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Credit cards fish for small-business clients

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By Jim Hopkins, USA TODAY

SAN FRANCISCO — Small-business owners face an onslaught of choices as companies blitz them with new credit card offers.

American Express just launched a cash-back card aimed at small companies. Visa this month is rolling out a card targeting small firms with big appetites, those spending \$25,000 or more a year. Discover entered the market for the first time this past summer.

Business owners should move cautiously, just as they would when shopping for a personal credit card. Rock-bottom interest rates can jump after the introductory period ends. They often soar, too, if owners make a late payment. Cash-back rewards may sound like great money savers, but not if you carry a balance subject to high interest.

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Marketers smell opportunity in the 90% or more of small-business spending not on credit cards — up to \$4.8 trillion a year, says Visa.

The surging interest in small firms comes as the corporate market is pinched. Growth in the number of big employers — those with 500 or more workers — has been flat since the end of the 2001 recession. There are now about 17,000, the latest Small Business Administration data show. In the same period, the number of small employers grew 4%, to 5.9 million.

"Small-business growth has been tremendous," says Tracey Mills, a spokeswoman for the American Bankers Association, a trade group whose members are among the biggest card issuers.

Here, have some credit

Card companies are targeting growth-oriented entrepreneurs such as Jenny Schmitt, who early last year launched CloudSpark, a public relations and marketing agency in Atlanta.

Although she is CloudSpark's sole employee, Schmitt retains seven independent contractors and hopes to add her first full-time staffer next year. She spends up to \$12,000 annually on a personal credit card for technology and other goods, such as research services to find publications that might showcase her clients.

Schmitt plans to get a business credit card next year. In the last six months, she's seen a jump in the number of unsolicited business card offers mailed to her. Schmitt says she has good credit. Yet, she's been taken aback by how much credit — up to \$40,000 — marketers are willing to extend.

"These people don't know me ... from Adam," she says.

What Schmitt and other small-business owners should consider:

- Rates.** Owners may not care about interest rates on their personal credit cards if they pay off balances monthly.

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But in their businesses, they're more likely to carry big balances from time to time if spending surges when revenue falters. That makes lower rates much more valuable, says Joe Ridout, spokesman for Consumer Action, an advocacy group in San Francisco.

Charging \$10,000 worth of hardware and software, then paying it off over several months? That's reason to look for cards with fixed rates, rather than variable rates that rise with broader short-term interest rates.

Schmitt wants a card that guarantees a certain rate for at least a year, rather than one that starts with a low teaser rate that could change. Some cards she's been offered promised rates as low as 5% to start. Her reaction: "That's great for the first three months. But are you going to move it" to 18% later on?

•**Rebates.** Cash-back awards for buying office supplies or booking airplane tickets are just as popular among business card issuers as they are with consumer offers.

But read the fine print. Some cards offer 5% back on office supplies, 2% on gas and 1% on all other purchases. Those savings can be wiped away, however, if the cardholder carries a balance at much higher rates.

•**Foreign exchange fees.** These fees, often 3% of a purchase amount, apply to purchases from overseas suppliers, a type of spending more common among business owners than consumers. Some credit card issuers omit the fee, however. "For someone ordering large items from foreign countries, that would be something to watch out for," Ridout says.

•**Universal default.** Some card issuers will immediately raise interest rates to as much as 30% when customers make late payments to other creditors, such as on a car loan. Business customers are not automatically granted an exception.

•**Customer service.** Discover, the new entrant in the small-business market, is promoting better customer service to grab new business.

Discover aims to resolve customer problems on the first call. If not, the problem will be assigned to one employee, and the customer will deal only with that employee until it's fixed. "We have someone internally who owns your problem," says Sastry Rachakonda, director of Discover Business Card.

Personal touch

Better customer service could appeal to small-business owners such as Joe Oricchio at Talisman Consulting Services near Baltimore.

He spends up to \$15,000 a year on his business, charging that to an American Express personal credit card he uses only for business purposes. (His personal spending goes on another card.)

Oricchio likes American Express because, he says, the company is quick to freeze charges when he has a problem with something he's bought. He isn't swayed by low interest rates or cash-back offers because he says he pays off his balance at the end of each month. Plus, he worries there may be a financial landmine buried in the tiny print of card offers, negating the value of any heavily promoted offer.

"There's just so much fine print in a credit card contract," he says, "and I just haven't carved out a lot of time to make sure I make a good decision."

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