



Why a business credit report is invaluable for SMEs

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South Africa's unemployment rate recently reached a record high of 34.9%. This is largely due to many Small and Medium-sized Enterprises (SMEs), which employ about 47% of the nation's workforce, having to shut their doors in 2020/2021 as a result of the pandemic.

SMEs continue to be a driving force of inclusive economic growth and job creation in the country. Understanding the role of a business credit report and enhanced financial and credit education initiatives are important to help SMEs to stay in business and grow their profits contributing to the financial health of the whole socioeconomic ecosystem they form.

A business credit report forms a key part of the decision-making process for lenders and service providers. Whether a small business is applying for finance with a lender, credit with another business, competing for a supplier contract or simply trying to get a good deal on their business mobile contract, they need to understand that their business credit profile will play a role. That is why it is vital that they understand what their credit profile is saying about their business, their credit worthiness and how these suppliers, clients and lenders view their business.

Most businesses only think of a business credit report when they're asked for one. Or when they're alerted to the fact that there may be something on their credit report that is affecting their ability to be granted additional credit facilities. However, this report should be top of mind for every business owner because it's more than just a rating, it's an important business tool. A business credit report ticks several very important boxes. Each one giving the business owner greater control over their credit worthiness, their businesses financial health, and their business relationships. Here are six reasons why a business credit report is key to long-term success:

1. **A picture of financial stability.** A business credit score shows the business owner, and any lenders or suppliers the entity is planning on doing business with, a very clear picture of its financial health. This score may influence the amount of credit granted, the credit terms offered, the interest rates, and the interest of potential investors. It is important for the business owner to check their business credit report regularly in order to verify the information and to ensure that its kept accurate and up to date. Sharing as much information as possible with the credit bureau shows that there are no hidden agendas, and that the business operates in a credible way.
2. **Proactive monitoring.** A business owner can use their business credit report to stay abreast of any changes in their business credit score so they can identify any problems before it hits their bottom line. By being aware, it is easier to make informed decisions and address the gaps that may have an impact on their business.
3. **Work with the credit bureau to develop a business credit report.** Experian can incorporate audited financial statements into the score of a business. These can be supplied annually after sign-off from the accounting officer or auditors. Should a business have limited information on the credit bureau, Experian can use owner supplied information that will be verified, to update the business credit report.
4. **Access to credit facilities.** As a business grows, the business owner may want to invest into new products and services, or into more employees, in order to keep up with demand. This requires capital, of course, and lengthy conversations with financial institutions and lenders. Most, if not all, of these institutions will require a business



credit report before they even start down the road to a business loan. So, by having access to the entity's business credit report and by fully understanding what it says about the business, the business owner would have jumped over one of the common hurdles with ease.

5. **Regulatory requirement.** It is important for registered businesses in South Africa to pay their annual returns with CIPC each year. This confirms that the business is kept in an active status and will ensure that Experian has the most accurate details on the business. Failure to pay these annual fees will result in the business being put into a deregistration process and their credit score will not be available to lenders doing enquiries on that business.

6. **Avoid bad credit.** The ability to see business credit scores isn't only for the benefit of lenders and suppliers that may want to lend to or invest in the business. Business owners can also use them to assess their own financial risk before they extend credit terms to their own customers. Credit reports are an important background check that helps small businesses owners to ensure customers – particularly those who they are about to embark on business with – are able to make timely and regular payments. This ultimately helps to safeguard their business against risks, such as bad debt, that could threaten their own businesses financial stability.

Properly utilising business credit reports can give business owners the agility to respond and react to issues well in advance, and plan for worst case scenarios. Understanding one's business credit report serves to ensure a proactive management of one's business wellness.

To understand the business data relationship with a credit bureau, watch our [Know your Bureau videos – Business Information Part I, II, III](#) which explain how bureaus operate and the business information credit bureaus hold.

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