your personal credit.

The main bureau for business credit is called Dun & Bradstreet. Equifax and Experian also have business credit divisions. The business credit system is much simpler than the consumer credit system. The rules are simple. The scores are simple. The reporting is simple.

"If it's so simple, then what is the need for this book?"

The system is simple, but the steps involved in establishing and maintaining a positive business credit profile take some planning. And that's what this book is about.

Yes, the business credit system is a simple system versus the consumer credit system. However, there is still a lot to learn. The good news is that you are reading these words, so you've already taken an important step towards all the knowledge and understanding you will ever need about business credit.

Two Different Credit Systems

A lot of people are surprised when they find out that the system for business credit is separate from the system for personal credit. Businesses need credit too, but the system in which businesses establish and use credit is vastly different than the credit system that consumers take part in.

What are the differences? What are the similarities?

That might be best explained by first looking at a chart to break it all down.

Business Credit System Versus Personal Credit System		
Feature	Business Credit System	Consumer Credit System
Highly regulated by state and federal government		✓
Ruled by the Big 3 Credit Bureaus (TransUnion, Experian, Equifax)		✓
Payment History/ Records Tracked on Loans and Other Accounts	✓	✓
Credit Scoring is COMPLEX and CONFUSING		✓

Feature	Business Credit System	Consumer Credit System
Can be difficult to build and keep good credit and obtain a high credit score		✓
Banks use information in profile and/or score to determine loan approvals, interest rates, etc.	✓	✓
Tied to A Consumer's Social Security Number		✓

You might be able to tell that I've put an obvious slant on this information. What's the point? It's the same point I made above that I'd like to bring up again now:

The business credit system is **simple** when compared to the consumer credit system.

There are numerous laws in place when working in and dealing with the consumer credit system. But they don't apply to the business credit system. This simplifies things for entrepreneurs and business owners wanting to establish business credit. **It is often less confusing and less unpredictable than if a person had to accomplish the same credit-building task in the consumer credit system.**

In the consumer credit system, there is a long list of people and companies who will tell you how the entire consumer credit system is geared in such a way as to hurt the consumer. In the consumer credit system, consumers almost always get the raw end of the deal.

Not so with the business credit system. For one thing, it is **a lot** simpler. **When building business credit, you either pay your bills on time or you don't.** Do errors in credit reporting happen? Probably. Are they the nightmare scenarios that you hear about with consumer credit? Highly unlikely.

I'm stressing these differences in contrast with the consumer credit system for an important reason. If you've had any experience with the consumer credit system, you probably know how complex it is.

You probably know about at least a few of the laws that have been passed. You have probably heard a horror story about some terrible thing that happened to somebody's credit; you have probably seen headlines about changes in the system or the industry (ever heard of the CARD Act? How about FACTA?). There are probably things you've heard that are no-doubt due to the infamy of the consumer credit system. Some huge companies involved in the consumer credit system have gotten a bad rap. And they've earned it.

So knowing all this, and the fact that you probably have some pre-conceived ideas that come to mind when you hear the word credit or when you think about the term credit report, I think it's important to stress the fact that the business credit system and the consumer credit system are different.

And more importantly, these differences matter.

Differences That Matter

Why do the differences between the two systems matter so much?

What if you decide to use your personal credit for your business? You ignore all the advice and information on business credit, and instead use your personal credit cards to finance the operations of your business.

This works well for quite a while, but after a while your business loses some momentum. The balances that you were paying in full start to build, and the next thing you know you've got three personal credit cards maxed out. Your business can still operate and make the payments, but your credit cards are used to their maximum potential.

There are two things that could happen in this scenario that would be completely disastrous:

1. You need your personal credit for an emergency, such as for a medical procedure or to help a family member. You can't do it because you've used up your personal credit for your business.
2. Your business needs more credit to continue operating, and your personal credit can't provide it. The business fails which kills your income, and even

after finding a job to provide for your family you are unable to pay the massive credit card bills that your business racked up. Creditors start coming after you for your business debts that you've put on your personal credit. Your credit is ruined. You file for bankruptcy.

Having a separate business credit profile could save you in a situation like this. Think about it:

- Two separate credit systems mean that what happens in one credit system doesn't have to affect the other. If you keep your business finances and personal finances separate, your personal credit and your business credit will stand or fall on their own, without affecting the other.
- Two separate credit systems means that you can manage your own risks better by putting your riskier activities (e.g. starting a business) in a different credit basket than your personal credit.
- A failure of your business doesn't have to wreck your personal credit. Your personal credit problems don't have to hurt your business.

You see, since the business credit system is an entirely different system from consumer credit, what happens in one system need not be carried over to the other. It's like you get two credit lives or credit baskets when you have a business. That is, if you've taken the proper steps to establish and build business credit.

What happens with your business credit can stay with your business credit, and the same can apply to your personal credit. This isolation of each type of credit is healthy and positive for entrepreneurs and business owners who are businesspeople on one hand, but still consumers on the other.

With the two credit systems, you can keep your credit accounts, liabilities, and obligations separate so that as much as possible, they are isolated from one another.

There are other related reasons that the differences in the credit systems matter. Think about this:

Identity theft is a big problem in the consumer credit system. This is, in part, because the big 3 credit bureaus are lazy about matching up the right data to the right people. It is easy for files to get mixed in the consumer credit system, so identity theft is a common issue.

So what if you have a business credit file and a personal credit file, and suddenly you become a victim of identity theft and/or of the personal credit system, depending on your viewpoint.

What happens to your business credit file?

Nothing.

If your business keeps paying its bills, it will be unaffected by your unfortunate encounter with identity theft.

The simplicity of the business credit system makes the chances of something like this happening in your business credit basket extremely small. The complex and rather dubious nature of the consumer credit system makes it quite likely that you will, at some point in your life, experience problems with your consumer credit basket.

Knowing this, which basket would you rather put your business's eggs in? Let me make it even more clear.

The Consumer Credit Basket

- Bad reputation for breaking down.
- Eggs often get damaged due to no fault of your own.
- You've heard stories of the personal eggs of some people being completely obliterated when using this basket.
- There is a strange tendency for your eggs to end up in other people's broken baskets, and for other people's broken eggs to end up in your basket.

The Business Credit Basket

- Looks solid. It's less prone to breakdowns.
- Egg damage is often due to carelessness on your part, not because of a bad basket.
- Since the business credit basket only deals with businesses, it can't hurt your personal eggs. It's not likely to hurt your business eggs either unless it has help from you.

- Your eggs stay in your basket. Everyone else's eggs stay in their baskets. No mixing and matching going on here!

So again I must ask the question: Which basket would you rather put your eggs in?

If you have valuable eggs that you've put a lot of time and money into, that your family depends on, that the incomes and livelihoods of your employees and their families depend on—where would you rather put them?

Thinking of it this way, you might be tempted to try to put your personal eggs in your business basket too. Unfortunately, that's just not a wise move.

How to Use Business Credit Versus How to Use Personal Credit

Some people assume that business credit is an extension of their personal credit. This is a mistake, an abuse of the business credit opportunity. In time, it will end in disaster for most people if they choose to act on that assumption.

Rather, business credit is about providing a separation between your personal credit and the credit of your business. It is NOT about joining them or marrying them, as the above incorrect assumption would indicate.

Let me explain this further by telling a true story. To protect the privacy of those involved I won't provide any names or places.

Once there was a man who didn't manage his finances very well. Whenever he had cash in his wallet, he spent it. Whenever he had money in his checking account, he spent it. Whenever there was money of any kind available to him, guess what he did with it? He spent it!

One day the man was given what seemed to be the opportunity of a lifetime. He was given the chance to buy a business that happened to be in an industry he had an intense interest in. He jumped on the opportunity, and quickly went from Joe Blow the regular guy, to Joe Blow the business owner.

Witnessing it from the outside, it was difficult to see exactly what went wrong where, but things certainly started to go wrong. In time, the company's finances ended up a total mess and he ran the company into the ground. He blamed everyone else for the predicament but himself, and seemingly had no idea at all how the whole thing turned into such a terrible mess.

I don't have any idea how exactly the man got there, but here's the small bit of information I do know:

He used the petty cash box in his business as he own personal piggy bank. And he never put money in; he just emptied it repeatedly. When no more money came out (after shaking it upside down like a spoiled child), he would sign a check that funded the petty cash box and would again slip into micro-misappropriation of the petty cash funds.

Luckily, for the sake of the employees of the company, someone else came along and bought the struggling company for a bargain, and quickly got things running smoothly and profitably again.

As for the man with the petty cash piggy bank, word on the street in that he never learned his lesson and never figured out what the REAL problem was with the company.

Do you see the big problem here?

The man had a problem handling cash. He couldn't control himself. When he bought a business, he began to see the petty cash box as an **extension** of his wallet or his checking account. He saw it as simply another opportunity to spend, and another resource to drain.

He may have done this with other parts of the business finances too. I can't say for certain one way or the other. What I can say for certain is that this kind of thing happens all the time. And it doesn't stop at the petty cash box, either. It also happens with **credit**.

It starts with a consumer that has credit problems. They get business credit, which they see as an extension of their personal credit. They have the misguided hope that business credit will somehow be the answer for their personal credit problems.

Like the petty cash piggy bank story I just shared, people who go down this road often end up finding their own personal version of the same sort of disaster scenario.

So the first and most important point about how to use business credit is how you most certainly should NOT use it: Don't use business credit as an extension of your personal credit. Don't try to use it as a fix for your personal credit problems.

If you've got bad credit or have had credit problems in the past, it doesn't mean you shouldn't get or use business credit. But if you're going to get business credit—especially as a person who has struggled with credit problems—you need to see and understand it from the right frame of mind.

Business credit can't be the credit you dip into when your personal credit is exhausted or trashed. It can't be the piggy bank that you shake upside down to empty out. If it's going to serve a good and productive purpose for you and your business, you need to use business credit the **right way**. By the end of this book I'll tell you exactly how to do that.

Whether you have horrible credit, good credit, or great credit, the big point to take home from this little discussion is to not use your business credit line for personal use. Don't put your personal credit eggs in your business credit basket.

- Business credit should be used for things like:
- The operation of a legitimate business
- Financing for business growth, expansions, and more
- Helping to manage the cash flow of your business

Business credit should NOT be used as your personal piggy bank or to get around the regular credit system. It shouldn't be used to finance personal items for personal use. So business credit can't help you remodel your bathroom or buy a car to drive the kids around in. Unless, of course, that car is a daycare van, and your business is a daycare and the kids you are carting around attend your daycare. You get the point.

The Simplicity of Business Credit

Earlier I said that business credit was simpler than personal credit. Now I'm going to take a moment to show you a couple of the biggest reasons why. I might also want to mention here that business credit can be **deceptively** simple sometimes. Yes, there is probably more to it than meets the eye. As time goes on the business credit system will no-doubt grow in terms of its complexity. In this book we're looking at a somewhat narrow view of what makes business credit simple and attainable with just a few simple steps. Can it be made to be more complex? Sure. Anything can. But not today.

“So how simple is it – really?” you ask. Well here are a couple of biz-credit simplicity points for you to think on:

A. The Simple Business Credit System

Navigating the business credit system could be said to be as simple as managing your Dun & Bradstreet PAYDEX score. Sure, there are other business credit bureaus and business credit reports and scores to be concerned with, but Dun & Bradstreet is arguably the most important.

B. The Simple Road to Business Credit Results

The process of getting business credit is simply something like:

1. Have a legitimate business.
2. Register it with Dun & Bradstreet.
3. Get starter business credit.
4. Pay your bills on time.
5. Get more business credit you can use.

The three business credit bureaus to be concerned with are Equifax, Experian, and Dun & Bradstreet, but many businesses have managed to get **usable** and **valuable** business credit by only focusing on one or two of those bureaus.

Why YOU Should Care About Business Credit

There are numerous reasons that business credit is something to pay attention to. We've already alluded to some of them. Now we'll go into some more specifics on why business credit should matter to you and your business.

Imagine A Business Without Business Credit

In life, things just plain go wrong sometimes. **The same thing happens in business.**

In life, unexpected expenses and financial difficulties can pop up from time to time. **The same thing happens in business.**

In life, having solid credit can help manage the financial challenges we all commonly face. ***The same thing applies to business credit.***

For many people, their credit is like their final line of defense. It backs up emergency funds and change jars and twenty-dollar bills tucked away in bookcases. It preserves savings and retirement funds and helps people to get through rough spots from time to time.

In business, credit can be (and often is) used in the same way.

Many businesses use business credit for expansions or for financing day to day operations and managing cash flow.

Without having business credit to rely on, these businesses would be walking a high-wire without a safety net, so to speak. Business credit provides the cushion, or the net, that many businesses need to keep running smoothly.

Business credit provides the quickest and easiest way to get funds to run your business. This is certainly one big perk for business credit.

It also helps to provide a healthy degree of separation.

Got Good Credit? Want to Keep It?

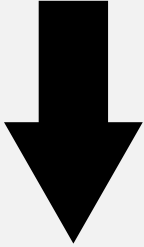
If you have good personal credit and you want to hang on to it, it's wise to keep your personal credit separate from your business and establish and build business credit for business purposes.

Business credit can serve as a shield for your personal credit and your personal finances if your business starts to struggle or has a financial hiccup. If you take away the shield and use your personal credit instead, if things get rocky your personal credit could take a serious dive as a result. Then, not only will your business finances be in trouble, your personal finances and your credit rating will be too.

Having your business credit and personal credit separate is a smart move, just as having your personal finances and your business finances separate is a smart move.

Think about it this way: Each layer of separation between you and your business provides another tier of insulation or protection.

It's like this:

LEVEL 1	Your business finances, cash flow, net worth	
LEVEL 1	Your business credit	
LEVEL 1	Your personal credit	
LEVEL 1	Your personal finances, cash flow, net worth	
LEVEL 1	Your home, your livelihood, your security	

Signs of trouble on the business front?

Look at all those layers that a creditor would have to go through to reach YOU.

If you take out the business credit layer and give yourself less separation, what happens? Suddenly when your business starts having cash flow problems or something else comes up, your personal credit is the next in line. You'll risk your credit and possibly your overall financial well-being by giving up your layer of business credit.

Chapter 2 - Some Frequently Asked Questions About Business Credit

Is the business credit system simpler than the personal credit system?

YES! The reason the scoring system with business credit is much simpler is that it is based solely on one factor: how the business pays its bills. Because of this, a business credit profile can be established. You can build a good business credit score much faster than you can build good personal credit.

Is business credit more prone to errors than personal credit?

Business credit is far less prone to errors than personal credit. We could hypothesize as to why, but one reason that stands out revolves around the motivations and driving forces of the industry. One of the major driving forces in personal credit is the bad credit crowd. Banks, credit card companies, credit bureaus, and debt collectors all profit hugely from people with bad credit. The same thing cannot be said of the business credit system. There is simply little or no reason for the business credit system to proliferate bad credit. Without that underlying motivation, strangely enough, the error problems just don't seem to exist quite the way they do in the personal credit system.

What is the number one key to establishing positive business credit?

It's quite simple: Your business must pay its bills on time. If you or your business can do this, then you can establish positive business credit.

Why would I want to bother with business credit when I have my personal credit?

Here's what happens when you use your personal credit:

If something goes wrong and your business can't pay the bills, guess what happens? You can be held liable for the business debts. They can become YOUR

credit problems, YOUR collection accounts, and YOUR lawsuits and judgments. And they can ultimately lead to YOUR bankruptcy. If you care about your credit, then you'll protect it by using business credit.

Keep in mind that if this happens to you, you can't back and doing it over. You'll be stuck with the consequences of the decision to use your personal credit for business purposes.

Also, what happens if your business needs a large loan? Maybe you get a \$100,000 loan on your personal credit for your business to use. But what if, shortly after that, you run into a situation in your personal life where you need a large loan?

You may not be able to get it because in the eyes of the lender you will already be over extended.

There are countless reasons to bother with business credit. The real question is: ***why would you risk your personal credit and financial wellbeing by NOT using business credit?***

Can business credit be used for personal purchases?

Can you? Yes, technically it is possible. Should you? Absolutely not. Using your business credit for personal purposes could expose your personal finances to liability by blurring the boundary between your business and you. To be protected from the liabilities of your business, you must have a clear and definitive separation between your business's finances and your own. If you are using your business credit for personal purchases, then you won't have that clear and definitive separation.

How should business credit be used?

Aside from the note above, you can use business credit however your business needs. It can be used for financing large purchases, financing startups, financing operations, and more.

How should business credit NOT be used?

Again, don't use business credit for anything personal. Don't use it to hide or conceal negative personal credit information, like when a person fraudulently hides behind a business credit profile for the purpose of getting credit for their

own personal use. Business credit is NOT a workaround for your personal credit problems. If that's what you're thinking, forget it.

Is Dun & Bradstreet the main bureau of business credit that I need to worry about? How important are Experian and Equifax in comparison?

With personal credit, everyone is used to dealing with the big 3 credit bureaus: Experian, Equifax, and TransUnion. Not only are those bureaus the ones that matter most with personal credit, they also basically rule the consumer credit system.

The same thing does NOT apply with business credit.

For business credit, Dun & Bradstreet is the biggest and most important credit bureau. If you paid attention to nothing else with business credit, you'd want to pay attention to Dun & Bradstreet. Second in importance is Experian, which isn't as meaningful as Dun & Bradstreet but is still important. The third and least important is Equifax, which isn't as widely used and is less significant, but still shouldn't be ignored.

Is it easier to build positive credit with business credit than it is with personal credit?

Yes. It is much easier and much faster to build credit with business credit than it is with personal credit. Think about it: there is only ONE factor that you must pay attention to with business credit. It's how you pay your bills. If you know anything at all about personal credit, you know that scoring and credit building in the consumer credit system is much more complicated than that.

How much is business credit worth to a person like me?

Forgive me for answering a question with a question, but: **How much is \$150,000 worth?**

What I'm saying is that if you're starting a small business, having \$150,000 to get things rolling will put you in a far better position than if you were starting from zero. Having hundreds of thousands of dollars in funding accessible by your business at any given time can be extremely helpful. Having this option at your disposal is

priceless for the small business owner. It could be what you need for a marketing campaign or expansion, or it could end up saving your business when you hit a tough spot.

How does business credit help when it comes to keeping business finances and personal finances separate?

Since business credit is in your business's name and not your name, it is not linked to your Social Security Number, and you are not personally liable for your business's debts. This means that if something goes wrong with a loan that is in your business name, it won't affect your personal credit. This should matter to you if you have good credit, because business credit gives you an extra layer to protect your personal credit. Refer to the diagram towards the end of Chapter 1 for more information.

Is business credit cheaper than personal credit?

Yes and no. It is cheaper than personal credit in terms of what it takes to get good credit.

Think about this:

If you have bad or non-existent personal credit and you need a loan for your business, is it cheaper and easier to build business credit and get the loan for your business through your business credit? Or is it cheaper to repair and rebuild your personal credit and get a loan using your personal credit?

The answer is: it's almost always cheaper and easier to build a business credit profile than it is to rebuild your personal credit profile. So in that sense, business credit is cheaper than personal credit. Your "fair to good" credit may get you credit cards at 13.9%. But your quickly built excellent business credit may help you get business credit cards at 8.9%. So again, in that sense business credit is probably cheaper.

Is it always cheaper? Not necessarily. In general the rates are similar and things like 0% introductory rates and similar marketing ploys all still apply. But for those in certain situations it will be the cheaper and easier path to getting credit in the name of a business.

Chapter 3 - Introduction to the 8 Step Program

“Education is not the filling of a pail, but the lighting of a fire.”

-William Butler Yeats

To start off this chapter I'd like to clarify something. The 8 Steps offered in this book aren't exactly a ground-level view. What I'm saying is that this is more like the 5,000 foot version of getting and setting up business credit.

There are endless details that could be covered, but for the sake of keeping it short and simple I won't dive into the details too much in this book. To do so would be overkill for the purpose of our current goal, which is mainly to get a handle on the process of getting usable business credit. **Look at it this way:** *You can understand how to turn on the TV without understanding every tiny detail of how TVs function.* The same thing applies to business credit. This book, then, is about turning on your business credit. We'll cover the essentials and then some, and we'll do so with the understanding that many of the 8 steps have several steps that go along with them.

Whether we call it 6 steps or 8 steps or 8.5 steps, the underlying principals are the same and the fact that there are further details to the process remains true. Keep that in mind as we go over this.

For those interested in digging deeper: Before the end of the book I'll give you some ideas and options for digging in more and getting down to those nitty gritty details.

Chapter 4 is about getting into the business mindset. This includes what it means and why it is necessary if you want to make the most out of the opportunities afforded you through business credit.

Chapter 5 is about the essentials for the business side of business credit.

Chapter 6 covers what attention you should or should not pay to your personal credit. Can you build business credit if you have bad personal credit?

Chapter 7 is a checkpoint to track your progress towards the goal of usable business credit.

Chapter 8 contains the easiest and best way to get registered with Dun &

Bradstreet, along with a tip or two about what NOT to do.

Chapter 9 tells you how to get your first accounts for business credit building purposes. These are accounts that you can use, along with several common business credit accounts to help your business here and now.

Chapter 10 is a checkpoint to track your progress towards the goal of usable business credit.

Chapter 11 is about the credit building process for business credit and about what happens now that you've got your feet wet.

Chapter 12 is about getting your first loans or lines of credit for

building business credit AND for the operation of your business.

Chapter 13 is about the best ways to use your business credit for the health, security, and growth of your business.

Chapter 14 is the third and final checkpoint to review and record your

progress towards building business credit.

We wrap it up in **Chapter 15** with some closing thoughts.

I encourage you to read this book through at least once from beginning to end.

It's all about getting from point A to point B with business credit. To get to where we're heading, we must start off on the right foot. That's why the next chapter and STEP 1 of the process is so important.

Chapter 4 - STEP 1: Get into The Business Mindset

*“I am certainly not one of those who need to be prodded.
In fact, if anything, I am the prod.”*

-Winston Churchill

Getting in the right mindset is important for your business and your future. If you don't already have a business and are planning to start one, it's time to start thinking like a person in business. If you already have a business, then this chapter should serve as a good mental refresher for the life and health of your business.

People in business, and more specifically those who start businesses, have an undeniable knack for getting things done. They build the corporate ladders that others climb. They move mountains, destroy barriers, and from the outside they are perceived to be unstoppable conquerors that can do anything short of walking on water.

Getting into the business mindset is about getting serious and becoming one of those conquerors. But I said, mind you, that this conqueror thing was the outside perception. So what's the reality? Well, the reality is what this chapter is all about.

What Lights Your Fire?

Call it motivation. Call it drive. Call it what you want, but many of the most successful businesspeople in the world have this fire inside that consumes them. It may start with a burning desire to see change in a particular industry. It may start with a strong inner drive to see a certain need met. Whatever it is, there is probably something inside you somewhere that lights the fire that drives you. The first and probably most important step of getting into the business mindset is to identify and nurture that which lights your fire.

Your Handle on Money

Isn't business about money? Sure it is. But it's about more than that. You see, greed can drive people to do crazy things, but it can also lead to one's ruin. But a blazing inner fire fueled by some other goal or mission or force— well, that can cause people to do crazy things too, but often with better results than sheer greed.

With your inner fire lit you set out to start a business

– but for what? For money, of course. People go into business to make money. Yes, we'd also like to change the world (hence that inner fire), but when it comes down to it business is about making money.

If you're going to be in the business mindset then you need to be serious about making money. Don't do it because of greed. Do it because of your inner drive (which is hopefully something besides greed) and realize that money is a tool and an important part of the process. In doing this you will be led to a place in your business life where in time you'll make some darn good money. So get serious about business and get serious about making money.

Take yourself seriously. Take your business seriously. Take your business finances and credit seriously. All of these are important steps on the road to success, and they'll certainly help on your quest to establish and build business credit.

A Vision and A Vehicle

Once there was a college student in a midsized town who had very little to her name. She had a vision for business, and she had a vehicle (a high school graduation gift from her parents) Other than that, she was just a poor college student, like many others on her campus.

But she had more than a lot of those students had. She had a vision for business. She believed that she was capable of big things, and she had an inner fire that burned to get things done.

So she took her vision and her vehicle and started the very first restaurant delivery business in her town. It was a huge success, and in time she wasn't just a poor college student. She was an employer who provided paychecks to her peers.

This college student had little more than a vision and a vehicle. She used the resources she had to take steps that ultimately changed her life and the lives of many others. And the business, mind you, was something as simple as delivering food. ***Not something you'd consider to be lifechanging most of the time, right?***

To fully embrace the business mindset, you need to have both a vision and a vehicle. I'm not talking about an actual vehicle, but instead a means to make your vision become a reality. Your vehicle will be your business, your industry, and your product.

Why is this important? Why does it matter?

If you have neither a vision nor a vehicle then you don't have a business. To have a real business you need both. Missing pieces of this puzzle will hurt you when you try to get funding or loans. Think about it.

Potential Investor: "Why are you in business Mr. Jones?"

Mr. Jones: "No reason, really."

Potential Investor: "So, what does your business do, then?"

Mr. Jones: "Eh, not much."

Would you want to invest money in Mr. Jones's business? Of course you wouldn't. He has neither a vision nor a vehicle!

The Situation Room of Your Mind

What happens in your mind when you think about business? Are there carnivals? Fireworks? Pretty lights and happy music? If so, none of those things are going to cut it.

Your mind needs to become a situation room where big and important figures come to discuss the task at hand. Of course, all those big and important figures are just parts of your personality and intelligence, showing up with their A-game to work things out.

Okay, so I've got my situation room set up. Now what happens?

One word: strategy.

The business mindset means you need to be ready to strategize about business. Many people fantasize about business. I.e. What do I want my business to be? But in truth they never strategize about business. That is, how do I intend to get it there?

Fantasizing is easy. Strategizing is hard work. Part of being in the business mindset is being willing to pay many long and difficult visits to the situation room of your mind to think and strategize about your business.

The Decision Tree

A story I read once went something like this.

Once, there was a Decision Tree that grew on the outskirts of a village. Decisions grew on this tree like leaves, and every day the people of the village would come to the Decision Tree to have their life decisions made for them. One day, a small boy in the village was at the decision tree and something strange happened. He made the decision not to take any leaves from the tree. Suddenly, everything was different for the boy. The decision to think for himself changed everything, in an instant. He realized that he had the power to make his own decisions and started making wise and powerful decisions for himself. Soon others found out about what the boy had done, and he found himself teaching masses of people who to make their own decisions and think for themselves. In time, everyone in the village had learned to make their own decisions and think for themselves. The town collectively decided to uproot the Decision Tree, and after that day the Decision Tree was never used or needed again.

If you're going to be in business, you must stop using the Decision Tree. In other words, you've got to be able to think for yourself and make your own decisions.

Many people like to use friends, family, peers, co-workers, and the guy at the gas station as their collective Decision Tree. They think things over, they ask around, and they let their Decision Tree make the decision. That's a good way to never get anywhere in life.

So burn down the Decision Tree and learn to make your own decisions. Is it wise to have advisors? Absolutely – and especially in business. But that doesn't mean you can give up decisiveness. Having a business mindset means you can make your own decisions, and then measure and deal with the consequences of those decisions.

"It is in your moments of decision that your destiny is shaped."

-Tony Robbins

Being a Safe Driver

Have you ever watched a young child learning to ride a bike for the first time? It goes something like this: **everything works fine if they are looking directly in front of them.**

If they look to the left, they go left. They look to the right, they go right. They get distracted by something behind them and next thing you know they have run into a parked car.

But everything works fine if they are looking straight ahead. The same thing applies to adult drivers too, by the way. Ever driven by someone who isn't paying attention to their driving? Maybe they're doing something with a phone or shoveling down a fast food burger. I've also seen people shaving and even reading the paper. Whatever the distraction, there's the fact of distracted driving: it doesn't work.

When people aren't paying attention to the road and to what is ahead, they end up swerving all over the place and are lucky if they don't crash and burn.

Business works the same way. You've got to be paying attention to the road and to what comes ahead. A business mindset means you'll be mindful of not just what is happening right now but what may happen in the months and even years to come. If you fail to look ahead and watch the road in business, you are highly likely to crash and burn.

Part of this looking ahead is preparing for the unexpected. Building business credit now is an important part of that. Another part of it is getting projections and numbers and figures all hammered out as much as possible. If you want to get outside funding for a business, a forward-looking approach and business model is important.

Remember Mr. Jones from earlier?

Potential Investor: "What do you see for your business in the future, Mr. Jones?"

Mr. Jones: "Oh I don't know. Nothing really."

Potential Investor: "Well, don't you have any plans for the future of your business??"

Mr. Jones: "Nahhh. When is this meeting going to be over, anyways?"

A person who establishes business credit is a person who is looking into the future and preparing as much as they can for the unexpected. You can look forward and be a safe driver for your business, or you can be like Mr. Jones and just want for the meeting to get over with. The choice is yours.

The Final Ingredient

Having the right mindset is one thing. Being able to act accordingly is something entirely different. The final ingredient in your business mindset, therefore, should be a heavy leaning towards action.

There are so many people with so many ideas – and even so many goals and dreams. But there are very few who are willing to act to make those ideas, goals, and dreams become a reality. I believe it was Dan Kennedy who wrote once about the secret ingredient to success being massive action. Without action, ideas and dreams are just ideas and dreams.

“The critical ingredient is getting off your butt and doing something. It’s as simple as that. A lot of people have ideas, but there are few who decide to do something about them now. Not tomorrow. Not next week.

But today. The true entrepreneur is a doer, not a dreamer.”

-Nolan Bushnell

On a practical level, action will mean progress. For building credit and getting funding for a business venture or for operations or for anything, progress (and therefore action) is a key ingredient. You’ve got to be able to show that you are not only looking forward but also moving that direction too. Being a decisive action-taker will help you do that.

A Step on The Road

This book is about building business credit. If it isn’t clear by now, one important step on the road to building business credit is having a real business. To do that, you’ve got to get into the business mindset. You also need to be prone to action.

Thinking like a business owner can help you to avoid serious and costly mistakes along the way. Business credit can be one of the most important tools for your business future that you’ll have, but only if you do it the right way. That requires strategy, forward-thinking and the ability to take decisive action.

The absolute best path to business credit will involve a business mindset, business goals, business planning, business strategy, and more. Real business. That’s what business credit is about.

Chapter 5 - STEP 2: Get Your Business in Order

“The secret of all victory lies in the organization of the non-obvious.”

-Marcus Aurelius

The main requirement for establishing business credit is having a legitimate, credible business. The main requirement for getting outside funding for your business using your business credit is to be able to SHOW that you have a legitimate, credible, and profitable business with a good future ahead of it.

In this chapter we’re going to talk about how to do these two things.

The First Order of Business: Your Business Name

Choosing a name for a business is an especially important task. A lot of people give a lot of advice about how to choose the right name. Some common tips are:

- Make sure it is easily pronounced. If people can’t pronounce your business name, how will they tell people about your business?
- Make sure it is not already taken or not too much like another business.
- Make sure there are no unintended innuendos or mixed meanings.
- Pick a name that is fitting for your customer base and product/service.
- Keep it simple. Complicated names are easily forgotten.

Aside from those details, there are extra considerations you need to think about when picking a name that can affect your ability to establish and build business credit.

The biggest thing to do is to make sure that you keep your business name consistent across all paperwork. Variations in your business name on official documents of various types can hurt your ability to get credit in the future. If you plan to have a DBA, make sure you have it set clearly from the start and make sure on all corporate and bank documents that the name and DBA are precisely matched to what you intend them to be.

This is one reason that keeping the name simple can be helpful for more than just marketing. Decide your name, DBA, and all the details regarding your name up front, and make sure everything is consistent on all paperwork for taxes, corporate documents, licenses, and state registrations, etc.

Deciding on A Legal Structure for Your Business

One of the biggest and best arguments for setting up a proper legal structure for your business is to limit your personal liability. We live in a society where lawsuits – both frivolous and warranted – are all too common. People and businesses are sued all the time.

The right legal structure will protect your personal finances and wellbeing from the risks taken on by your business. So instead of putting your neck out for potential lawsuits and product/service related liability, it's your BUSINESS that puts its neck out. If something goes wrong, your business gets sued, and if you've done your due diligence and setup your business's legal structure properly, you won't be held personally liable for the actions of your business.

The business liability shield works by creating what is, in the eyes of the courts, a separate entity from yourself. This means that, in theory, the entity acts on its own and can exist with or without you. If that separation is clear and complete, your business can deal with the public and operate as a business needs to. And it can do so without fearing for your personal wellbeing due to things like product liability or torts.

Other common reasons that people choose a legal structure such as an INC or LLC include:

- Tax advantages
- Ability to raise money (i.e. to get investors)

Something to consider when dealing with any business legal structure is that you're going to have certain paperwork and filing requirements that must be met, depending on the structure you use. These requirements vary from state to state, so you'll want to be sure to understand what your state's requirements are before deciding on a legal structure. Some states have higher fees for LLCs or INCs that may not be attractive to a small business just starting out. Other states have perks and have streamlined processes to help the small business owner.

Setting up a legal structure will increase your startup costs and red tape associated with starting a business. But overall it is the best way to go for both your business and for you.

For building business credit, setting up a real business is a required step. This includes an appropriate legal structure. Is it possible to build business credit as a sole proprietor or a partnership? Sure. But you'll be missing out on a big benefit of business credit: separation from your personal credit

and finances. If you are a sole proprietor or in a partnership, your level of separation between your business finances and personal finances will be limited at best.

Which Legal Structure Should I Choose?

There are a lot of factors to consider with regards to which legal structure to choose for your business. Here's a table that addresses some of the most common factors and where each legal structure stands in relation to each factor. This data varies by state in some cases. Check the specifics of your own state before deciding.

BUSINESS LEGAL STRUCTURE COMPARISON*				
Legal Structure	Tax Treatment	Liability	Paperwork Level	Costs
Sole Proprietorship	Pass-through	Owner has full liability	Low	Low
Partnership	Pass-through	Partners have full liability	Medium-Low	Low
C-Corporation	Double taxation	Owners protected. Liability is limited	High	High
S-Corporation	Pass-through or double taxation	Owners protected. Liability is limited	Medium-High	Medium-High

Legal Structure	Tax Treatment	Liability	Paperwork Level	Costs
Limited Liability Company	Pass-through or double taxation	Owners protected. Liability is limited	Medium-Low to Medium- High. Varies by state	Medium

* Costs and paperwork requirements can vary from state to state.

Sole Proprietorships

The advantages of being a sole proprietorship or just a person in business come down to **cost** and **paperwork**. Low cost. Little paperwork.

A sole proprietorship is the simplest of all forms of business, and many people who are in business started at first as sole proprietorships.

The reason for this is simple: It's just the easiest way to do it.

A sole proprietorship will have the least red tape of any business structure when it comes to getting the ball rolling, and for many businesses just starting out it is important not to put anything in the way of that ball.

The big downside of a sole proprietorship is **liability**. The owner can be held personally liable for the actions of the company. We've talked about separating business finances from personal finances as much as possible. Any person considering doing business as a sole proprietor should note that this legal status will hurt their ability to achieve this important separation.

Partnerships

The hardest ship to sail is a **partnership**. That's how the saying goes. Partnerships get a bad rap mainly because people in time tend to fail in one way or another. They fail to get along. They fail to consult with one another. Something goes haywire, and the partnership sinks.

As a business legal structure, a partnership can be seen like a sole proprietorship with more than one person involved. The fact that there is more than one person

involved in a partnership complicates it somewhat, and with the potential for problems associated with partners and no perks of limited liability, a partnership is not generally advised as a business legal structure for most businesses.

C - Corporations

A corporation, or C-Corp is probably the most complex of legal structures for businesses, but it also offers a lot in the way of perks. The major perk of a corporation is that of limited liability. A corporation is seen as a separate entity and is taxed (and must pay taxes) as an entity separate from yourself. For

purposes of debt, loans, and other liabilities, a person can start and run a corporation without being held personally liable for the obligations of the company. Like any rule, there are exceptions to this one.

A corporation can act on its own in the same way that a sole proprietor can act on its own. It is 100% separate and probably offers the best separation between personal and business finances and liabilities.

A corporation can outlive its owners. If an owner dies, the corporation can continue. Corporations can more easily change hands than some other business structures.

And perhaps most importantly, a C-corporation is one of the best business legal structures to have if you plan to raise capital, e.g. through investors.

The downsides to this structure are:

1. More paperwork
2. Higher administrative costs
3. Double Taxation
4. Shareholders determine control of the company. It's possible for an owner to lose control of a company he or she started against his or her will.

Double taxation means the income of a corporation is taxed twice. The corporation pays taxes, and then the owners must pay taxes on their income from the corporation.

Even with these downsides, most experts agree that if you plan to have investors then a C-corporation is one of the best business legal structures to use.

S - Corporations

An S-Corporation has all the advantages and disadvantages of a regular corporation with some exceptions. The main two exceptions are:

1. An S-Corporation is a pass-through entity. The shareholders report the profit or loss of the corporation on their tax returns. This means no double taxation.
2. S-Corporations are limited to 100 shareholders.

Most of the same discussion for C-corporations also applies to S-corporations so we won't go into too much detail in re-hashing all that here. The S-corporation is a popular choice for many small business owners because of the pass-through taxation.

The IRS allows you to convert between a C-Corp and an S-Corp for tax purposes. So when the time comes that a different tax setup will be more beneficial, you may have the option of making changes as needed.

Limited Liability Company

Here's one interesting thing the IRS has to say about Limited Liability Companies:

“The federal government does not recognize an LLC as a classification for federal tax purposes. An LLC business entity must file a corporation, partnership or sole proprietorship tax return. [...] A business with at least 2 members can choose to be classified as an association taxable as a corporation or a partnership, and a business entity with a single member can choose to be classified as either an association taxable as a corporation or disregarded as an entity separate from its owner, a “disregarded entity.”

An LLC can be more complicated than a corporation under certain circumstances. Examples include:

- They can be more complicated if/when the business changes hands.
- The LLC dies when its owner dies, so for an LLC to outlive the owner it must be converted to a corporation.

With the above two examples noted, a Limited Liability Company is otherwise simpler to start and maintain than a corporation. It offers limited liability to the

owners, and the convenience and ease of pass-through taxation. There tend to be fewer filing and paperwork requirements for LLCs. Some states charge higher fees for starting and maintaining LLCs. So check the fees in your state before making your final decision.

²To these differences we could add things like the fact that S-corporations can't have corporations as investors, that S-corporations cannot sell preferred stock, only common stock. Plus, there are some tricky IRS rules about reinvested earnings for S-corporations.

Steps for Setting Up Your Business's Legal Structure

Here are the basic steps needed for setting up the legal structure for your business. Note that there may be other steps involved, depending on the business legal structure that you choose and the state you start your business in.

1. Decide which Business's Legal Structure to use.

We've had some discussion of the pros and cons of various legal structures, and of course these vary by state. Just make sure that you take the time to choose the structure that is going to work best for your intended use and goals for the business.

2. Decide on a business name.

We've already talked about the importance of your business name and some general rules for naming your business. Your business name is something that must be decided upon prior to setting up your business legal structure.

3. Decide how to set it up.

Your options here boil down to DIY, Legal Zoom, or an attorney. Legal Zoom is well established as a fast and easy way to set up your business legal structure and is recommended by many experts and business owners across the country.

4. Find out the fees and be prepared to pay them.

Once you know the legal structure you're going to use and how you are going to go about the process of setting it up, you'll be able to get the cost of this phase hammered down.

5. Learn any other filing requirements for your state.

Some states have extra requirements for various things when starting a business. Find out what they are in your state and for your business, and make sure you can meet them.

6. Get your business address, name, etc. in order.

Your address, phone, name, etc. should be established and in order. This will help you when it comes time to build business credit. Make sure you are consistent in all paperwork with your business name and contact information.

7. Register the corporation and fulfill any other state requirements.

Now it's time to register with the state, pay the fees, and jump through any other hoops as required by your state.

8. Create your Operating Agreement or corporate bylaws, etc.

Once you've got your business registered with the state, your business will need certain paperwork to be considered a legitimate, functioning business. If you opt to use Legal Zoom most of this may be done for you.

An Example Setup: LLC

Let's say you've decided on an LLC as your corporate structure, and you've decided on a good professional name for your company, JANE'S FANTASTIC COMPANY LLC. How would you go about the process?

Disclaimer: By using an LLC in this example I'm not necessarily recommending an LLC for every person and every company in every state in every situation. Your business legal structure is a decision for you, your accountant, and your attorney.

Now that you've got your name and your legal structure decided upon, you take the following steps:

1. You decide to go the easy route and set your business up through Legal Zoom. You figure out the state filing fees and decide on Legal Zoom's base package.
2. You check the other requirements in your state when starting a business

and find that your state requires a public notice to be posted in your local newspaper before you file with the state. You go ahead and do this.

3. You get your name, address, and contact details for your business decided on, standardized, and finalized.
4. Being careful to be consistent with the details decided on in the previous step, you fill out the forms on Legal Zoom and get your company set up. Since you decided to use Legal Zoom, you already have a workable Operating Agreement for your new LLC.
5. Just to be safe, you have your attorney and accountant review everything you've done so far with your business's legal and financial setup.
6. You proceed to the next step in establishing JANE'S FANTASTIC COMPANY LLC. See Licensing and Business Identity, below.

There may be a variety of other steps you'll need to take along the way. These depend on your business legal structure, state, county, and type of business. This is just an example of a simple setup. Obviously, you'll want to consult with an attorney before taking any major steps in the setup of your business. This brings up a good point that we should talk about next.

You Are a Number: Licensing and Business Identity

There are a variety of possible requirements for setting up a business, and many of them boil down to licensing and other similar paperwork. Most of these items aren't too important for the purposes of establishing business credit (with a couple of exceptions). But one thing that IS important with regards to all of them is to make SURE that you keep your business details straight.

In other words, your business name needs to be the same on any state licenses, county licenses, insurance policies, tax registrations, and more. Your phone number, address, and other details should be consistent across the board, too.

The following is a rundown of things you might need to check on while creating your business. Not all of them will affect business credit but it's best to follow the keep it straight rule with regards to your business name and contact details.

State Licenses and Requirements Specific to Your Business

Does your state require licensing or bonding for your category of business? If you don't know the answer to that question, you need to find out.

County Licenses and Permits

It's common for people working out of their homes to miss out on important details with licenses on the local level. Don't forget them. Find out if your county requires any special licenses or permits for your business.

City Licenses and Permits

Same as with county licenses, a lot of people forget to check with their local zoning and permits department to see if there are any permits or licenses needed for having a local or even a home-based business.

Employer Identification Number (EIN) - Required for Credit Building

You'll need to get a federal EIN. An EIN, or Employer Identification Number, is very much like a Social Security Number for your business. You will use this when you open your business bank accounts.

State Business Tax ID or Registration

Your state will probably require that you get a separate Tax ID for state income and sales/use tax purposes. Your details on your state registration MUST match your federal EIN details.

That's a good start on what you're likely to need. There may be other things, especially if you have a C-Corporation or are in a more regulated area of business. If you need to learn more about any specific requirements for your business you can check with the following resources:

- The Secretary of State in your state.
- The Small Business Administration (See: <https://www.sba.gov/business-guide/launch-your-business/apply-licenses-permits>)

- A qualified attorney and a qualified accountant

Your Business Bank Accounts: A Must for Business Credit

A business bank account is an essential part of establishing business credit. In the eyes of the business credit bureaus, banks, and your future creditors, your business doesn't even exist until you've opened a business bank account.

As with many aspects of setting up your business, when setting up your bank accounts, be careful to make sure that your business bank account details match those of your federal EIN and business licensing.

Steps for Setting Up Your Business Checking Account

1. Make sure you have followed all the necessary steps to set up your business entity and licensing to this point. Don't leave anything out or think that it's unimportant. Some banks may want to see certain documents that show you're legit.
2. Contact the bank you want to open your business checking account with and ask what their requirements are for opening a business checking account. ***You may need things like your EIN and your articles of organization.***
3. Open your account. Again, you'll want to make sure your paperwork matches your EIN paperwork, your business legal entity paperwork, and everything else. Be consistent.

About Bank Ratings

Once you have a business bank account established, you will need to start paying attention to the factors that may affect your bank rating.

Your bank rating is kind of like a credit rating, except the only things that affect your bank rating will be things that happen in connection with your business bank account. No other accounts or trade lines will affect your bank rating.

The three parts that make up your bank rating are:

1. Your balance rating
2. Your rating cycle
3. How you manage your account

Balance Rating - This is the average minimum balance in your business checking account calculated for a 3 month period. The best rating is a “Low 5”, and to get it you need a minimum \$10,000 balance in your business bank.

Rating Cycle - This is essentially your last three months of balance ratings. For business credit purposes, you’ll need to maintain a minimum of a \$10,000 balance in your bank account for at least three months. This means you’ll need a “Low 5” for three months in a row.

How You Manage Your Account - If you have overdrafts and bounced checks, it will seriously hurt your bank rating. You must show that you are able to manage your accounts and finances responsibly.

The longer your bank account is open the better off you will be. Open one as soon as possible (if you haven’t already) and manage it well to give yourself the best chances of using it in your quest for business credit.

The balance this is based on is the minimum one. So keeping \$15,000 or \$20,000 or more in your business bank account is best. The amount you need will vary depending on the income and expenses going in and out of the account.

Making Your Business a Real Business

Businesses exist to make money. That’s a point that some people don’t like to think about, but it’s the truth. So if YOU are going to be in business, you must also be in business to make money, and to be able to demonstrate that you are serious about the task at hand.

A real business isn’t one that always has losses or always breaks even. A real business is a business that makes money. So keep that in mind as we discuss starting a real business.

Why am I talking about making loads of money out of the blue?

Because one key requirement for getting outside funding is being able to show banks, creditors, businesses, investors and more that you have a legitimate, credible, and **profitable** business with a good future ahead of it.

Some Real Business Basics

Now we’re going to talk about some of the basics of running or starting a real business. Consider everything below to be a potential key to your success in

business. Having your ducks in a row in the following areas will not only help your business to reach success, but it will also help you in the process of building business credit by making your business more credible and Fundable.

Marketing

Your business should involve marketing, and your marketing should be mapped out by a clear marketing plan. The marketing and market planning process often goes something like this:

1. Analyze your target consumer.
2. Analyze the market for your product (how many of your target consumers are out there).
3. Analyze your competition in comparison with your own product or service.
4. Decide how you will reach your target market and your desired level of market penetration.
5. Come up with a marketing plan.
6. Test and evaluate the feasibility of your plan.
7. Revise your plan.
8. Execute your plan.

You may end up repeating the first few steps several times before

you come up with a winner. That's okay, as it's just part of the process. During this process you'll need to answer key questions like:

- Who buys your product or service, and why do they buy it?
- What process will they go through to buy your product or service?
- How will you generate awareness for your product?
- How will you overcome barriers to your success like resistance and skepticism?

- How will your product be priced compared to the competition? Will it be affordable for your target market?

For the sake of keeping things as brief as possible, keep in mind that the more you consider all these points and more in your business, the better off your business is likely to be.

These are the types of questions that a bank, lender, or investor may also want to know the answers to, so be sure that you've answered them for yourself. Much of this can be covered while creating your **business plan** (see below), which is a **requirement** for the best success with building business credit.

Market Research

Before we discuss creating a business plan, I'd like to talk a little more about market research. Market research encompasses steps 1 through 4 of the 8 steps given above. It's the process of analyzing the need and the want for your product (i.e. the demand), and the market itself and the factors that affect and drive it.

This is an essential part of business planning and again, something a lender or investor will probably want to know that you've done.

To understand why, remember Mr. Jones from earlier? He was the aimless business underachiever who didn't seem to have much passion for his business. See Chapter 4 - STEP 1: Get into The Business Mindset for more on Mr. Jones.

Here we find out that Mr. Jones apparently isn't much into market research either. Imagine being an investor here and think about whether you would want to invest with Mr. Jones.

Potential Investor: *"So, Mr. Jones: Who would even want this widget you are selling? Who is your target customer?"*

Mr. Jones: *"I have no idea person. I don't I have one."*

Potential Investor: *"Err, you don't know who your customer is? Wow. Well, what problem does your product solve for consumers in general?"*

Mr. Jones: *"Umm, I'll have to get back to you on that."*

To avoid being like Mr. Jones, do some market research and make sure you thoroughly understand the market and demand for your product or service.

Now on to the next important point.

A Business Plan

you're going to try to navigate the jungle, don't you think you'd be better off with a map? I think so, and any potential lenders who you approach for a serious business loan or line of credit will probably think so too.

A business plan can be seen as a map to success for your business. It's a plan for how you intend to get from Point A (where you are), to Point B (where you want to be). A business plan also serves as a tool to help you as the business owner work out the details of how you intend to get there. Are your expectations realistic? Can your business be profitable? A business plan can help you figure those things out, and it can also help a potential lender or investor figure those things out.

BUSINESS PLAN		
Where I Am	How to Get Here	Where I Want to Be

A business plan is a description of where your business is now, where you want to be, and how you intend to get there. The how is often described in much detail throughout the business plan. The point of this is to do two things:

1. Show yourself that it's possible for your business to succeed with the given market and circumstances, and to give you a road map that describes how to get there.
2. Show potential lenders or investors that it's possible for your business to succeed with the given market and circumstances, and to show them that you have a road map that describes how you will get there.

To illustrate the importance of this, consider the strange case of Mr. Jones. Picture yourself as the potential lender in this situation, and see how confident you would/wouldn't be in Mr. Jones:

Potential Lender:

"I understand you want to borrow a billion dollars for your business, Mr. Jones. Just what do you plan on doing with the money?"

Mr. Jones:

"I plan to sell a billion widgets."

Potential Lender:

"Oh okay, great. How exactly do you plan to sell a billion widgets, and how exactly will borrowing

a billion dollars help you get there? How much do the widgets cost? How will you pay back the loan?

Mr. Jones:

“Has anyone ever told you that you ask too many questions?”

The lender’s (your) questions are reasonable. After all, Mr. Jones is asking for a lot of money.

The questions the lender above asked would be answered in a business plan. But Mr. Jones isn’t the planning type.

You, however, should be different. A business plan is crucial to getting business credit and to the success of your business. To skimp on this part is to shortchange yourself.

The full details of how to create a business plan is a topic beyond the scope of this book. But here are some helpful pointers to help get you started.

- Your business plan should include things like:
- Current and pro-forma financials for your business.
- Feasibility/viability studies for your product and market
- Breakeven analysis
- Competitive analysis
- Request for funding (e.g. a loan), and how it will be paid back or how the investor will get a return on their investment.
- The results of your market research, any pertinent marketing-related information, and your marketing plan.
- And more

I can’t stress enough how working through the details of your business plan can help you and your business. It can also help in a big way with getting the funding you need. For these reasons and more, I can’t think of any reason why you would want to skip creating a business plan.

Establishing Your Web Presence

Did you know that things like your company website and even your email address can affect your ability to get and build business credit? Ask yourself:

If someone were to closely scrutinize my business operations on the web, what would their impression be?

You want the answer to that question to be as positive as possible. A professional website is necessary.

A professional email address is also important. Which email address looks more professional to you:

jonesbones357123456@gmail.com or info@thecompanyname.com

Obviously, you want to stay away from the cute personal email addresses that use a free email service. Make sure you have a professional domain (e.g. yourcompanyname.com) and a professional email address that uses your company name.

If you like using Gmail, fine. You can do so by signing up for their business services and running your professional company email address using Gmail's technology. A lot of businesses do that, and no outsider will ever know that you're using Gmail, because your address will still be info@thecompanyname.com or whatever professional email address you end up choosing.

What Makes a Real Business?

“For every sale you miss because you're too enthusiastic, you will miss a hundred because you're not enthusiastic enough.”

-Zig Ziglar

I'm not going to say that enthusiasm is the one thing that sets apart a real business headed for success from a shoddy business destined to fail. But it can certainly help.

I've seen this firsthand with business owners, managers, and even down to the secretary and the data entry clerk: where there is enthusiasm, there tends to also be success.

Again, there are exceptions to the rule. But I sincerely believe that one of the keys and probably the biggest secret of all to the success of any business is for the

leadership of the business to be sold on the venture from start to finish. You've got to believe in your business, in your product, in your staff, your customers, and yourself.

Other than that, you can use the following three-point test to see if your business might qualify as a real business:

- **Does it look like a business?** On paper and in the real world, does your business look legitimate? Are there business plans, organizational structures, financials, and more?
- **Does it act like a business?** On paper and in the real world, does your business act like a real business? Is it professional?
- **Does it function like a business?** Is your business highly functional or highly dysfunctional? Is it profitable? Is it a well-oiled machine?

If you can answer yes to each question of the three-point test, then your business probably qualifies as a real business.

Business Setup FAQ

Which State Should I Incorporate In?

It's most often best to incorporate in the state in which you intend to do business. If you think you have a good reason for needing or wanting to incorporate elsewhere, talk to your attorney and find out if you're on the right track.

How important is setting up a business legal structure such as a corporation or limited liability company for the purposes of BUSINESS CREDIT?

In my opinion it is quite important. It does so many good things for the business and for the credibility of the business, that I can't see why one would argue against it. Think about it:

- Protection from liability for the owners.
- A real business setup for credibility.
- Stronger separation is possible between your personal finances and those of your business.

As a result of these and other points, your business will be more Fundable.

Getting a loan as a sole proprietor is fine, but that's not business credit. Instead, it's getting a loan for your business that will be based on and secured by your personal credit. One of the main purposes of business credit is to avoid such a scenario.

Which is the best business legal structure for building business credit?

What business legal structure you should choose depends on a lot of factors, including what business you are in and what state you plan to form your business legal structure in. As far as business credit goes, any structure that forms a separate entity from yourself should do.

However, in general it is an accepted fact that the strongest and best business legal structures are, in no special order:

- C -Corporations
- S -Corporations
- Limited Liability Companies

Look at any business that you consider a winner. What's their business legal structure? Some large businesses have started out as LLCs and in time converted to a corporation. You'll probably find that most successful businesses that you encounter are C-Corporations. Those tend to be big businesses. For small businesses, S-Corporations and Limited Liability Companies are often more attractive. For business credit purposes, any of the three entities should work.

What is the most important consideration when selecting a business name in terms of the impact on business credit and raising funds?

The obvious first point is that the name should be professional. Beyond that, be cautious with DBAs. If possible, don't use one. This is because the careless use of DBAs can result in multiple credit files being created for your business.

Why should I go to all this trouble when being a sole proprietor is so easy?

Because when you are a sole proprietor, you are liable for the debts and actions of your business. And, as a sole proprietor, you won't have much separation between your business and personal credit and finances. Business credit can certainly happen for sole proprietors but going that route kind of defeats the purpose of

building and establishing business credit. The credit will always be tied to you as a sole proprietor.

What is an Operating Agreement and why do I need one?

For a Limited Liability Company, an operating agreement gives the details of how the company will run. It describes the rights and responsibilities of the owners, and more.

Why is it so important to keep names and other details consistent on all the business paperwork?

This may have been a question going through your head as we've repeatedly stressed the idea of keeping all your details straight. *Why* in the world is this so important?

You can probably answer that question yourself if you can get a grip on this one key fact:

You are working to establish a ***BUSINESS IDENTITY***.

Your business identity will consist of the licenses and tax ids and other important numbers that get assigned to your business. It will also be your business's name, address, and other pertinent details.

To make the most of this identity and give yourself the best chance possible of building business credit, your business's identity should remain consistent in all places across the board. This will help to insure that you:

1. Get credit for all the accounts and payments of your business
2. Can build business credit as fast as possible.

If your business's identity is cloudy and muddled on paper, it will be hard for you to accomplish either of these things.

Will slight variations hurt?

In short, yes. They can and will. The more consistent you are on everything, the better off you will be.

What if I can't remember where my business information is used?

If you've done as instructed in this book, you'll never have this problem. Therefore decide on all the details up front and record them and set them in stone. Nevertheless, sometimes things just happen, or perhaps you took some steps before you started reading this book and you need to correct course now. Here's what to do: ***change your information wherever needed so that it all lines up.*** If you just need to verify what you submitted where, you may need to call the authority in question to find out.

Chapter 6 - STEP 3: Get Your Personal Credit in Order

“If you do not conquer self, you will be conquered by self.”

-Napoleon Hill

Some people have a preconceived notion about business credit and personal credit. For some, business credit is seen as a backup or replacement for their bad personal credit. We've already talked about why this is a horrible idea.

- Business credit is NOT a tool to hide adverse personal credit.
- Business credit is NOT a backup for your personal credit.
- Business credit is NOT a reason to be careless with your personal credit.
- Business credit is NOT a solution to your personal credit problems.

The two should be seen as separate. Make every effort to not cross one with the other. So why does personal credit still matter, then?

Why Personal Credit Still Matters

The Personal Guarantee

With good personal credit, your credit will be available for providing the personal guarantee necessary for the business building credit process. In time, you can get business loans without a personal guarantee. But at first, it's something you should plan on.

Credit Checks on Owners

Banks will often still want to check the personal credit of the owners of the company before loaning money.

Multiplication of Borrowing Power

With good personal credit, you multiply your borrowing power. Not only could you have \$100,000 or more available to you in business credit, but you will still have your personal consumer credit file that you can use. This will allow you to leverage your credit in powerful ways in both your business and your personal life.

A Better Layer of Protection

Remember the layers of protection that we talked about earlier? Personal credit was one of those layers. A good positive personal credit score can provide the necessary financial cushion that many people will one time or another discover that they desperately need.

Knowing Where You Stand

With all the above in mind, it is important to monitor and take care of your personal credit. Do you have credit problems? It's probably time to get them resolved. Is your credit great? You probably should keep an eye on it to make sure that it stays that way.

You can find out where you stand with your personal credit by getting your personal credit reports and seeing what's there. You can do this with the free annual credit report services at www.AnnualCreditReport.com.

You can also check your credit score by visiting www.MyFico.com and purchasing your score there. For the purposes of building business credit, it's best to have a FICO score of at least 700. If your FICO score is below 700, there are still things you can do.

The Impact of Credit Problems

How will personal credit problems hurt my ability to establish and build business credit?

If you have bad credit, it isn't impossible to build business credit. But you may not be able to build as much credit or do it as fast as you could with good or great personal credit. With poor personal credit, your business credit loans could be for lower amounts and higher interest rates. ***That means you could end up getting LESS funding and paying MORE for it over time.***

With good personal credit, you will give yourself and your business the best possible chances of success by making the best funding available to your business at the best possible rates.

The Solution to Credit Problems

What can be done about personal credit problems?

For the purposes of building business credit, personal credit problems can be dealt with in one of three ways:

1. Fix your credit yourself.
2. Pay someone else to fix your credit.
3. Use the possible work-around discussed later.

For this section we'll focus on 1 and 2 and leave number 3 for the next section.

Option 1: Fixing Your Credit Yourself

One big problem with fixing your credit on your own is the **time commitment** involved. To start with, you practically must become an expert to pull it off. Depending on the severity of your credit problems, this could be hard.

For those who have the time, money, and energy to devote to learning credit repair and repairing their own credit, the process goes something like this:

1. Learn the credit repair process. Study! Educate yourself.
2. Get your credit reports.
3. Go over your credit reports and look for possible incorrect reporting.
4. Write disputes to the credit bureaus based on your findings in step 3.
5. Wait for a response. For anything not removed, proceed to step 6.
6. For anything not removed, decide on the appropriate round 2 dispute tactic, and go for it.
7. Wait again for responses. Rinse and repeat.

What many people find when they embark on this journey is that the whole process isn't quite as smooth as they might have hoped. They learn that the consumer credit system is geared against consumers. Once your score is down in the consumer credit system, it can be hard to bring it up. Negative items, even false and fraudulent ones, don't disappear as easily as they appear on consumer credit reports. What came about almost instantly from a systematic failure, or a data entry error could take months to get corrected and removed. This is precisely why many people turn to experts for help with repairing their credit.

Option 2: Paying Someone Else to Fix Your Credit

The other main option for fixing your credit problems so that you can be most effective in both the business and personal credit systems is to hire a professional to repair your credit for you.

The best advice I can give you here is this: find a **reputable** credit repair organization. If you can get a referral from someone you trust, that is the best route. There are a lot of good people out there doing credit repair work, but there are a few bad apples too. Make sure you do your due diligence. An honest and ethical credit repair company will be very up front about fees and legal red tape and will never resort to illegal or unethical tactics.

Other Approaches for Getting the Right Credit for The Personal Guarantee (Option 3)

There is one approach that I'd like to mention that might help you if you have credit problems on the personal credit side. If your personal credit isn't up to par but there are other owners with better credit, you can use the owner or owners with the best personal credit as your starting point for building business credit. In other words, those owners would provide the **personal guarantees** often necessary to get the ball rolling with business credit.

If You Don't Have a Plan...

Then get one. Yes, I mean it. If you've got personal credit problems and you want to build business credit, I highly recommend that you devise a clear plan for addressing your personal credit problems.

Personal Credit FAQ

What is the quickest way to address my personal credit issues so that they won't get in the way of my building business credit?

The quickest way is to use the owner with the best credit scores for the initial business credit building tasks. This will buy you a little time to work on your personal credit. The next quickest way to address your personal credit problems (and fix your personal credit problems, which you should do anyways) is to hire a reputable professional to repair your credit for you. For most people, this will be the quickest and easiest route because it allows you to focus on your business rather than take time and energy away from it to fix your credit.

How can I best use my excellent personal credit rating to help with establishing and building business credit?

You can accelerate your progress towards building solid business credit by using your excellent personal credit to provide a personal guarantee on certain accounts. Being able to do this will make you eligible for more accounts with which you can then build the business credit necessary to get the better accounts that require no personal guarantee.

My personal credit is great. Why should I bother with business credit?

I think I've laid out the case for this sufficiently in this book. Please see Chapter 1 - Business What? and Chapter 2 - Some Frequently Asked Questions About Business Credit for more on the answer to this question. Also keep in mind the points I made at the beginning of this chapter:

- Business credit is NOT a tool to hide adverse personal credit.
- Business credit is NOT a backup for your personal credit.
- Business credit is NOT a reason to be careless with your personal credit.
- Business credit is NOT a solution to your personal credit problems.

If you want to know ***why to bother if your personal credit is good***, then you may be making some incorrect assumptions about the real purpose of business credit.

Chapter 7 - CHECKPOINT 1: Are you keeping up?

Use the following checklist to check your progress on the road to building business credit. Are you keeping up? Check off your progress below to find out.

Checklist

I understand the difference between the business credit system and the consumer credit system.

- I understand why to separate business and personal finances.
- I have a vision for my business and the means to make that vision a reality. Do you have a vision and a vehicle?
- I've set goals for the future of my business.
- I'm a doer not just a planner. I'm ready to get things done. My business name is professional.
- My business name is easily pronounced.
- I have a real business address, not a PO Box.
- I understand the importance of keeping my business name and contact details consistent across all paperwork.
- I have decided on or already have a legal structure for my business.
- I have the proper business licenses and permits as required by local, state, and federal governments.
- I have registered for my EIN and state Tax ID. I have set up a business checking account.
- I understand the importance of bank ratings.
- I have a plan for getting a "Low 5" and for getting the necessary funds to achieve this rating.

- I have done market research for my business. I have a marketing plan for my business.
- I have a business plan for my business.
- I have a professional website and email address.
- I have checked my personal credit reports and scores.
- (If Applicable) I have a plan to overcome my personal credit problems.
- I understand business credit isn't a fix for my personal credit problems.
- I understand how to maximize my borrowing power by making the most of personal credit and business credit.

If you've made it this far, you're doing great. Don't turn back now. Keep moving forward on the quest towards business credit!

Chapter 8 - STEP 4: Register With D&B

In this chapter I'm going to tell you the easiest and best way to get registered with Dun & Bradstreet, along with a tip or two about what NOT to do. First, I'd like to talk about a few basics of the business credit reporting bureaus.

Who is Dun & Bradstreet?

Dun & Bradstreet (D&B) is **the** most important credit reporting agency in the business credit system. There are other bureaus, but they are secondary in importance to Dun & Bradstreet. Like any other credit bureau, Dun & Bradstreet is a company that collects and sells information. Unlike the three big consumer CRAs of the consumer credit system (Equifax, TransUnion, and Experian), Dun & Bradstreet collects and sells information about businesses. They help banks and lenders determine the type of risk a loan applicant (a business) represents. This information, in turn, determines the loan amounts that the business will get approval for and the interest rates they will get.

Dun & Bradstreet is a publicly traded company based in the U.S. They've been in business for over 150 years and own the business credit market for the most part. On their website they claim to have a database of **over 150 million companies**. You can build business credit and never pay attention to any bureau besides D&B.³

Why Dun & Bradstreet?

If you want to build business credit, Dun & Bradstreet is where you need to be. Yes, there are other bureaus. No, they are not quite as important as this one. That's why our focus here is on Dun & Bradstreet.

What is a PAYDEX Score?

A PAYDEX score is the score given to businesses by Dun & Bradstreet that represents the payment habits of a business to its creditors. The range for a PAYDEX score is between 0 and 100, anything above 90 being excellent.

The breakdown of PAYDEX score ratings is as follows:

D&B PAYDEX Score	Payment Habit
100	Anticipate: payments are received before the date of the invoice. They are anticipated
90	Discount: payments are received within the discount period.
80	Prompt: payments are received on time but not early. Paid according to terms
70	15 days beyond terms
60	22 days beyond terms
50	30 days beyond terms
40	60 days beyond terms
30	90 days beyond terms
20	120 days beyond terms
UN	Unavailable

Most companies aim to be at 80 or above.

³ While it's possible to establish and build business credit and only pay attention to one business credit bureau, you'll get better results by broadening the net a little bit.

⁴ Source: www.dnb.com D-U-N-S: Another Number?

D-U-N-S: Another Number?

Yes. Another number. With D&B you will get a D-U-N-S number. This is a 9 digit number assigned to your business as an identifier in the Dun & Bradstreet databases. How important is a D-U-N-S

number? Here's a hint: it's required by many major agencies and trade associations, including the U.S. Government. Any contractor working for the U.S. Government is required to have one.

So yes, as part of registering with Dun & Bradstreet your business will be assigned **yet another number**.

What About Experian?

You may be wondering about your Experian business credit file. Why aren't we going a step by step system to set that up? The quick and easy answer to that is: it's **automatic**. Your Experian business credit file is opened when you have a creditor that reports your payment data to Experian. This will happen **automatically** for you if you take the steps in the next pages.

While setting up your Experian file may be automatic, monitoring it is not. Monitor your Experian credit file to make sure everything is correct, and your business is listed correctly.

As said above, you can build business credit and never pay any attention to any bureau except D&B. However since creditors do use Experian, you would be wise to monitor and tend to your Experian file so you can be sure to maximize your business credit potential.

What About Equifax?

Equifax is the least significant of the business credit bureaus. Your Equifax file is created automatically, like your Experian file. It can take more time for it to be created. But if you have an Equifax file, monitor it the same as your other business credit files. In this book, our chief focus will be on using D&B and then applying for the credit necessary to build your Experian and Equifax reports automatically. This is another one of those areas where consistency in your company name and other details is vital.

How to Register With D&B

Now it's time to register with Dun & Bradstreet and get your D-U-N-S number.

Before you register with Dun & Bradstreet, remember the section earlier in the book about being consistent with your business name and details on all your paperwork? Here's where that consistency counts most. The information you use to set up your D&B file should be identical to what you used to register for your EIN, to get your state licenses, and everything else. No exceptions.

The final thing you need to do before you register is a **search** at the Dun & Bradstreet website (www.dnb.com) to determine if your company is already listed. If your company is listed, we recommend using option 2 below for getting your file set up. To do a search, simply click the **Company Search** option at www.dnb.com.

Here are the three **best** ways to get your file set up:

Option 1: The Free Option.

You can get a D-U-N-S number and get your file set up with Dun & Bradstreet for free by going to <https://www.dnb.com/duns-number/get-a-duns.html>. If you choose the free option, you will receive your D-U-N-S number within 30 days.

Option 2: CreditBuilder (Premium Paid Option)

CreditBuilder is a premium paid option for establishing your D-U-N-S number and getting your D&B credit file established. It has some helpful perks.

- As of this writing, with CreditBuilder you get the following:
- Credit File / D-U-N-S number established within 5 days.
- The ability to add credit references of your own that Dun & Bradstreet will verify for you and then add to your file.
- Unlimited access to your scores and ratings.

Credit monitoring - get alerts when there are changes to your file or when companies request your file.

To build business credit in the quickest and most efficient manner, using the CreditBuilder service is the recommended option. To use CreditBuilder to establish your Dun & Bradstreet file, go to: mycredit.dnb.com/build-business-credit. There

is a monthly fee, and you can choose the level of membership you want on their website.

Option 3: DUNSFile (A Cheaper Paid Option)

The DUNSFile product of Dun & Bradstreet is like CreditBuilder in that you get your D-U-N-S number in 5 days or less. The difference is you only get the basic D&B business credit file set up, and you don't get most of the other benefits (like credit monitoring) that come with the CreditBuilder service.

This option does not have a monthly fee associated with it but rather an annual fee, and it costs less per year than the CreditBuilder service. If you're on a budget and in a hurry, and your company didn't come up when you searched for it (see above), then this might be a suitable choice.

What NOT to Do

The two things you shouldn't do: don't call the 800 number on the D&B website. And don't use the free option unless you have no other choice. The best route for business credit building purposes is Option 2 from above. If you're serious about building business credit, then Option 2 is worth the expense. And when you sign up for Option 2, do it through the online system only. Do NOT call the number. There have been rumors of problems for businesses which go outside the automated online process. It's best avoid that trouble if you can.

Chapter 9 - STEP 5: Get Your First Business Credit Accounts for Credit Building Purposes

“The elevator to success is out of order. You’ll have to use the stairs... one step at a time. “

-Joe Girard

In the consumer credit system, there are credit products of various types that serve the primary purpose of building credit. Many consumers get these accounts, not because they are exceedingly useful, but because they are steppingstones that lead to better credit lines and loans that will be much more useful.

In business credit, there are accounts that are great for credit building. They are steppingstones on the road to building excellent business credit.

This chapter isn’t about getting the most useful accounts for business credit, or the most amazing loans, or the biggest credit lines with the lowest interest rates. It’s about getting accounts for credit building purposes.

Accounts to Build Business Credit

There are two main types of accounts to start with for the purpose of credit building. Easy Vendor Credit, and Easy Credit Cards. Easy Vendor Credit is accounts with vendors that are easy to set up and virtually guaranteed to get approval. Many Credit Card accounts take a little more but are still easier to get approval. Apply for these AFTER setting up a few basic vendor credit accounts.

Easy Vendor Credit

The most common easy vendor credit accounts are Net 30s, or 30 day accounts. This equates to a 30 day line of credit for your business to use with a specific vendor. The key with these accounts lies in using them. You must make monthly purchases on credit using the account and pay if off. Do this repeatedly to have the greatest credit building effect.

Using easy vendor credit to build your business credit should go something like this:

1. Apply and get approval.
2. Month one, make a purchase using the credit line, pay it off in full—on time.
3. Month two, make a purchase using the credit line, pay it off in full—on time
4. Rinse and repeat!

If you're not using your vendor credit accounts, then they are not helping you build business credit. Use them consistently and responsibly, and you will see results.

Easy Credit Cards

An easy credit card might not necessarily mean a Visa or MasterCard. Easy credit cards are revolving lines of credit that may or may not have your favorite logo attached to them.

Some of these accounts may require a personal guarantee. This means that an owner of the business must back up the credit line with their personal credit. This is reasonable starting out, as the only case where the person's personal credit will be damaged is if there is a complete default on the account. Late payments won't affect the personal credit of the person providing the personal guarantee—although you should still avoid making any late payments. It's best if you can get these credit lines open with no personal guarantee, but if you must use a personal guarantee as a steppingstone, that's okay too.

When applying for business credit cards or credit lines, often you can

leave the SSN field (if there is one) on the application.

The process of building business credit using these cards is straightforward and simple. It can work one of two ways, or even both, depending on your needs.

1. Charge expenses on the account each month for convenience and/or cash flow's sake and pay the card off in full each month. Roughly 80% of businesses that use credit cards while doing business use them this way, and according to some sources this is the preferred way to use the cards for credit building purposes.
2. Charge slightly larger purchases to the card and pay off over 60 to 90 days. The downside is it could look bad on paper if you've got too much debt from month to month.

Common Business Credit Accounts

The following are three of the most common unsecured business accounts and funding strategies that you may find helpful for your business:

- **Accounts receivable financing** - With accounts receivable financing you basically sell your invoices to a factoring company who takes on the risk for your invoices and pays you around 90% to 95% of the invoice amount.
- **Purchase order financing** - Like accounts receivable financing, purchase order financing can help you to fill in the gaps of your business cash flow.
- **Equipment Leasing** - You can build business credit while conserving cash flow. Equipment lease financing means you lease equipment of various kinds instead of purchasing it outright, which saves your cash flow and builds your business credit at the same time.

You may be able to see some possibilities already with options like these. Obviously, the most useful loans and big money comes later in the credit building process, but it could look bad on paper if you've got too much debt from month to month.

with all the above tools at your disposal, chances are your business will already be much better equipped to confront many of the tasks and challenges at hand. And just think – it gets better.

For best results, it is recommended that your business have at least 5 open vendor accounts in good standing that you are making purchases on (even small purchases) and paying off on time and in full every month.

Why It All Matters

You may be wondering why we're going about this in the manner that we are. ***Why not start with credit cards? Why bother with vendor credit? When do we get to the big loans?***

The key to understanding the method to the madness here is to understand that you are **building** a business credit profile. When building a building, you don't start with the roof. Instead, you build it step by step, and the later and greater excitement of moving in and experiencing your home must wait until it is finished.

The same thing is true for business credit. It's best to build step by step, starting with the foundation.

But you can't just throw a roof on top of your foundation and start moving in. There are other details in the middle to pay attention to.

Therefore, we're going through these steps as we are. First are the foundations of your business details and credibility. Then, start building step by step on top of that. If you try to go out of order, it just won't work.

In the next chapter we'll be talking more about credit building and getting into more difficult accounts, but still mainly for the purpose building credit.

Chapter 10 - CHECKPOINT 2: Do you have your core credit building accounts established?

Use the following checklist to check your progress on the road to building business credit. Are you keeping up? Check off your progress below to find out!

- I have registered with Dun & Bradstreet. My D-U-N-S # is . I am set up to monitor my Dun & Bradstreet report.
- I have double checked my details with Dun & Bradstreet.
- I have double checked my details before applying for credit with vendors. I have opened vendor credit accounts for building credit.
- I have opened some easy credit card accounts or credit lines.
- I have signed up for some common business credit accounts that will be useful for my business.

If you've completed these steps, you're probably well on your way to building your business credit profile and opening the doors to substantial funding opportunities via business credit.

Chapter 11 - STEP 6: Maintain & Monitor Your Credit, Pay Your Bills

The Business Credit Building Process

“Whatever good things we build end up building us.”

-Jim Rohn

If you've followed along, by now you already have some business credit accounts established. It's good to have your basic accounts established, but those accounts won't help you build business credit unless you use them.

The credit building process, then, is the process of taking the accounts you have established and using them in a responsible manner. Month after month, make purchases using your business credit accounts, and month after month, pay your bills on time.

Here's a rough breakdown of what your credit building plan might look like: Start with Net 30 term accounts, order what you need, and pay back on time.

Other Credit Lines / Credit Cards: Make manageable but good sized purchases and make payments on time. Set yourself on a schedule to pay off each purchase over 6 months. But don't get in over your head.

Only you can determine what your needs are and what purchases will make sense for your business. The best thing you can do at this stage is go through your business's needs and determine what items can be met using your new credit resources, and then use those needs (that you must pay for one way or another) to build your business's credit profile.

Quick Fact: How Common is Credit Card Use for Small Businesses?

According to a 2010 report to congress, 83% of small businesses use credit cards, and over 75% of those small businesses using credit cards use business credit cards that are intended for small business use. Roughly 18% of small businesses borrow money using credit cards and pay off the balances over time. The most common use is to make purchases and pay off the cards in full each month. This is mainly due to convenience and sometimes helps to manage cash flow.

⁵ Board of Governors of The Federal Reserve System, *Report to the Congress on the Use of Credit Cards by Small Businesses and the Credit Card Market for Small Businesses*

Plan for Building Business Credit

Use the following exercise as a guide to create your plan for building business credit.

How much does your business spend on paper products each month?

How much does your business spend on office supplies each month?

How much does your business spend on office equipment each year?

How much does your business spend on software each year?

How much does your business spend on professional fees and memberships that could be paid with a business Visa or MasterCard?

How much does your business spend on fuel each month?

How much does your business spend on postage each month?

How much does your business spend on marketing materials and sales supplies per month?

Look over the above information thoroughly.

Which of the above needs could be met using your newly available credit resources?
List your ideas here:

Once you've identified regular expenses and business needs where you can use your new business credit accounts, it's time to develop your business credit building plan.

Here's an example:

Monthly Expenses

Office Supplies - Use a starter vendor and pay off on time each month.
Fuel - Use a fuel card and pay off on time each month.

Annual Expenses

\$2,000 in Licensing Fees - Use credit card and pay off over 8 months

Checking Your Business Credit

The next part of building business credit is periodically checking your business credit reports. This is easy to do, and the cost is minimal. The easiest way to get your business credit reports is to get them from each of the three business credit bureaus. (D&B, Experian, Equifax)

Here are the web addresses (as of this writing) to get your reports:

Dun & Bradstreet - <http://www.dnb.com/>

Experian - <http://www.experian.com/business-services/>

Equifax - <https://www.equifax.com/business/>

You can also use business credit monitoring to stay up-to-date on your business credit reports. See below for more information.

Maintaining Your Business Credit

The best way to maintain your business credit and make the most of your opportunity to build your credit profile is to pay your accounts on time every month.

Monitor Your Business Credit and Your Accounts

Each of the three big business credit bureaus offer credit monitoring services that you can use to check your business credit reports. This can be a great way to stay up to date on your business credit status and to monitor your progress as your credit profile develops. For information about the available credit monitoring services and products, see the web addresses below:

Dun & Bradstreet - www.dandb.com/credit-monitor

Experian- www.experian.com/small-business/business-credit-monitoring

Equifax - www.equifax.com/business/small-business

Keep a close eye on your end of the process and make sure all bills are being paid and all accounts are kept current. Maintaining your credit relationships is a non-negotiable part of building business credit. So take good care of your new accounts.

Chapter 12 - STEP 7: Get Your First Business Loans and Lines of Credit for The Operation of Your Business

“The price of greatness is responsibility.”

-Winston Churchill

The next step in the credit building process is to get a couple of small but usable loans or lines of credit that can aid in the operation of your business. These can, of course, also help you continue to build business credit. Even though you’re approaching the end of this book, this in no way signifies the end of your business credit building journey. Continue to watch your balance sheet—continue to take care of your business’s finances, and to monitor and improve your business credit.

The goal of this step is:

Qualify for even more USABLE Credit.

Rather than recommend a bunch of possible sources for usable credit (you probably already have your own ideas about what they are), we’re going to review a few fundamentals that the bank or lender will most likely be concerned with.

Consider the main points that affect your credibility and Fundability as a business.

Item to Review: Your Business Information

Your business legal structure, business name, business category, and even details like addresses and phone numbers can affect both the credibility and Fundability of your business. Here is a partial list of items that may be scrutinized by a bank or lender:

- Length of time in business
- Location, size, history, and reputation of the business
- Media coverage and other information about your business
- Your business type or category

- Your business legal structure
- Details regarding the principals of your business

Item to Review: Your Business Credit History

If you're going to apply for credit, then your credit history will play a part in the lender's decision. A bank or lender may look at credit scores from one of the business credit bureaus or may closely scrutinize your credit history, depending on the loan or credit line for which you are applying and the bank or entity through which you are applying. Here is a partial list of items that may be scrutinized with regards to your business credit history:

- Number of vendor (Net 30, etc.) accounts, and the payment history associated with those accounts
- Your payment records on business credit cards and other business credit accounts
- Balances on your business credit cards compared to your available credit and compared to your assets.
- Your reported net worth and other financial data that may be available on your business credit reports.
- Any outstanding liens, lawsuits, judgments, etc.
- The overall ability of your business to pay its bills.
- Any unused lines of credit
- Any defaults, late payments, or other negative information.

Item to Review: Your Personal Credit History

Some banks may require a personal guarantee for a loan. Others may not but depending on the funding scenario the personal credit of the business principals can still end up under the microscope.

Here are the things that will matter:

- Signs of obvious problems such as overuse of credit, serious defaults, and non-payment of balances.
- Bankruptcies, judgments, liens, collections, etc.

An occasional late payment on your personal credit report isn't going to cause any amount of alarm when a lender is reviewing your credit before loaning money to your business. The big signs of trouble are what they are looking for, and the things that are more likely to hold you back.

Item to Review: Your Business Finances

Your business finances play a big role in the Fundability of your business. Is your business profitable? Can you show it on paper? Are your business finances healthy? What are your bank balances (and in turn, bank ratings)? All these things and more may be reviewed when applying for bank loans or other types of funding for your business. Here's a partial list of items up for review:

- Your business cash flow
- Working capital
- The net worth of the business
- How much debt the business has, and what types of debt
- Profitability of the company
- Bank balances and ratings
- Business growth history and projections

Item to Review: Your Business Plan

Having a solid business plan will go a long way towards helping you secure funding for your business. Your business plan is essentially how to demonstrate, on paper, everything listed above and more. Make sure to have an updated, professional, well-thought out business plan for your business.

The Method to The Madness

Why do we bother with all these details? Do all these things really matter? Can't you just flash a pretty credit score and get a load of cash handed to you?

Building business credit is a process. It is a process that is best reserved for the most profitable and responsible businesses. Banks want to lend money—that's how they make money. But before a bank will loan money to a business, they must be assured of the business's ability to pay back the loan.

We've described a **process** in this book of establishing your business and your business credit profile. All the parts of the process, all those layers, all the things we've discussed—they all **matter**. They are building blocks that build the foundation on which the credibility and Fundability of your business stand.

So the method here is to start with the details—those necessary building blocks—and then to demonstrate how best to build your business credit profile. And then in this final step, come back to the details that started it all. If you have a real business and have gone through all the trouble of building your business up and establishing your business credit files, it shouldn't surprise you that in the end you'll probably need to fall back on all that groundwork you laid previously when it finally comes time to get some serious funding.

And therefore we're back at the details: because it is through these details that we have spent so much time building and verifying that we will be able to get the biggest and best loans and funding available in the business credit world.

Patience Will Pay Off

Your first USABLE loans and credit lines may not be the biggest and best loans and credit lines you can get. At this stage, you are still building. In the next chapter is the final step in this book, but

there is no final step to building credit. You keep going. The process continues. And as you continue the process of building a great credit history and a great business, your possibilities for funding will grow and grow. Your patience with the process will pay off in time.

The Ideal Account Spread for Building Business Credit

Ideally you will get a couple of smaller loans that you can easily pay off in a short period of time, like 60 or 90 days.

For best results by the end of this step you will need to have opened and be using:

- At least 5 vendor accounts where you are making regular purchases and are paying off each month.
- At least 3 business credit card (Easy Credit Card) accounts where you are making purchases and either paying off in full each month or making payments over a short period of time.
- At least 2 small loans in your business name, reporting to the business credit bureaus, which you will pay off in short order.

Chapter 13 - STEP 8: Use Your Business Credit Wisely as A Source of Funding

“I think of a hero as someone who understands the degree of responsibility that comes with his freedom.”

-Bob Dylan

Building business credit won't do you much good if you don't know how to use it. Here's the smart way to use your new business credit that you've worked so hard to build.

What Credit Means When You're the One Who Has It

Having credit available to your business in the form of loans, lines of credit, and credit cards, while maintaining your business credit rating means that:

- The cost of doing business will be less. You will pay less for insurance, rent and equipment leases, interest on loans, and more.
- Vendors will extend credit to you for things like inventory purchases. This will allow you to **keep as much cash in your business as possible** and not tie up funds unnecessarily in inventory or raw materials.
- You will be better equipped to weather financial storms through the use of your credit.
- You can hold onto as much of your cash as possible and leverage your credit for the growth of your business.

So what is this credit that you'll be leveraging? It is essentially the reputation of your business, or your financial history, which in turn makes your business a trustworthy candidate for loans and financing. In other words, by building credit you can make the most of your financially responsible past.

Here, exactly, is how you might do that.

Leverage

Leverage is the power to act effectively. In the investing world

leverage refers to the practice of investing with borrowed money.

When I use the term leverage, I am generally referring to one or both meanings. Here's how they apply to your business and your use of business credit.

The Power to Act Effectively

Business credit gives business owners the power to act effectively. You are not limited by what's in the bank account on any given day. You have the power to invest and act in ways that will accelerate your business's growth and maximize your profits.

Here's an example of what I mean:

Bob the business owner has spent the time, money, and energy necessary to build a solid business credit profile. Bob the business owner doesn't know it, but his company is about to hit a major roadblock.

A major supplier unexpectedly went out of business and left a large hole in Bob the business owner's supply chain.

Luckily, Bob had great business credit established and so he was in a position of leverage. Bob was in an ideal position to manage the stress and difficulty of this situation. Bob had within his grasp the power to act effectively.

Bob used his excellent business credit rating to quickly get accounts set up with new suppliers to fill in the gap left by the defunct supplier. All is well with Bob's business as a result.

Simply having a strong business credit profile with good cash flow, net worth, and business credit scores can give your business the power to act effectively in a wide variety of situations.

Investing with Borrowed Money (Leverage)

When referring to the word's use as it relates to general investing, leverage often means the practice of investing with borrowed funds.

Here is a simplified outline of what leveraging might look like in an investing context:

- An investor has \$5,000 cash to invest.
- The investor wants to invest in a particular company.
- The investor uses margin investing (leverage) to buy \$25,000 worth of stock instead of only \$5,000.
- The price of the stock increases over time by 20%.
- The investor sells the stock and collects the \$5,000 (20% of \$25,000) return on their investment.
- The investor has doubled their cash and now has \$10,000.

A \$5,000 investment wouldn't double nearly as fast on its own, but if you use leverage to make it a \$25,000 investment, it has the potential to do a lot better a lot faster. The downside to this is that the losses associated with margin investing can exceed the cash investment amount. So if things hadn't gone so well, our investor could have lost \$15,000 instead of gaining \$5,000. Therefore margin investing is considered risky, and its use is often limited or restricted in some way.

Here's how this applies to your business with another simple example:

Let's say you have \$25,000 cash available in the bank to use in your business, and your current cash flow is in the positive with \$5,000 each month coming in above your current expenses. You need cash to operate your business so you can only spare about \$10,000 of your available cash for a big marketing campaign. You have tested this marketing approach and you know that for every \$5,000 you spend; you can expect \$8,000 worth of business to come in the door. If you choose to use your \$10,000 cash, you can expect to generate \$16,000 in business, but then you will have exhausted your cash.

You consider using your available cash flow to fund the marketing campaign, but this would bring your monthly cash flow to zero, which isn't a good place to be. Instead, you decide to leverage your business credit and finance a larger version of the marketing campaign. You invest \$30,000 into your business to fund the marketing campaign using your business credit and hold on to your cash. You use your existing cash reserves to make smaller payments on the \$30,000 credit line while you wait for the marketing campaign to pay off. Once the campaign is complete you've brought almost \$50,000 of new business in

and only used around \$4,000 of your available cash (for payments on the credit line, over time) to make it happen. You pay off the loan and re-invest the remaining revenue into your business

In this simplified example, investing in your business with borrowed money works similarly to investing in stocks with borrowed money except you can minimize your risk since you're the one running the business. You know your numbers. You know what you're capable of. If there is an operation which needs financing, especially one with a direct payoff such as a marketing campaign, business credit is often a powerful way to finance the undertaking without draining your cash.

Investing in your own business with borrowed money, using your business credit, is like taking every dollar that you must invest and multiplying it by five or ten, and then putting THAT resulting pile of money to work in your business.

Using strategies such as this, it is possible for businesses to maximize their growth potential.

Applying Business Credit to YOUR Business

Using this and similar approaches, you can probably see the power of leveraging business credit in your business. Whether you choose to use business credit for growing your business faster, or for making the ride smoother along the way, the effects can be powerful.

The smartest and best way to use business credit is the way that will benefit your business the most. Consider your own business, finances, sales numbers, forecasts, and cash flow. Where might you leverage the power of business credit to make the most of your available resources?

The possible answers to this question will vary substantially from business to business. It depends on what stage your business is in, what your outlook is, what your goals are, and more.

With the right mindset, some legwork to get your business credit in order, and a little planning, the sky is the limit.

Chapter 14 - CHECKPOINT 3: Look to the Future

By now you should have completed everything from the previous two checkpoints. The list from each checkpoint is included below as a reminder.

Once you're ready, look through the points for checkpoint 3 (below) and check off each when appropriate.

(From Checkpoint 1)

- I understand the difference between the business credit system and the consumer credit system.
- I understand why to separate business and personal finances.
- I have a vision for my business and the means to make that vision a reality. Do you have a vision and a vehicle?
- I've set goals for the future of my business.
- I'm a doer not just a planner. I'm ready to get things done.
- My business name is professional.
- My business name is easily pronounced.
- I have a real business address, not a PO Box.
- I understand the importance of keeping my business name and contact details consistent across all paperwork.
- I have decided on or already have a legal structure for my business.
- I have the proper business licenses and permits as required by local, state, and federal governments.
- I have registered for my EIN and state Tax ID.
- I have set up a business checking account.

- I understand the importance of bank ratings.
- I have a plan for getting a “Low 5” and for getting the necessary funds to achieve this rating.
- I have done market research for my business.
- I have a marketing plan for my business.
- I have a business plan for my business.
- I have a professional website and email address.
- I have checked my personal credit reports and scores. (If Applicable) I have a plan to overcome my personal credit problems.
- I understand business credit isn’t a fix for my personal credit problems.
- I understand how to maximize my borrowing power by making the most of personal credit and business credit.

(From Checkpoint 2)

- I have registered with Dun & Bradstreet. My D-U-N-S # is .
- I am set up to monitor my Dun & Bradstreet report.
- I have double checked my details with Dun & Bradstreet.
- I have double checked my details before applying for credit with vendors.
- I have opened vendor credit accounts for building credit.
- I have opened some easy credit card accounts or credit lines.
- I have signed up for some common business credit accounts that will be useful for my business.

Checkpoint 3 Items:

- I have a plan for the credit building process.
- I have identified uses for my new credit resources to benefit my business. I

have checked and I am continuing to monitor my business credit.

- I am still maintaining my personal finances and personal credit.
- I am paying my business credit bills off on time and/or in full in all cases. I have not had any late payments on my business credit.
- I have reviewed my business information, my business and personal credit history, my business finances, and my business plan in preparation for getting a bank loan.
- I have applied for or am planning to apply for a small loan for credit building purposes.
- I understand that the purpose of all this is to get usable credit that will benefit my business.
- I understand the concepts of credit and leverage.
- I understand how credit can be used in my business to give me more and better options in difficult times.
- I understand that while investing in my business with borrowed money carries with it certain risks, it also has the potential for substantial reward.

I plan to use business credit wisely while running my business.

If you can check off all the above items, then you are probably well on your way to finding an extremely healthy and useful application of business credit for your business. You should have a good start on building a solid business credit profile, which means soon you will have accomplished the purpose for which this book was written – to get USABLE business credit.

Chapter 15 - Some Closing Thoughts

More than a plan for building business credit, I want to give you the underlying foundations to understand and appreciate the process. I believe this is important for business owners who intend to be in business for the long haul. Getting it is more important than being able to recite the details and stats.

Of course there are details, statistics, and research that can be beneficial too. When it comes to building business credit, the deeper an understanding you have of the system and the process of preparing for and building business credit within the system, the more you can make smart and creative use of the resources available to you once you have established business credit.

What I'm getting at here boils down to teaching someone to fish as opposed to giving them a fish. When you understand business credit in depth, it will be a powerful tool in your hands and will give you a serious advantage in the business world.

This book was never meant to provide that in depth knowledge, but rather serve as a primer for those who need to get their feet wet and start building business credit. There is more to learn than I could possibly tell you in a single book, which is why there are more in depth resources available to you when you are ready.

You've taken an important step by making it this far. The only question now is which step you will take next.