

The
CompanyCrafters
Entrepreneur's Dictionary

A Guide to Business Terms for Non-MBAs

Second Edition



www.CompanyCrafters.com

About CompanyCrafters

CompanyCrafters is a management consulting firm that helps Fortune 2000 corporations and leading research institutions to craft and launch new businesses into new markets. Based in Ann Arbor, Michigan and led by veteran executives with successful track records as technology company entrepreneurs and CEOs, the firm specializes in creating and growing high tech business ventures.

At CompanyCrafters, we:

- **Work with corporations, research institutions, venture capital firms and select start-ups to plan and launch new businesses;**
- **Structure corporate and university spinouts;**
- **Develop and execute go-to-market strategies for high technology businesses;**
- **Take on interim executive assignments in new venture and spinout teams;**
- **Educate executives in the science of starting and launching new businesses .**

CompanyCrafters applies an experienced entrepreneur's mind set to crafting and growing new businesses.

CompanyCrafters applies an experienced entrepreneur's mindset to crafting and growing new businesses, bringing to bear a proven proprietary approach through a range of high-value tools and methodologies, that focus on launching and scaling new ventures more rapidly and efficiently while significantly improving the startup's chances of success.

To learn more about CompanyCrafters, visit our website at www.companycrafters.com.



You inc, therefore you are.

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This document provides lay definitions of terms intended to provide business people with practical advice and informal guidance and education. Readers should note that many of the terms presented in this document may have explicit legal and/or accounting meanings or definitions, and that **this document is NOT intended to provide formal legal or accounting definitions. Nothing in this document should be construed in any way as providing legal or accounting advice.**

Preface

We've all noticed it: every profession, every field of endeavor, every industry seems to have its own unique language, its own special vocabulary. And if you're not from that particular field or haven't been trained in that discipline, you find yourself on the outside looking in. You know the feeling: even though everyone else in the room is speaking English, the strange words make it sound like a foreign language – as if they're communicating in code, and you're the only one in the room who wasn't issued the secret decoder ring. We think of this phenomenon as *Secret Code Syndrome (SCS)* – don't worry, it's not fatal.

We encounter Secret Code Syndrome in fields ranging from medicine to the military, from journalism to jazz, from insurance to information technology. *But one of the worst culprits of all is the field of business, and in particular entrepreneurship – that is, starting new businesses from scratch.*

At CompanyCrafters, we think that's silly. We understand that the vast majority of new businesses are launched by people who have deep expertise in and a passion for their particular field – say, wireless networking, or construction materials, or healthcare software, or graphics design – while 99 percent of those founders do *not* come equipped with an MBA degree or years of previous startup experience.

As serial entrepreneurs ourselves, we've already been through the drill and picked up the "secret code" of startup businesses. And, because our mission in life at CompanyCrafters is to apply our "useful scar tissue" to help others plan and launch great new businesses – whether from under the corporate umbrella or as stand-alone ventures – we thought we'd clear the air. So we created *The CompanyCrafters Entrepreneur's Dictionary* to lay out a guide to business terminology for everyone in the startup game: entrepreneurs, startup executives, service providers, corporate new-business-development specialists, university tech-transfer professionals, inventors and anyone else considering launching a new venture.

So congratulations: You've just been issued your entrepreneurship "secret decoder ring." Here's to successful venturing!

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A

accounting – *n*: the process of identifying, recording, summarizing, formatting, and reporting financial or economic results or information.

accrue – *v*: a finance term; to accumulate. For example, interest on debt, or dividends on preferred stock *accrue* or accumulate over time, though payments or the maturity are on specific dates. Founders in startups often *accrue* some or all of their salary until their company can afford to pay them.

accounts payable – *n*: finance/accounting term; often referred to simply as “payables” or “A/P”; amounts of money that a business currently owes to suppliers but has yet to pay. Simply, A/P is what you currently owe your suppliers of goods or services in the ordinary course of business.

accounts receivable – *n*: finance/accounting term; often referred to simply as “receivables” or “A/R”; amounts of money that a business is currently owed by customers but has yet to receive. Simply, A/R is how much money your customers currently owe you in the ordinary course of business.

accredited investor – *n*: This is a legal distinction of a type of investor who is eligible to buy equity, mezzanine, or debt securities in companies that are marketed privately (*private placement*), are not registered with the SEC, and do not trade on a public market such as the NASDAQ or NYSE. Accredited investors must be knowledgeable and sophisticated individuals or institutions and must meet required minimum levels for assets under management or net worth, which are different for individuals and institutions. The current standard states that for an individual to qualify as an *accredited investor*, she/he must have a net worth of at least \$1.0 million and/or an average income of \$200,000 over the past three years. *Consult an attorney prior to and during the fundraising process to ensure that your company conforms to SEC regulations.*

addressable market – *n*: the total potential market for a product or service, measured in dollars of revenue per year. In other words, your business's *addressable market* can be calculated by identifying the maximum number of customers who could theoretically buy your category of product or service each year, and multiplying that number times your average selling price per unit. Note that the *addressable market* includes your product sales plus those of all your direct competitors (i.e., 100 percent market share). *[NOTE: This is a crucial piece of data that every venture investor will want to know about your business, so it's worth putting serious analytical thought into it.]*

advisory board – *n*: a group of advisors formed by a company to provide sounding-board advice, typically regarding the company's strategic direction and product plans; some companies form separate, discrete advisory boards to provide science and technology input vs. business advice. A strong advisory board not only provides useful advice to a startup team, but also enhances the young company's credibility.

affiliated company – *n*: finance/accounting term; if "Company A" owns between 20% and 50% of the voting equity shares of "Company B," then "B" is considered an *affiliated company* of "A" for accounting and financial reporting purposes.

after-tax income/loss – *n*: (see *net income/loss*)

aggressive case – *n*: (see *upside case*).

amortize – *v*: to allocate a large expense, such as research and development or closing fees paid to lenders, over the period of time that that expense benefits the company. When a business *amortizes* an expense, that *amortized* expense is recorded on the company's *income statement* not when the cash expense is incurred, but rather as a series of *amortization expenses* spread out over the *amortization period*.

amortization – *n*: the act of *amortizing* an expense over the *useful life* of the expense item.

amortization period – *n*: the period of time over which a large expense item is *amortized* on the company's *income statement*. The amortization period for a given expense item is typically determined based on that item's *useful life*; tax authorities such as the *IRS* and/or accounting bodies such as *FASB* will often stipulate the maximum allowable *useful life* over which a given category of expense can be legally amortized or spread out.

angel – *n*: typically a high-net-worth individual (wealthy individual or family) who invests in one or more early-stage startup companies; angels (a.k.a. *angel investors*) typically make equity (stock) investments, although variations occur. An angel can be thought of as an individual who makes very early-stage venture capital investments, often before the business has developed to the point at which institutional venture capital investors are interested in investing. Because of the extraordinary risk associated with such early-stage investments, angels will usually look for a low *valuation* – that is, a large ownership share given the amount of their investment. (See also *accredited investor*.)

angel investor – *n*: (see *angel*)

application service provider – *n*: often referred to by the shorthand *ASP*; a company that provides its customers with access to a software application or applications through the Internet, usually via a web-browser interface; *ASP*'s host the software on their servers rather than having the customers install the software on their computers. Synonyms: *software-as-a-service (SAS)* or *hosted solution provider*.

articles of incorporation – *n*: document filed with a state government by a corporation's founders that describes the purpose, place of business, and other details of a corporation; also known as *charter* or *charter of incorporation*.

ASP – *n*: (see *application service provider* and *average selling price*)

asset – *n*: finance/accounting term; an economic resource that is expected to help generate cash inflows or reduce cash outflows. For example: Laboratory equipment is an asset for biotechnology companies; such companies expect that the laboratory equipment will help company scientists create products to sell, thereby generating cash. *Accounts receivable (A/R)* is also an asset; if customers owe your company money for goods or services delivered, you expect that they will pay you the money owed, thereby generating cash.

authorized shares – *n*: the total number of shares of stock that a company is legally allowed to issue under its *articles of incorporation*; this is a number that is determined by state law based on the company's filing in the state in which it is *incorporated* or *registered*.

average selling price – *n*: often referred to by the acronym *ASP*; the average (mean) actual transaction selling price that a business is paid by its customers for a given product or service. *Average selling price* is typically lower than *manufacturer's suggested retail price (MSRP)* due to price discounting.

B

B2B – *adj*: (see *business-to-business*)

B2C – *adj*: (see *business to consumer*)

back-office operations – *n*: administrative operations that support the primary business of the company.

Example: Customer service call-centers, transaction accounting (*A/P* and *A/R*), record-keeping, contract administration, statement generation, and general bookkeeping are all *back-office operations*. *Outsourcing* and *offshoring of back-office operations* is a current business trend that can potentially help reduce costs.

balance sheet – *n* : finance/accounting term; a financial statement that delineates a business's assets, liabilities, and shareholders' equity. This can be thought of as the statement of the net worth of a business. A business's *assets* minus its *liabilities* equal its shareholders' equity (i.e., *net worth*).

bank – *n*: (see *commercial bank*)

bankruptcy – *n* : legal term, popularly defined as *insolvency*. Technically, *bankruptcy* is a legal process put in place to insure fair and equal treatment of *creditors* of an *insolvent* company, and also to protect the *insolvent debtor* to get started again by retaining assets that are protected from liability. *Chapter 11* bankruptcy is voluntary, meaning that the *debtor* chooses to reorganize and restructure in order to repay debts. *Chapter 7*, or involuntary bankruptcy, involves the shutting down and liquidation of a business in order to repay *creditors*.

base case – *n* : in reference to a financial model, or financial projections. The expected case of the model using the assumptions that management deems most likely to occur. The financial results for your *base case* should be better than those for your *conservative case* but worse than those for your *aggressive*, or *upside case*.

board – *n* : (see *board of directors*)

board of directors – *n* : the governing body of a corporation, responsible from a legal and fiduciary perspective for overseeing the activities and behavior of the CEO and other corporate officers on behalf of the company's shareholders. Typically comprised of several individuals ("*directors*"), commonly including the CEO, perhaps one other employee/founder, as well as multiple *outside directors* (non-employees) to represent investor shareholders and/or to provide industry knowledge and connections and/or general business experience to the company's executive team. *Boards* are commonly comprised of an odd number of members in order to avoid the potential for tie votes. Often simply referred to as the *board*; sometimes abbreviated as *BOD* or *BoD*.

board meeting – *n* : a formal meeting of a company's *board of directors*, typically scheduled periodically at a frequency ranging from quarterly to monthly.

board resolution – *n* : legal term; a formal, written decision of a company's *board of directors*. A company's *bylaws* will stipulate the types of major corporate decisions that require a *board resolution*, which typically calls for a formal board vote and majority approval to be enacted.

BoD – *n* : also *BOD* (see *board of directors*)

bond – *n*: finance/accounting term; a formal debt certificates that include a promise to pay interest (in cash or *accrued* interest) at a specified annual interest rate and a promise to repay the *principal* amount, or face value, at a specific *maturity date*.

book value – *n* : finance/accounting term; the balance of an account, such as the property, plant and equipment, or equity accounts, shown on the accounting books of a company. For example, the book value of equity equals the amount of equity contributed to a company, through purchases of common or preferred stock, plus the accumulated net income (or loss) of the company. The startup manager should note that book value of equity is not necessarily an accurate measure of the *valuation* of your company.

bootstrap – *v* : launch and build a startup business without using outside funding (particularly equity financing) – i.e., funding the business solely with the founders' resources, operating cash flow and/or debt

from banks, suppliers or credit cards. On the one hand, founders of bootstrapped startup companies own 100 percent of their business since they have not diluted their ownership stake by selling stock to investors. On the other hand, bootstrapped startups may compromise their chances of success and/or prospects for optimal growth and expansion due to capital constraints (i.e., inadequate supply of money to start, operate and grow the business).

brand – *n*: The distinctive identity of a company or its product. Narrowly defined, a brand is comprised of the company's (or product's) name, tag line and logo. However, many marketing experts use a broader definition of brand, connoting the narrower meaning plus the company's or product's overall image to its target customers.

Examples: Narrowly, Dell Computer's brand includes the Dell name, logo and tagline ("Dude, you're getting a Dell!"). More broadly, Dell's brand also connotes high-quality, well-engineered, reasonably-priced computers configured uniquely for each customer and delivered and serviced in a convenient, fast and hassle-free manner. Abercrombie & Fitch's broader brand image goes beyond serviceable casual clothes to connote youthful beauty and a sexy, hip lifestyle for teens and young adults.

brand awareness – *n*: how well your *brand* is known, specifically in your target market or customer set.

bridge – *n* or *adj*: also *bridge financing* or *bridge loan*; a type of temporary financing in which a venture investor provides a privately-held company with a specified amount of capital, the purpose of which is to serve as a "bridge" between one round of equity financing and the next. Typically, a *bridge* is provided as debt that is convertible to equity (stock) at the subsequent round's stock price. Because of the financing risk associated with a bridge (i.e., the risk that the borrowing company will fail to raise its next round of equity financing, thereby leaving the bridge lender at risk of repayment), bridge lenders may receive a risk-premium incentive in the form of *warrants* to purchase additional stock and/or a higher-than-typical interest rate.

bridge financing – *n*: (see *bridge*)

bridge loan – *n*: (see *bridge*)

brokerage house – *n*: Wall Street term; a firm engaged in the business of brokering (buying, selling, trading and underwriting) securities (financial instruments such as stocks and bonds).

burn rate – *n*: the rate of net cash outflow, or the rate (monthly, quarterly, or yearly) at which a company's cash outflows exceed the company's cash inflows; in other words, the rate at which a startup business is using up, or "burning through," its cash.

business development – *n*: business function focused on strategy, creating strategic partnerships and long-term relationships with suppliers and customers. The *business development* function within a business can be thought of as a jack-of-all-trades position focused on strategic deal-making with an eye toward increasing sales and expanding the company's long-term business success or scope.

business model – *n*: the method or process by which a business makes money, or the way a business extracts economic value for its products or services. A company's *business model* includes how it charges for its offerings and the context in which those products or services are offered for sale to end-user customers (i.e., its *distribution channels*).

Examples: eBay's primary *business model* entails charging sellers a percentage "success fee" for any item sold on its auction website. The *business model* for some websites and e-newsletters is to charge a subscription fee for access to premium content, while others provide content at no charge and make their money by selling advertising and sponsorships; some employ a *business model* that entails a blend of these two ways of making money. Meanwhile, in the software business, some companies charge a monthly or annual license fee (essentially leasing or renting the software), whereas others charge a single, one-time license fee; some charge full-price for an upgrade, while others offer a credit to purchasers of the previous version.

Some online music services charge a per-tune download fee, while others charge a flat monthly subscription fee for unlimited listening or downloads. To look at an example of a personal services business, some executive recruiters charge a finder's fee calculated as a percentage of the candidate's first-year salary, while others charge a flat dollar amount for all recruiting tasks.

business plan – *n* : : a document that tells the story of your company; audiences include prospective investors, bankers, key hires and strategic partners. It should be a concise, organized, visually-impactful and easily-navigable document that is consistent with all other forms of communication used by your company to sell its message to both the outside world, and to employees and current investors in the company. A typical business plan includes: a concise company description including current status of company development (when founded, stage of development or growth, etc.); an analysis of the industry and the market; a description of the target end-user customers and the nature and extent of their unmet need; your business's solution (product and/or service) to the customers' unmet need and how it's notably better/differentiated from current competitive offerings; an execution plan (how you are going to do what you do, including high-level tasks and key milestones and dates); a description of key managers and advisors; and a set of financial projections (typically 5 years).

business-to-business – *adj* : also referred to by the shorthand *B2B*; describes marketing and selling a company's products or services to other businesses (as opposed to individual consumers). For example, Cisco Systems is primarily a B2B company in that it sells most of its Internet routers and other networking equipment to other businesses rather than to consumers.

business-to-consumer – *adj* : also referred to by the shorthand *B2C*; describes marketing and selling a company's products or services to individual consumers (as opposed to other businesses). For example, Amazon.com is a B2C company; that is, they sell products, ranging from books to tools to appliances, directly to individuals.

business unit – *n* : a.k.a. *strategic business unit* or *P&L*; a stand-alone business that operates within a larger company – in effect, a company within a company – with its own independent management team, and financially measured or tracked as a separate entity (referred to by accountants as a separate *profit and loss center*, or *P&L*).

bylaws – *n* : also referred to as *corporate bylaws*, a document that serves as the legal foundation describing a *corporation*; this document serves the same function for a *corporation* that the *operating agreement* does for an LLC.

C

C corporation – *n* : the most common legal form of organization for a company. Virtually all established companies of any meaningful size, as well virtually all startups that seek outside investment capital (venture capital), take this form (as opposed to other legal forms such as an "S" *corporation*, *LLC* or *LP*). Though the income of "C" *corporations* is subject to double taxation (federal and state governments tax a corporation's earnings as well as dividends distributed by the corporations to shareholders), many venture-fundable companies chose this structure because it is advantageous from a long-term capital gains perspective for tax purposes.

CAGR – *n* : (see *compound annual growth rate*)

cap table – *n* : (see *capitalization table*)

capital – *n* : finance/accounting term; money. Specifically refers to funds contributed by investors or lenders to a company for the purpose of funding (*capitalizing*) the infrastructure and growth needs of the business.

capital structure – *n*: finance/accounting term; a.k.a. *cap structure*; owners' equity plus long term debt; how a company is financed; shown on the *assets* side of the company's *balance sheet*.

capital structure explained: A typical company's capital structure would include various pieces, or *tranches*, of debt and equity. The make-up of a capital structure is typically represented either in a *capitalization table*, where each instrument is laid out with the corresponding dollar amounts and owners, or is represented by ratios, such as the *debt-to-equity ratio*, or the *debt-to-total-capitalization ratio*, or percentages (e.g., 30% debt/70% equity). A typical start-up company is financed primarily with equity, so that its capital structure is comprised nearly 100% of equity.

capital call – *n*: the legal right of a firm to *call*, or demand, a portion of the money committed to it by an investor under a previous *capital commitment*; the act of making such a call. For example, when a *venture capital firm* (*general partner*, or *G.P.*) has received *capital commitments* from its *limited partner* (*L.P.*) investors for a *venture capital fund*, and decides to invest in a *portfolio company*, the VC makes a *capital call* to its *L.P.* investors in order to fund the new portfolio investment.

capital commitment – *n*: a contractual agreement between an investor and a company or venture capital firm wherein the investor commits to provide up to a specified amount of capital (money), or any portion thereof, over an agreed-upon period of time.

Example: If an *institutional investor* ("*limited partner*") agrees to invest \$10 million in a *venture capital fund*, that investor does not simply send the VC a check for \$10 million. Rather, the limited partner makes a capital commitment to the VC for the life of the fund (or the defined investment period of the fund). When the VC wants to make an investment in a *portfolio company*, it makes a *capital call* to the *limited partner* for some portion of the investor's total *capital commitment* – typically its *pro rata* share of the investment. When a *capital call* occurs, the investor is contractually obligated to provide the funds requested.

capitalization – *n*: (see *capital structure*, also referred to as *capitalization structure*)

capitalization table – *n*: finance/accounting term; a.k.a. *cap table*; a chart or table that displays the specific make-up of a company's *capital structure*. A *capitalization table* lays out line-by-line the debt and equity instruments on a company's balance sheet, and who owns such instruments. In the start-up world, as most start-ups are financed with 100% equity, the *capitalization table* shows who owns how much of the company, and in which *round* or *tranche* each owner has invested, thus outlining the equity ownership of the company.

capitalize – *v*: to fund or finance a business; provide capital to enable the business to fund initial startup, ongoing operations and/or growth.

cash burn rate – *n*: (see *burn rate*)

cash equity – *n*: also referred *contributed equity* or *invested equity*, *cash equity* denotes the cumulative total of all cash invested in a company through *equity* (as opposed to debt, or borrowing) instruments over all of the company's *financing rounds*.

cash flow – *n*: finance/accounting term referring to the amount of cash that "flows" in and out of a business over a period of time. *Cash flow* means exactly what it sounds like: if your business is "*cash flow* negative," you are spending more cash in a given time period (typically per month or quarter) than you are taking in; conversely, if your business is "*cash flow* positive," you are taking in more cash than you are spending.

cash flow statement – *n*: also *statement of cash flows*; a standard finance/accounting statement that shows the amounts of cash that are spent by a business (*cash* outflows) and collected by that business (*cash* inflows) over a specified period of time, typically a quarter or year.

channel – *n*: (see *distribution channel*)

chart of accounts – *n*: finance/accounting term; a numbered or coded list of all accounts (categories and subcategories of expenses and revenues) for a company. The *chart of accounts* is the basic bookkeeping or accounting tool of companies.

charter – *n*: (see *articles of incorporation*)

charter of incorporation – *n*: (see *articles of incorporation*)

chasm – *n*: a term coined by Geoffrey A. Moore in his seminal work on marketing for technology startups, “*Crossing the Chasm*”; refers to the dramatic differences between the characteristics of and the ways a business markets to: a) on the one hand, the initial customers for a technology-based product or service, called *innovators* and *early adopters*; versus b) on the other hand, the bulk of the business’s potential customers, referred to as *pragmatists*, or the *early majority* and *late majority*.

closely-held – *adj*: describing a company that is owned by one or a small number of shareholders.

cofounder – *n*: also *co-founder*, an individual who starts a new business jointly with another person or persons (fellow *cofounder* or *cofounders*). (see *founder*)

COGS – *n*: (see *cost of goods sold*)

commercial bank – *n*: banking services provided to commercial organizations (corporations and partnerships) and individuals; typically refers to traditional banking services, such as checking and savings bank accounts, cash management accounts, interest bearing accounts, and loans.

committed capital – *n*: (see *capital commitment*)

common stock – *n*: finance/accounting term; equity or stock ownership of a company representing owners who have the lowest-priority, or a “residual,” interest in the company. In other words, in a *liquidity event* such as the sale of a company of all of its assets, *common stockholders* get paid last, only after the *principal amounts* owed *senior debt*-holders, *subordinated debt*-holders, and *preferred stockholders* are paid.

company backgrounder – *n*: a standard, one- or two-paragraph description of a company used to describe your business to your various target audiences – customers, prospects, industry analysts, investors, journalists and/or the general public – on your website, in press releases, and/or in brochures and pamphlets about your company or your company’s products.

CompanyCrafters – *n*: a management consulting firm that specializes in new-venture launch and corporate spin-outs. Based in Ann Arbor, Michigan and led by veteran executives with successful track records as technology company entrepreneurs and CEOs, the firm specializes in creating and growing high-tech business ventures. For more information see: www.companycrafters.com.

comp – *n*: (see *comparable* and *compensation*)

comparable – *n*: also *comp* or *comps*, a company in the same or a similar industry, and/or at the same or similar stage of development, to which a startup can compare itself regarding various key operating ratios and valuation metrics. *Comparables* are useful for planning startup costs and common operating ratios by providing entrepreneurs examples of the financial performance experienced by established companies in the same or similar lines of business. *Comparables* are also used to derive *valuations* of private and public companies by performing a *comparable companies analysis*.

comparable companies analysis – *n*: an analysis of several *comparables* by a business, or a consulting or banking firm hired by that company, to derive *valuation* as well as to compare and benchmark financial and operating *multiples* and metrics.

compensation – *n*: the pay an organization provides to an employee in exchange for his/her services; in addition to salary or wages, an individual's compensation may also include non-cash benefits (e.g., healthcare, life insurance, retirement savings, etc.), incentive or profit-sharing bonuses, sales commissions and/or stock options.

competitive analysis – *n*: the art of analyzing an industry, sector or niche to determine the identity, size, market share, growth rates and competitive dynamics of all the businesses competing in that space. The key to valuable *competitive analysis* is to determine not only the numerical facts, but more importantly, to understand the competitive dynamics of the industry in question: What is the basis of competition (e.g., features, price, shelf-space, channels, brand image)? How does profitability vary among the various competitors and why? A comprehensive competitive analysis looks at each company's *competitive positioning* and what each company's *competitive differentiation* is within its sector. Many schools of thought exist regarding *competitive analysis*, and several different courses in each major MBA program focus on the topic.

competitive differentiation – *n*: the ways a business differentiates itself from its competition. Competitive differentiation can take many forms, though the focus of competitive differentiation is to set your company apart from the competition, or potential competition if you are a startup company. As a startup company, it's important to determine what makes your offerings different, faster, cheaper, and/or better than your competition. (see also: *competitive positioning*)

competitive positioning – *n*: how a company positions itself relative to its competitors in the minds of customers. Companies need to position themselves effectively to address the question: How is your product or service demonstrably better, faster, cheaper or otherwise more appealing than those of your competitors? (see also: *competitive differentiation*)

compound annual growth rate – *n*: often referred to by abbreviation *CAGR*, the annual growth in revenues – of a company, a market niche or an industry – factoring in annual compounding (similar to the concept of compound interest).

Example: If market niche has aggregate revenues of \$100 million in the year 2001, and then experiences a *CAGR* of exactly 20% over the next three years, then its 2002 revenues are ($1.20 \times \$100,000,000 = \$120,000,000$); its 2003 revenues are ($1.20 \times \$120,000,000 = \$144,000,000$); and its revenues in 2004 are ($1.20 \times \$144,000,000 = \$172,800,000$). In other words, compounding means that the interest rate is applied to previous period's numbers.

compound interest – *n*: finance/accounting term; in the case of a *loan* or *bond* where interest *accrues* but is not paid, the interest *accrued* is added to the *principal amount* of the *loan* or *bond*. This increases the principal amount, and interest now *accrues* on the new higher amount. Simply put, *compound interest* is interest you pay on interest you have been charged. For the startup manager, you may see this concept in the form of *compounding dividends* on *preferred stock* that has a set dividend rate.

compounding dividends – *n*: finance/accounting term; (see *compound interest*).

confidential disclosure agreement – *n*: (see *non-disclosure agreement*)

confidentiality agreement – *n*: (see *non-disclosure agreement*).

conservative case – *n*: in reference to a financial model, or financial projections; the downside, or low case of a business's projections using the most conservative set of assumptions. The financial results for your conservative case should be worse than those for your *base case* (most likely assumptions) or your *aggressive*, or *upside case* (using the most optimistic assumptions).

consolidated financial statements – *n*: finance/accounting term; combined financial statements of a parent company with those of all subsidiaries of the parent company as if the parent company and all its subsidiaries were one entity. If you look at the financial reports publicly issued by *Fortune 500*

companies, they are all consolidated financial statements representing all of the businesses and subsidiaries of the parent company.

continuous innovation – *n*: modest, gradational, ongoing upgrades or enhancements of existing technologies or products; *continuous innovation* generally does not fundamentally change the dynamics of an industry, nor does it typically require end users to change behavior. The opposite of *continuous innovation* is *discontinuous innovation*, also known as *disruptive innovation*.

Examples: In the television industry, continuous innovation occurred for years with the steady, gradational enhancements in, and improvements in pricing and programming for, standard color televisions. By contrast, in recent years, this industry has begun to experience two types of *discontinuous innovation*, with the introduction of flat-panel, digital TVs, on the one hand, and the related phenomenon of high-definition (HD) programming – phenomena that together are dramatically and rapidly changing the size and growth rate of the industry, competitive dynamics, pricing, etc. and are suddenly compelling many consumers to expensively upgrade their TV sets and services for the first time in decades.

In the restaurant industry, menu changes or the emergence of new restaurants and chains represent *continuous innovation*, whereas the emergence of McDonald's and the fast-food phenomenon in the 1950's constituted a *discontinuous innovation*, completely changing industry growth rates, pricing assumptions, consumer perceptions of service and value, etc.

The telephone industry experienced only very modest *continuous innovation* for decades (e.g., changes in call plans, the advent of the touch-tone phone to replace the rotary-dial phone, etc.). Then the industry experienced a dramatic in the 1990's with the emergence of cellular phones with their associated dramatic changes in mobility and convenience. Currently, the industry is experiencing yet another *discontinuous innovation* with the emergence of VOIP (voice over Internet protocol), or Internet telephony, which is suddenly and dramatically changing cost and pricing paradigms and competitive dynamics in the industry.

contributed equity – *n*: (see *cash equity*)

convertible bond – *n*: a bond or debt instrument with a provision allowing the holder or the issuer to convert the security from a debt (borrowing) instrument to an equity instrument (common stock or other equity security) of the issuing corporation; such conversions typically occur at a predetermined *exchange ratio* stipulated in the *convertible bond*.

convertible preferred stock – *n*: a preferred stock issuance that is convertible to common stock of the issuing corporation at a set per-share price known as the *exchange ratio*.

copyright – *n*: the legal protection of the works of authors or artists which gives the originators the exclusive right to publish or benefit from their works, or to determine who else may do so. In the U.S., copyright law is administered by the federal government's U.S. Patent and Trademark Office (PTO).

corporate bylaws – *n*: the legal foundation document for a corporation (either "*S*" corporation or "*C*" corporation); serves the same purpose for a corporation that an *operating agreement* serves for an LLC.

corporate governance – *n*: the rules dictating how various rights and responsibilities are shared between the various stakeholders in corporations, primarily management team members, directors, shareholders, and other financial stakeholders.

corporation – *n*: a legal form of business organization that shields its individual principals (shareholders) from personal liability. Two types of *corporation* are available to businesses, the "*C*" corporation, which is a taxable entity; and the "*S*" corporation (a form commonly used only by small, *closely-held* companies), which is a *pass-through entity* for tax purposes.

cost of goods sold – *n*: finance/accounting term (often abbreviated COGS); the incremental, direct cost of producing each product or service unit that is sold to customers; sometimes also referred to as *variable cost*. The *selling price* (revenue derived from selling an individual product or service unit) minus the COGS equals the *gross margin* or *gross profit*.

coupon – *n*: finance/accounting term; also known as *coupon rate*; the interest rate paid on a *bond* or other *debt instrument*.

coupon rate – *n*: (see *coupon*)

covenants – *n*: legal term for the terms of a contractual *agreement* or *contract* that restrict the actions of one party. Restrictive *covenants* are typically written into financing agreements, such as loan or *bond* documents.

credit – *n*: finance term; the capacity to borrow (as in, “The company has a *line of credit* of \$50,000...”; the act of borrowing (as in, “We purchased the item on *credit*...”).

credit risk – *n*: finance term; from a lender’s perspective, the degree of risk (i.e., the likelihood, or probability) that a borrower will fail to repay the principal and interest of his/her loan according to the schedule stipulated in the loan agreement. Also used to refer to the borrower itself from a *creditor’s* (*lender’s*) perspective (as in, “ABC Corp. is a *good credit risk*...” or, “Acme Corp. is a *poor credit risk*...”)

creditor – *n*: finance/accounting and/or legal term; a person or entity who is owed money; lender.

critical success factor – *n*: a factor that must be addressed by a business in order to succeed. Startup businesses that clearly identify and address all their *critical success factors* have a much higher likelihood of surviving and prospering in the long run.

crossing the chasm – *v*: a term coined by Geoffrey A. Moore in his seminal work on marketing for technology startups, “*Crossing the Chasm*”; a phrase referring to the challenging strategic and marketing process by which technology startups transition from selling their products and/or services to *innovators* and *early adopters* to selling to the *early majority*, a.k.a. *pragmatists*; this transition (“crossing the chasm”) entails a dramatic shift in mentality for the startup, best understood by reviewing Moore’s book.

current assets – *n*: finance/accounting term; cash and other assets that are expected to be converted to cash or sold or consumed within one year in the ordinary course of business. *Accounts receivable* and *cash* are two types or classes of *current assets*.

current liabilities – *n*: finance/accounting term; *liabilities* such as *debts* that are expected to be repaid within one year in the ordinary course of business. *Accounts payable* are a type current liability.

customer funding – *n*: a business arrangement between a vendor and its customer wherein the customer agrees to provide the vendor with some level of up-front funding in advance of delivery of the product or service. The intention of such arrangements is usually to partially or wholly fund a vendor’s product development. The vendor benefits by receiving earlier cash flow that can help fund product development and obviate the need for as much external funding (reducing shareholder dilution). The customer, on the other hand, often benefits from such arrangements by getting an early look at a new product or technology, experiencing the ultimate benefits of the product sooner than it otherwise would, having disproportionate influence over the product’s features and delivery schedule, and possibly special discounts off the eventual list price.

D

D&O insurance – *n*: (see *directors' and officers' insurance*)

debt – *n*: borrowed funds; money, goods or services owed by one person or organization to another. From a finance/accounting standpoint, *debt* is money owed to another party (known as a *creditor*), whether that party is a bank (in which case the *debt* is a *loan*), an *institutional investor* (*bonds* or *notes*), or a *supplier* (supplier-extended credit terms). *Accounts payable (A/P)* (i.e., outstanding bills, or money owed for goods or services rendered) are not considered *debt* in accounting parlance. *Debt* can take the form of loans, bonds, notes, credit cards, equipment financing, and a number of other instruments.

debt-to-equity ratio – *n*: finance term, sometimes referred to by shorthand *D/E*; the ratio of *debt* to *shareholders' equity* on a company's *balance sheet*. *D/E* is calculated by dividing the sum of the debt on a company's *balance sheet* (bank loans, notes, etc.) by the sum of the shareholders' equity. The *debt-to-equity ratio* is a commonly-used measure of the strength of the *capital structure* of a business – answering the important question, "How strong is the company's balance sheet?". Companies with low *D/E* ratios tend to be considered better *credit risks* than companies with high *D/E* ratios.

debt-to-total capitalization ratio – *n*: finance term defined as the ratio of *debt* to *total capitalization* (*debt* plus *shareholders' equity*) on a company's *balance sheet*. Similar to the *debt-to-equity ratio*, the *debt-to-total capitalization ratio* is a commonly-used measure of the strength of a business's *capital structure* or *balance sheet*. It is calculated by dividing the sum of the *debt* on a company's *balance sheet* (bank loans, notes, etc.) by the sum of the debt and equity on a company's balance sheet. $D/(D+E)$ = *debt-to-total capitalization ratio*.

debtor – *n*: a person or entity who owes money to another person or entity (a *debtor* owes money to a *creditor* or *lender*).

declining market – *n*: the last stage of market development, in which annual industry revenues are in steady decline due to some combination of market saturation, decline in size of the target market, and/or introduction of a replacement product or technology.

Example: By 2000, traditional plug-into-the-wall telephone handsets represented a *declining market*, as the demand for these products was increasingly being displaced by growing demand for both wireless landline handsets and cellular phones.

demand – *n*: economics/marketing term; a) the extent to which customers buy, or wish to buy, a company's product or service; b) the aggregate size of the market for a product or service (expressed either in unit sales or dollars).

demand sensitivity – *n*: (see *price sensitivity*)

depreciate – *v*: finance/accounting term; to *write off*, or *expense*, the purchase price of a large expense or asset (e.g., equipment) over the *useful life* of the item.

depreciation – *n*: finance/accounting term; the act of depreciating; the expensing of the purchase price of a physical *asset* (e.g., a piece of equipment) over the *useful life* of the *asset*. *Depreciation* is not a cash expense, as equipment is paid for up-front or financed, while the cost is expensed over the *useful life* of the equipment (as opposed to when cash is paid to the vendor).

Example: ABC Printing Corp. buys a printing press for \$100,000 in cash in 2005. According to accounting standards, this type of production equipment is deemed to have a *useful life* of 10 years. Consequently, while ABC's *cash flow statement* for 2005 shows a cash outflow of the full \$100,000 for this purchase, the company's *income statements* for the 10 years starting in 2005 will show a *depreciation expense* of \$10,000 per year for the same purchase. The effect of this accounting treatment is to show a company, over the useful life of the asset, as being relatively

more profitable than it otherwise would – since lower nominal expenses or costs lead to higher relative profitability.

detailed financials – *n*: in-depth *financial statements*; typically a five-year set of *pro forma* (that is, predictive or forward-looking) *financial statements* (*balance sheet*, *income statement* and *cash flow statement*) which includes detailed expense build-up, clearly states the assumptions, and identifies key milestones and when capital will be deployed.

dilute – *v*: finance/accounting term; to proportionally reduce; to reduce a person or entity's proportional (i.e., percentage) equity ownership, typically by issuing and selling new equity (stock) to other shareholders. (see also *dilution*)

dilution – *n*: finance/accounting term; the act of diluting; the reduction in proportional (percentage) ownership of each current shareholder of a company that results from the issuance of new shares. For the entrepreneur or startup manager, dilution refers to the extent to which your personal proportional ownership of your company declines when the company issues new shares, whether in the course of raising *equity capital* (by selling newly-issued shares to investors), or through *stock option plans* to motivate employees.

Example: If you own 50% of ABC Company, a firm worth a total of \$1 million (*pre-money valuation*), and ABC Co. then sells 500,000 newly-issued shares of stock at \$1 each to a new investor (i.e., ABC raises \$500,000 in *equity capital* from that investor), then post-investment, you would own 33.3% of ABC Co., now worth \$1.5 million (*post-money valuation*). Note, in this example, that although your percentage ownership of ABC has declined, your stake maintains the same nominal value: i.e., your former ownership stake of 50% of \$1 million = \$500,000; while your new stake of 33.3% of \$1.5 million = \$500,000.

director – *n*: an individual serving on a company's *board of directors*; can also denote (but should not be confused with) an individual employee in a company with the title of "director" (e.g., "Director of Product Management," or "Director, Eastern Region Sales").

directors' and officers' insurance – *n*: a.k.a. *D&O insurance*; a type of insurance policy whose purpose is to protect a company's *directors* (i.e., members of the *board of directors*) and *corporate officers* (i.e., CEO, CFO, Secretary, etc.) from personal liability while discharging their duties on behalf of the company.

Example: Because ABC Corp. purchased a *D&O insurance* policy in 2003, when, in 2004, a disgruntled shareholder sued not only the company but also ABC's individual directors, CEO and CFO, the personal assets of those individual defendants were protected by the company's *D&O* policy (to the extent of its coverage).

discontinuous innovation – *n*: technological, product or service innovation in an industry or market that requires end-users to change behavior, and thereby tends to suddenly and dramatically change the dynamics of the industry, including possibly changes in competitive dynamics, industry revenue size and growth rate and pricing. (See examples under *continuous innovation*)

discount rate – *n*: finance/accounting term; rate used to discount cash flows to determine the present value of future expected cash flows. In finance, it is accepted that \$1 today is worth more than \$1 tomorrow. A company's discount rate allows it to determine how much \$1 tomorrow (or one year from now, or ten years from now) is worth today.

distribute – *v*: to sell; to take a product or service to market. In certain industries, *distribute* can also denote the act of serving as an intermediary between producers of a product and retailers or sellers of that product. (see also *distribution* and *distribution channels*)

distribution – *n*: the act of distributing, or moving a business's goods (products) to market for ultimate sale to end-user customers. In some industries, *distribution* means the same as *sales*. (see also *distribute* and *distribution channels*)

distribution channel – *n* : the mechanism or method by which a business brings its products to market, or *distributes* its products to its target customers and generates sales. A given business may have multiple *distribution channels*.

Examples: For a consumer product, for instance, alternative distribution channels might include traditional retail stores, telesales, direct mail, infomercials, or web-based sales. For a business-to-business product, alternative distribution channels might include direct sales (company-employed sales reps calling on end-user business customers), telesales (the same, but by telephone), or selling through distributors or manufacturers' representatives.

distributor – *n* : a) a company that specializes in *distributing* other companies' products – i.e., has contractual relationships with one or more *vendors* (producers of the original products) under which the *distributor* has certain rights, responsibilities and restrictions related to marketing and selling the vendors' products to the ultimate end-users. b) In some industries that have *multi-tier distribution* systems – e.g., the steel industry, as well as many retail sectors – the term *distributor* is alternatively used to describe a company that serves an intermediary role between a products' original producers and the companies that actually sell to end-users; these intermediaries typically purchase products from multiple vendors, provide warehousing and transport to the retailers.

Examples: a) When American producers of software decide to market their products internationally, they need to choose, for each foreign country they choose to enter, whether to set up company offices ("go direct") or, alternatively, to sign up a *distributor* to represent their products in that country. Going direct has the advantage of enabling the vendor to retain all end-user revenue (no need to pay distributor commissions). On the other hand, going through a distributor in a foreign country may offer the benefit of faster time-to-market, established customer relationships, and working with a partner familiar with local language and business customs.

b) Book publishers typically do not sell their products directly to bookstores; rather, they sell to *distributors* whose intermediary role is to purchase, warehouse and ship multiple publishers' titles to independent retailers and chain bookstores.

domain – *n* : a) a specific industry, technology and/or market (see *domain knowledge*); b) an Internet address, preceded by the web prefix *www.* or *http://* (see also *url*).

domain knowledge – *n* : knowledge about a specific industry, technology and/or market, typically based on extensive experience in that industry or technology arena. *Domain knowledge* – which can take the form of technological expertise, understanding of product trends, familiarity with key industry players and influencers, and/or knowledge of industry-specific terminology and business practices – is a *critical success factor* for entrepreneurs and startup teams.

down round – *n* : a *financing round* in which the per-share price paid for the private company's stock is lower than that of the previous round.

due diligence – *n* : legal/finance term; the process employed by potential investors or their agents of investigating a business deal or the target of an investment or acquisition; often involves exhaustive fact-checking and review of all historical and current financial and legal records. *Due diligence* is performed prior to closing the business transaction in question; often, the two parties to a transaction will sign a *letter of intent (LOI)* or *memorandum of understanding (MOU)* for a deal, stipulating that a final agreement and closing of the deal is subject to the buyer's completion of *due diligence* on the seller, to the buyer's satisfaction.

due diligence notebook – *n* : notebook containing all documents critical for investor decision making. (see *venture communication pyramid*)

E

E&O insurance – *n*: (see *errors and omissions insurance*)

early adopter – *n*: a term coined by Geoffrey A. Moore in his seminal work on marketing for technology startups, *Crossing the Chasm*; individuals or organizations that enthusiastically embrace (try and buy) new technologies or tech-based products before the vast majority of potential buyers consider it. In Moore's version of the *technology adoption lifecycle*, after *innovators*, *early adopters* buy into new technology products very early in the product or technology's lifecycle. In contrast to Moore's *innovators*, *early adopters* are not technologists, but people who understand and appreciate the benefits of the new technology and apply those benefits to what they do. In your world, the *early adopters* always have the new gadgets before they hit the mainstream.

early majority – *n*: a term coined by Geoffrey A. Moore in his seminal work on marketing for technology startups, *Crossing the Chasm*. When analyzing the market for a given product, the *early majority* is comprised of *pragmatists*, customers who to buy a new product only once it's proven, established and well-supported. *Early majority* customers typically follow after more risk-seeking and less-demanding customers known as *innovators* and *early adopters*. The *early majority* typically understands technology, but – unlike early adopters, who often buy based on a fascination with the technology and newness of the product – makes purchase decisions based on the practicality, economic benefit and reliability of the technology. Moore's *chasm* is the gap between the *early adopters* and the *early majority* customers, who are far more numerous, but, unlike *early adopters*, expect evidence of widespread adoption, proven performance, reliability and excellent service or support.

early market – *n*: the market for technology products purchased by visionary customers (Geoffrey A. Moore's *innovators* and *early adopters*). Products in the *early market* stage are either fads that will eventually fail, or will become accepted by the *mainstream market* (*pragmatists*) as technology standards.

EBITDA – *n*: finance/accounting term; acronym referring to *earnings before interest, taxes, depreciation and amortization*; sometimes referred to more generally or less precisely as *operating profit* or *pre-tax profit*. *EBITDA* is also used as a quick measurement of cash flow, in that it measures earnings (profit, or the excess of revenues over expenses) prior to taking into account the non-cash expenses of depreciation and amortization.

EBITDASO – *n*: finance/accounting term; acronym referring to *earnings before interest, taxes, depreciation, amortization and stock options* (see *EBITDA*).

economic buyer – *n*: marketing term, typically used in business-to-business markets; describes the individual, decision-maker or group within the customer organization who controls the budget and writes the checks for new product purchases.

EIN – *n*: (see *Employer Identification Number*)

elevator pitch – *n*: Imagine you walk onto an elevator and encounter the one person you want to invest in your company. You have just a minute or two to sell your business to him or her – a brief moment to explain why your company is going to make a difference. Smart entrepreneurs develop their concise company summary ahead of time, and actually rehearse it.

Employer Identification Number – *n*: often referred to by its abbreviation (*EIN*), a.k.a. Federal Employer Identification Number (*FEIN*), or *tax ID*; a unique number issued to a company, when it is first established, by the U.S. Internal Revenue Service (*IRS*); as with an individual's Social Security Number, the *EIN* is required for a startup company to engage in many basic business transactions such as opening a bank account, hiring employees, etc.

end user – *n*: also *end-user*; the ultimate customer; the individual or entity that actually uses your product or service.

entrepreneur – *n*: an individual who starts, or participates in the founding and launch, of a new company; a *founder* or *cofounder*.

equity – *n*: financial term; ownership in a corporation, generally in the form of *common stock* or *preferred stock*; in a business organized as an *LLC (limited liability company)*, equity ownership takes the form of *member interest*.

ERP – *n*: acronym for enterprise resource planning, a major category of application software or systems used by companies to plan and coordinate operations such as human resources, inventory control, or production logistics.

errors and omissions insurance – *n*: also *E&O insurance*; a type of insurance designed to protect a company and its principals and employees from legal liability stemming from claims (lawsuits, etc.) concerning the commission of *errors* and/or *omissions* in the conduct of business.

evangelism – *n*: (see *evangelist* and *evangelize*)

evangelist – *n*: using a religious analogy, an individual in a company whose role entails explaining the company's world view as it pertains to their particular market sector, with the goal of effectively promoting the company's products or services. Typically, a company's evangelist is based at its headquarters, is well-versed in the company's products and technology, and is skilled at articulately representing the company externally; his/her role is typically to support the sales process, rather than to actually sell. In many companies, the CEO and/or the founder play an "evangelical" role.

evangelize – *v*: using a religious analogy, to share with outsiders (including customers, partners and market influencers) the excitement about one's company's view of the world – and, by extension, to promote the appeal of the company's products and services. (see *evangelist*)

exchange ratio – *n*: financial term, referring to convertible securities such as *convertible preferred stock* and *convertible bonds*; the ratio at which the new securities are issued in exchange for the old securities when the convertible security holder exercises his/her conversion right.

executive summary – *n*: a two- to five-page write-up describing a company for the purposes of whetting the appetite of potential investors, key recruits and/or strategic partners. An *executive summary* is a highly-distilled version of the *business plan* or *investor presentation* that tells your company's story in very few words (and pictures or diagrams). A strong *executive summary* should briefly address the following topics (similar to the topical coverage for your *investor presentation*):

- a) the business your company is in (e.g., "... a web-based enterprise software for independent retailers...", or "...a biotech company focused on drug discovery for treating esophageal cancer...");
- b) the stage of company development (e.g., "...incorporated in Delaware in [date], targeting having demonstrable product prototype by [date]...");
- c) the target market/customers;
- d) the customers' unmet need, and how they are addressing that need today;
- e) your company's proposed solution to that unmet need (product and/or service);
- f) competition and your competitive differentiation (how your solution is demonstrably better, faster, cheaper, cooler, or otherwise more desirable to your target customers);
- g) established strategic alliances;
- h) management team;
- i) financial summary (results to-date and forecast out at least 3 years);
- j) capitalization (invested capital to-date) and amount of capital the company is current hoping to raise.

exercise price – *n*: also *strike price*; a finance/accounting term; the price per share specified in an individual's *stock option* at which the grantee (the holder of the option) has the right to purchase stock from the company once that option *vests*. The *exercise price* for options is set by the company's *board of directors*, and is adjusted from time to time for new options granted by the company. The *exercise price* "locks in" an individual's future purchase price for a given number of shares at the time that option is granted. Therefore, if the company succeeds and its success is reflected by a rise in its stock price, an individual option holder, once his/her grant *vests*, has the opportunity to purchase shares at a discount to the company's then-current share price or market value. On the other hand, if the company's stock price drops over the vesting period, the option's *exercise price* will reflect a premium over the post-vesting stock price – a phenomenon referred to as the option being *under water*.

exit – *n* or *v*: in the world of entrepreneurship and venture finance, *exit* refers to a *liquidity event*, in which owners of illiquid stock in a privately-held company – whether they be founders, employees, or investors – achieve *liquidity* for their stock holdings (i.e., a market develops for their shares where no market previously existed) due to one of two occurrences: a) the company "goes public" through an *initial public offering* or *IPO*; or b) the company is sold to another company, either for cash or for the publicly-traded stock of the acquiring company. (see also: *shareholder exit*, *liquidity*, and *liquidity event*)

exit strategy – *n*: a privately-held company's plan to achieve *liquidity* or a financial *exit* for its shareholders.

F

FASB – *n*: (see *Financial Accounting Standards Board*)

FEIN – *n*: Federal Employer Identification Number (see *Employer Identification Number*)

fiduciary – *adj*: legal term; relating to trust and legal accountability for certain financial matters of another individual or entity.

– *n*: an individual or entity to whom another has assigned *fiduciary responsibility*.

fiduciary duty – *n*: legal term; assigned responsibility to act on behalf of an owner or owners in their best financial interest. When an individual represents a party or a group in a position of trust or confidence, it is that person's duty to act primarily for the benefit of the party or group he/she represents. A *fiduciary duty* compels one to make decisions that are in the best financial interest of the party represented. In entrepreneurship and venture finance, *directors* sitting on a company's *board of directors* legally carry a *fiduciary duty* or *fiduciary responsibility* to always act in the best financial interests of the company and its shareholders.

fiduciary responsibility – *n*: (see: *fiduciary duty*)

Financial Accounting Standards Board – *n*: Usually referred to by its acronym *FASB*; the accounting industry organization that determines and promulgates operating standards for the accounting profession in the U.S. *FASB* determines and publishes *GAAP* (*generally accepted accounting principles*).

financial investor – *n*: an investor (individual or firm) who makes investment decisions primarily based on the prospect for financial gain; *financial investors* tend to use financial skills and methods to increase returns and manage risks. (By contrast, *strategic investors* – typically companies – make investment decisions based on the prospect of strategic benefit for their organization, such as future access to a key new technology or product.)

Example: *Venture capitalists* are classic examples of *financial investors*; their partnership agreements with their *limited partner* investors stipulate that they will strive to invest their fund(s) in such a way as to try to maximize financial return for their investors.

financial projections – *n*: detailed financial statements, typically developed by a company's management, that represent the expected future financial results of a company; an important component of a company's *business plan*; a distilled version of *financial projections* should also appear in a company's *executive summary* and *investor presentation*. Different from *pro forma financial statements*, which represent expected future financial results after a specific, significant event, such as a fundraising round, or a merger or acquisition.

financial risk – *n*: a.k.a. *financing risk*; one of the four categories of *venture risk*; the likelihood that a new venture or young business will fail to raise sufficient capital financing (all *rounds*) to fund the startup to a self-financing, self-sustaining, cash flow-positive operating state.

financial statements – *n*: finance/accounting term; a set of financial accounting tables that together describe the financial performance of a company or business unit for the most recently completed period (typically a year or quarter); often also summarize financial results from prior periods for comparison purposes; *financial statements* are typically comprised of an *income statement* (a.k.a. a *profit and loss statement*, or *P&L*), a *cash flow statement*, and a *balance sheet*. (see also *pro forma financial statements*)

financing risk – *n*: (see *financial risk*)

financing round – *n*: a discrete fund-raising event for a company, usually occurring over the course of several weeks to no more than a few months, during which the company raises financing with a specific *series of stock or security*, at a set price or *valuation*. Each time a company raises money, it completes a *financing round*. A company will set a goal to raise a set amount of *capital* in each round at a certain *valuation* or price per share. Once that amount of money is raised, the round is closed. In the case of *preferred stock*, each financing round is referred to as a *series* (e.g., Series A, or Series B).

friends and family financing – *n*: a form of startup funding in which the entrepreneur asks friends and family members for investments in an early-stage business. This is frequently the first *financing round* for young companies – often when a company is just being launched and is still far from producing a product and generating revenue – and typically precedes financing by *angels*, *venture capitalists* and/or *banks*. (Referred to by some cynics as the *friends, family and fools round*, implying that very-early-stage companies will often raise money from anyone willing to give them money, sometimes including individuals lacking in financial acumen or venture-investing experience or perspective.)

founder – *n*: an individual who, either by her or himself or in concert with others, starts a new company from scratch; if there are multiple founders of a given business, they can be referred to as either *founders* or *cofounders*.

founders' equity – *n*: ownership shares in a company issued to the original organizers, or *founders*; founders' equity in a *corporation* is typically in the form of *common stock*. If the company is legally organized as an *LLC*, the founders hold *member interest* rather than *stock*.

FUD factor – *n*: acronym for fear, uncertainty and doubt. The *FUD factor* is a commonly-used sales tactic by which one vendor raises concerns in the mind of a prospective customer regarding certain qualities or capabilities of the vendor's competitors.

fund – *n*: a pool of committed capital dedicated to investment in a specific asset class; for example, a *venture capital fund* is a professionally-managed fund dedicated to investing in high-potential private companies.

– *v*: to provide *capital* or *money* to financially enable a business entity.

fund vintage – *n*: the year a *fund* was formed (typically refers to the year it was closed)

Example: A *venture capital fund* that was closed in July, 2000 is a "2000-vintage fund."

G

GAAP – *n*: (see *generally accepted accounting principles*)

general counsel – *n*: the attorney or lawyer of record for a company, who is ultimately responsible for the legal affairs of the business; usually attends the regular meetings of the company's *board of directors*; in startups, often also holds the title of *secretary of the corporation*.

general partner – *n*: abbreviated as GP, the managing partner of a *partnership*, such as an *LLP*, or the managing entity of an *LLC*. In contrast, *limited partners* have ownership stakes in a partnership due to having contributed capital, but are not involved in the management of the partnership. In the case of an *LLP*, the general partners have limited legal liability. (Not to be confused with the job title of *general partner* used in some investment firms and other partnerships and LLCs.)

Example: A typical *venture capital fund* has the legal form of a *limited liability partnership (LLP)* in which investors in the fund are *limited partners*, and the *venture capital firm* that raised the fund has the legal role or designation of *general partner* (i.e., the *VC firm* is legally responsible for managing the fund's investments).

generally accepted accounting principles – *n* or *adj*: accounting term; usually referred to by its acronym *GAAP*; the guidelines, rules, procedures and detailed practices in accounting that govern the practice of accounting in the U.S. The *Financial Accounting Standards Board (FASB)*, a self-regulating group organized by the accounting industry, determines, publishes and administers/enforces *GAAP* standards.

go public – *v*: to take a privately-held company through an *initial public offering (IPO)*, thereby enabling its stock shares to be traded (bought and sold) by the general public for the first time.

governance – *n*: (see *corporate governance*)

GP – *n*: (see *general partner*)

grant – *n*: a type of funding typically provided by government agencies or non-profit foundations. If your company wins a grant, this is "free money" – i.e., the grant does not purchase an ownership stake in your company, and your company does not have to pay it back.

– *v*: to give. In the corporate world, used frequently in reference to stock options for employees; employees are *granted* stock options.

gross margin – *n*: finance/accounting term; a ratio, usually expressed as a percentage, equal to the selling price minus the *cost of goods sold (COGS)* – i.e., the *gross profit* – divided by the selling price. *Gross margin* is essentially the same as *gross profit*, but expressed as a percentage of selling price or revenue rather than in absolute dollars.

Example: Some industries, such as software, are inherently high-*gross margin* businesses, since the cost to produce each incremental unit (the cost of the CD or the electronic download from the company's website) is near-zero compared to its selling price. If a software company charges \$280.00 per unit for its product and incurs a production cost (disc and packaging), or *cost of goods sold*, of \$7.00, then its *gross margin* is calculated as $(\$280 - \$7) / \$280 = 97.5\%$. The *gross profit* in this example is \$273 per unit.

In a shoe store, the *gross margin* on a pair of \$100 shoes is determined by subtracting the cost to the store of acquiring the product (as opposed to its original cost of production by the manufacturer). Therefore, if a given pair of shoes is acquired by the store for \$50 and sold for \$100 (referred to in the retail industry as 100% *mark-up*), then the *gross margin* is calculated as $(\$100 - \$50) / \$100 = 50\%$.

gross profit – *n*: finance/accounting term; equal to the selling price minus the *cost of goods sold* (COGS); the same as *gross margin*, but expressed in absolute dollars as opposed to as a percentage of revenue. (see examples under *gross margin*)

H

harvest – *v*: (see *Harvest stage*)

Harvest stage – *n*: The fifth and last stage of the *Venture Value Chain*. In the *Harvest stage*, the executives and/or board of directors of the business seek to provide the business's owners with a return on their investment by either seeking a *liquidity event* (i.e., and *initial public offering* or sale of the business) or otherwise producing cash returns by managing the business in such a way as to maximize profits and dividends.

I

incentive stock option – *n*: often referred to by its abbreviation, *ISO* (pronounced ICE-oh); a tax-deferred employee stock option that provides tax advantages for the employer and the employee when compared to *non-qualified stock option* (NSO) plans. (for a more in-depth explanation, see *stock option*)

income – *n*: finance/accounting term; revenues minus expenses.

income statement – *n*: finance/accounting term; the *profit-and-loss statement* of a company.

incorporate – *v*: to create a new corporation by making a legal filing with the Secretary of State of a given state (Delaware, California, Michigan, etc.).

incorporation – *n*: the act of incorporating, or creating a new corporation by making a legal filing with the Secretary of State of a given state (Delaware, California, Michigan, etc.); for an LLC, this act is called *formation*.

independent software vendor – *n*: often referred to by the acronym ISV; a company whose primary business is the development and marketing of commercial software.

industry map – *n*: a visual and/or written representation of all players in an industry – e.g., suppliers, manufacturers, distributors, consultants, influencers, dealers and customers – and how money, services and products change hands within the industry. It's very useful for an entrepreneurial team to develop an *industry map* for their particular industry or market space, first of all to define their company's position in their industry, and secondly in order to communicate to others as part of a *business plan*, *executive summary* and/or *investor presentation*.

industry marketing – *n*: in a *business-to-business* company, the sub-set of the marketing discipline that entails tailoring, positioning and promoting a company's products and/or services to a specific industry.

Example: An enterprise software vendor may have distinct individuals or teams assigned to financial *industry marketing* vs. manufacturing *industry marketing* vs. retail *industry marketing*.

inflation – *n* : general decline of purchasing power per unit of currency (e.g., for one dollar). For example, because of inflation, you can only buy 2 candy bars for a dollar now, whereas you could have purchased four candy bars for a dollar 20 years ago.

influencer – *n* : marketing term; an organization, individual or institution that influences the buying behavior of *customers*. Examples include industry consultants, the trade press, business or popular media, trade shows, and professional societies and conferences.

Example: Although dermatologists do not prescribe ABC Pharmaceutical Co.'s over-the-counter skin ointment, ABC focuses considerable marketing effort on dermatologists and their professional society, the American College of Dermatology, since ABC considers skin doctors to be powerful *influencers* of their patients' decisions about whether to use skin ointments, and, through their recommendations, specifically which brands to purchase.

initial public offering – *n* : the event of first listing the stock of a formerly private company on a public stock exchange (e.g., NASDAQ, the New York Stock Exchange, etc.) so that the company's shares can be freely traded – bought and sold – by the investing public; commonly referred to by its abbreviation (*IPO*); going through the process of an IPO is often referred to as *going public*.

innovators – *n* : a term coined by Geoffrey A. Moore in his seminal work on marketing for technology startups, "*Crossing the Chasm*"; the first customers of a newly commercialized technology in the *technology adoption life cycle*. *Innovators* proactively seek out and purchase new technology products. They tend to be technologists themselves who are fascinated with new innovations and the functions or properties of new devices, regardless of the new product's unproven benefits and lack of track record.

insolvency – *n* : legal term; financial condition in which a person or company is unable to meet its near-term financial obligations. If a company can not recover from *insolvency* quickly, they may be forced to file for *bankruptcy* protection.

institutional financing (or funding) – *n* : typically refers to funding that a startup company receives from *venture capitalists*; usually takes the form of equity investment capital (i.e., the startup company issues additional shares of stock, which it sells to the VC in exchange for cash at a negotiated price per share).

institutional investor – *n* : term used for organizations possessing extremely large amounts of money, that make multiple financial investments and oversee their investment portfolio. Examples of *institutional investors* include pension funds, mutual funds, university endowments, foundations, insurance companies, corporate treasuries and money management firms.

Example: Most *limited partner* investors in large *venture capital funds* are *institutional investors* (as opposed to high-net-worth individuals).

intangible assets – *n* : assets of a firm that are not physical in nature and therefore tend to be more difficult than physical assets to value.

Example: A company's *intellectual property*, such as patents, trade secrets or software source code, are considered *intangible assets*.

intellectual property – *n* : often referred to by its abbreviation (*IP*); an intangible asset of a company that consists of human ideas. Legally, *patents*, *copyrights* and *trade secrets* are all forms of intellectual property. In the startup world, a company's *IP* is a key part of its "secret sauce" – its key differentiation that sets it apart from its present and future competition.

interest rate – *n* : finance/accounting term; the percentage applied to the *principal amount* of a loan or bond used to calculate the dollar amount of interest charged. $Interest\ rate \times principal\ amount = interest$.

inventory – *n* : goods held by a company to sell to customers.

invested equity – *n* : (see *cash equity*)

investment round – *n*: *financing round* from the perspective of the investor (see *financing round*).

investment banking – *n*: the process of linking organizations to investors through securities offerings. *Investment banks* underwrite securities offerings, such as bonds, preferred stock, or common stock offerings, and sell the securities to other financial institutions, such as mutual funds or brokerage houses that make a market in the securities. *Investment banks* also offer advisory services, such as mergers and acquisitions (M&A) advisory services, or other corporate finance advisory services. (See also *underwriter*.)

investor pitch – *n*: (see *investor presentation*)

investor presentation – *n*: a 10- to 25-slide presentation that tells the story of your company simply and compellingly to potential investors. A strong *investor presentation* should address the following topics (similar to the topical coverage for your *executive summary*):

- a) the business your company is in (e.g., "... a web-based enterprise software for independent retailers...", or "...a biotech company focused on drug discovery for treating esophageal cancer...");
- b) the stage of company development (e.g., "...incorporated in Delaware in [date], targeting having demonstrable product prototype by [date]...");
- c) the target market/customers;
- d) the customers' unmet need, and how they are addressing that need today;
- e) your company's proposed solution to that unmet need (product and/or service);
- f) competition and your competitive differentiation (how your solution is demonstrably better, faster, cheaper, cooler, or otherwise more desirable to your target customers);
- g) established strategic alliances;
- h) management team;
- i) financial summary (results to-date and forecast out at least 3 years);
- j) capitalization (invested capital to-date) and amount of capital the company is current hoping to raise.

IP – *n*: (see *intellectual property*)

IPO – *n*: (see *initial public offering*)

ISO – *n*: (see *incentive stock option*)

ISV – *n*: (see *independent software vendor*)

J & K

KISS philosophy – *n*: acronym for KeeP It Simple, Stupid. A guiding philosophy widely used in organizations that aims to focus management attention on the core attributes of a product, service or task. Burdening products, services or tasks with unnecessary add-ons leads to unnecessary development delays and management challenges. (So, when you think of how cool your product might be with just one more bell or whistle, just KISS that idea goodbye.)

L

laggard – *n*: a term coined by Geoffrey A. Moore in his seminal work on marketing for technology startups, *“Crossing the Chasm” – 1991, HarperCollins*; the last group of potential customers to adopt a new technology or innovation in the *technology adoption life cycle* (if they adopt it at all).

Example: Elderly people, particularly elderly women, will probably prove to be the *laggards* in the markets for PDAs (personal digital assistants) and MP3 digital music players.

late majority – *n*: a term coined by Geoffrey A. Moore in his seminal work on marketing for technology startups, *“Crossing the Chasm” – 1991, HarperCollins*; the *late majority*, like the *early majority*, is comprised of *pragmatists* who are primarily concerned with the practicality of a technology in making their purchasing decisions. However, the *late majority* is driven more by necessity than desire. They tend not to be comfortable with technology, and purchase new technology only once it has become an established standard – i.e., once it’s no longer new. The *late majority* can be thought of as the sector of the market that watches, and then follows, the mainstream.

Launch stage – *n*: The second stage of the *Venture Value Chain*. In the *Launch stage*, the company is legally formed and initially funded. The key tasks in the *Launch stage* are legal formation, *seed* funding, and establishing proof-of-concept and proof-of-market.

LBO – *n*: (see *leveraged buyout*)

lead the round – *v*: venture capital term, a.k.a. *price the round*;

lender – *n*: a person or entity that lends money to another; typically a bank, but sometimes an individual investor or institutional investor (see also *creditor*).

letter of intent – *n*: legal term; often referred to by its acronym, *LOI*; a brief, temporary, pre-contract document between two or more entities that outlines the parties’ intention regarding a future contractual or business arrangement. The purpose of a *letter of intent* is for the parties to establish and document a common understanding of the form in which they see their legal or business relationship evolving; *LOIs* tend to have a temporary, limited term and serve the purpose of a “place-holder” while the parties continue detailed *due diligence* and/or *negotiation*. (see also: *memorandum of understanding* or *MOU*)

leveraged buyout – *n*: abbreviated *LBO*, a transaction in which a leveraged buy-out firm (LBO firm or LBO shop) acquires a business, using debt to fund at least 50% of the purchase price. This type of *liquidity event* is most often seen in traditional bricks-and-mortar businesses with the consistent cash flow necessary to support the buyer’s debt service.

leveraged recapitalization – *n*: similar to an LBO, a transaction where a management team, sometimes partnering with an investor or investment firm, purchases a company, using debt to fund at least 50% of the purchase price. This type of *liquidity event* is typically seen in traditional bricks-and-mortar businesses with consistent cash flow to support debt service. *Leveraged recapitalizations* are also known as *management buyouts* (*MBOs*).

leverage

– *v*: to borrow money (use debt capital rather than equity capital) to fund a business or project, with the goal of increasing *return on equity*.

– *n*: the use of debt in a business; the beneficial effects of the use of debt (i.e., additional capital to fund the business without taking on more equity investment and the associated dilution).

liability – *n*: a) finance/accounting term; an economic obligation of an organization to another organization or individual, or claims against the assets of an organization by outsiders. b) legal term; the quality of being liable (i.e., obligated, or legally and financially responsible) under the law.

limited liability – *n*: legal term; a feature of the corporate (or *corporation*) form of organization under which corporate *creditors* can make claims only against corporate assets rather than the assets of the corporation's owners, *officers* or *directors*. This feature is also shared with the *LLC* form of organization.

Example: All startup companies would be wise to legally form their business (incorporate or form an *LLC*) so that the founders and owners can benefit from the *limited liability* provisions, shielding their personal assets from future potential business creditors or legal actions.

limited liability company – *n*: abbreviated *LLC*, a legal form of company that has many of the tax advantages of partnerships, notably the characteristic of being a pass-through entity for tax purposes. For companies with only one or two owners and no plans to raise money from venture investors, this form of organization has the advantage (over the *corporation* legal form) of enabling owners to personally receive tax advantages of early-stage losses, as well as to distribute profits without being subjected to both corporate and personal taxation. However, unlike traditional partnerships, the *LLC* structure protects owners from personal liability in the event of a legal judgment against the company. (Note: See also “*S*” *corporation*, another form of business legal organization that shares the “pass-through” feature of the *LLC*.)

limited partner – *n*: an investor in a *venture capital fund*, which typically takes the legal form of a *limited partnership* or *LLC* and is managed by a *venture capital firm* that serves the legal role of *general partner* of the fund.

limited partnership – *n*: a type of legal entity that is typically used by *venture capital firms* for each of their *venture capital funds*. Many venture capital firms and funds are electing the *LLC* structure, however, because owners (limited and general partners) are protected from personal liability.

line of credit – *n*: finance term; frequently referred to by its acronym, *LOC*; a mechanism by which a company arranges ongoing short-term borrowing from a bank. A *line of credit* functions very much as if it were a company's credit card: the bank sets an interest rate for borrowing against the line of credit, an upper credit limit, and rules governing the schedule of repayment.

liquidation – *n*: the process of turning assets into cash in order to pay *creditors*. Companies in dire financial trouble contemplate liquidation as a way to potentially return more value to shareholders than in a *bankruptcy* scenario.

liquidation preference – *n*: term included in many venture capital financing agreements. States that the investors in a given round will receive a set multiple of their investment before investors in earlier rounds see any return. For example, investors in a B round deal with a 2x liquidation preference would receive 2x their investment before investors in the A rounds and earlier received a return.

Liquidity stage – *n*: the fifth and final stage of the *Venture Value Chain*. In the *Liquidity stage*, the company achieves liquidity for its shareholders – outside investors, founders, and option-holding employees – through a *liquidity event*. In a nutshell, the company returns money to investors at the *Liquidity stage* through some sort of sale event, whether that is an *IPO*, an *M&A transaction* or a *recapitalization*.

liquidity – *n*: the ability for shareholders to sell or trade their stock holdings – i.e., to convert their stock shares to liquid cash.

liquidity event – *n*: an event that enables shareholders of a privately-held company to convert their *illiquid* ownership shares into cash. Most typically, startups achieve *liquidity* for their shareholders through one of three types of *liquidity events*: an *initial public offering (IPO)*; a sale of the company or its assets in an *M&A transaction*; or a leveraged buyout or management buyout. (see also: *exit* and *shareholder exit*)

LLC – *n*: (see *Limited Liability Company*)

LOC – *n*: (see *line of credit*)

LOI – *n*: (see *letter of intent*)

LP – *n*: (see *limited partner*)

loan – *n*: money borrowed by a company; a form of debt. A company can borrow money from any individual, company or institution, though loans are generally provided by financial institutions such as commercial and investment banks.

logo – *n*: the visual representation of your brand; a unique graphical mark or symbol. Some logos incorporate the actual company or product name (e.g., IBM's logo) and/or a *tag line*, while others are simply easily identifiable symbols, such as McDonald's golden arches.

lower of cost or market – *adj*: financial term, abbreviated *LCM* or *LOCOM*, valuation convention for portfolio companies used by some *venture capital funds* and other *investors* where investments are listed on the books at the lower of either the cost of the original investment or the market value of the investment. Some VCs prefer other valuation methods, since *LCM* understates fund performance during the life of a fund.

M

M&A – *n* or *adj*: (see *mergers and acquisitions*)

mainstream market – *n*: the vast majority of customers for a technology product, comprised of what Geoffrey A. Moore in *Crossing the Chasm* refers to as *pragmatists*, or the *early majority* and *late majority*. Pragmatist customers in a product's *mainstream market* prefer proven, established, well-supported products and expect technology products to solve problems or make their jobs easier; unlike Moore's *innovators* and *early adopters*, customers in the *mainstream market* do not find the latest technology appealing for its own sake, and prefer proven standards.

management buy-out – *n*: (see *leveraged recapitalization*)

management risk – *n*: one of the four categories of *venture risk*; the likelihood that a new venture will fail to meet its business and financial targets due to inadequate and/or inappropriate management, or due to poor teamwork.

manufacturer's suggested retail price – *n*: often referred to by the acronym *MSRP*; the average (mean) actual transaction selling price that a business is paid by its customers for a given product or service. *Average selling price* is typically lower than *manufacturer's suggested retail price (MSRP)* due to price discounting.

marcom – *n*: also *marcomm*, shorthand term for *marketing communications*

margin – *n*: profit, typically expressed as a percentage of gross sales or revenue; the difference between what something costs, and what it is sold for. (see also: *gross margin*, *operating margin*, and *net margin*)

margin structure – *n*: a representation of the *value chain* for a given product or service showing what percentage of each dollar of end-user, point-of-purchase revenue accrues to each step in the value chain (e.g., invention, design/engineering, manufacturing, marketing/branding, distribution/inventory/sales).

The percentage remaining after accounting for each step in the value chain equals the operating margin, or pre-tax profit expressed as a percent of the selling price of the product or service.

market

– *v*: to promote to prospective customers with the intent of interesting them in purchasing a product or service

– *n*: an active set of end-user customers who purchase, or have the potential to purchase, a certain type of product or service based on common interests or needs

Examples: the *market* for cell phones, the *market* for electronic medical record software, or the *market* for DVDs of syndicated television reruns

market maker – *n*: financial/Wall Street term; a brokerage house or investment bank that specializes in buying or selling a specific security of a specific issuer for the purpose of creating a liquid market for buyers and sellers of that security, and to make money in the process by charging a spread (margin) between the purchase price and the sales price of that security. Investment banks and brokerage firms typically *make a market* in many securities issued by multiple different companies.

market research – *n*: the process of systematically investigating the market for a given product or service, gathering and analyzing data regarding the number and location of customers; customers' interests, preferences, and buying habits; and pricing and price sensitivity of demand. Such data is gathered and analyzed for the purpose of gaining insight about a certain market in order to help a company formulate its marketing strategy. Many firms specialize in performing and selling market research to corporate clients (e.g., Information Resources, Inc., AC Nielsen, International Data Corp. and Gartner Group).

market rate – *n*: a generic term referring to the ambient price, rate and/or terms available in the market for investments, goods or services; "what the market will bear" at a given point in time.

market risk – *n*: one of the four categories of *venture risk*; the risk that the target market, or envisioned market, for a firm's new products or services turns out to be substantially less attractive than originally expected; the likelihood that a company has overestimated the number of potential customers for its product, the price they are willing to pay, and/or the rate at which they are ready to adopt the new product or approach. *Market risk* can be caused by several factors, including: the company overestimating the number of customers, customers not finding a new product appealing, customers not being ready to adopt a new approach that your product requires, unanticipated competition, or an unanticipated replacement technology or product. The most common basis for *market risk* is a company simply overestimating demand, and therefore building sales forecasts around unrealistic expectations of customer interest in their product or service.

market segment – *n*: a portion of a business's total potential market for its product or service, comprised of customers with similar interests, needs and buying patterns with respect to the product. (see also *market segmentation*)

Example: Logical *market segments* for the manufacturers of woodworking tools (such as drills, table saws and lathes) might include amateur do-it-yourselfers, serious woodworking hobbyists, professional carpenters, finish carpenters, and professional cabinet-makers. Different manufacturers and retailers of woodworking tools tend to focus on different market segments – while some offer inexpensive tools appealing to amateurs, others tend to focus on high-end, less price-sensitive users with more expensive, feature-rich products.

market segmentation – *n*: the process of subdividing a market into distinct groups of customers with similar needs, such that a subset of the market (a *segment*) can be selected as a target market and can be reached with a distinct marketing mix. One way to check the legitimacy of a market segment is to ask whether the customers in that segment are *homogeneous* and *self-referencing* (i.e., do they "talk to each other," read the same publications, attend the same conferences, belong to the same professional associations, shop in the same places, etc.); self-referencing groups of customers should be relatively easily and cost-effectively reached by a single marketing mix. Markets may be *segmented*: a)

geographically (Where do they live?); b) demographically (i.e., according to age, race, gender, education, religion, etc.); c) psychographically (i.e., according to their interests, attitudes, opinions, and needs); and/or d) behavioristically (i.e., according to usage patterns, history, responsiveness or loyalty). (see also *market segment*)

marketing – *n*: the business function of identifying a target market or set of customers for a given product or service and systematically making those customers aware of the promoting growing, maintaining or defending a market for a product or service. For you and your company, marketing is the actions you perform to grow, maintain or defend your product or products successful position in the marketplace.

marketing collateral – *n*: promotional literature and printed or electronic information designed to inform customers about a product or service; can include brochures, data sheets, flyers, point-of-sale displays, promotional CDs or DVDs, websites, and promotional gifts.

marketing communications – *n*: often referred to by the shorthand *marcom* or *marcomm*; the subset of the marketing field, sometimes referred to as *promotion* or *marketing promotion*, that entails formulating and communicating messages regarding a product or service to the target audience. Depending on the business, *marketing communications* can entail the development and distribution of *marketing collateral*, *public relations*, *advertising*, and/or *direct marketing*. The purpose of *marketing communications* is to build image and awareness (*brand recognition*) regarding a product or service among target customers, and to generate qualified *sales leads*.

marketing promotion – *n*: (see *marketing communications*)

mature market – *n*: stage of market development in which products have reached mainstream customers; annual industry revenue growth slows, eventually hitting a zero-growth plateau; consolidation and shakeout is underway, reducing the industry to a few strong competitors; strong price competition and margin compression become common; annual revenue for the industry flattens.

maturity date – *n*: in the case of debt, the date when the total principal amount of the debt outstanding must be repaid.

MBO – *n*: acronym for *management buy-out* (see *management buy-out* or *leveraged recapitalization*)

member – *n*: legal term; a partial or full owner of a business legally formed as an LLC (*limited liability company*)

member interest – *n*: legal/finance term; ownership interest in an LLC (*limited liability company*), serving a similar function to *stock* in a *corporation*

merchant account – *n*: a bank account that allows your business to process credit card purchases.

mergers and acquisitions

– *n*: commonly referred to by its acronym, *M&A*; the field or activity concerned with companies buying (*merging with* or *acquiring*) other companies; also refers to the *M&A*-related advisory services provided to corporations by investment banking firms

– *adj*: describing or referring to a merger or acquisition activity, function or deal

memorandum of understanding – *n*: legal term; often referred to by its acronym, *MOU*; another name for a *letter of intent*, or *LOI*; a brief, temporary, pre-contract document between two or more entities that outlines the parties' intention regarding a future contractual or business arrangement.

minute book – *n*: a.k.a. *minutes book*; a binder, typically maintained by a company's *secretary* or the *corporation* and/or its *general counsel* (lead attorney) that contains all relevant corporate governance documents and records of all meetings, transactions and actions of the company's *board of directors*. A

company's *minute book* typically includes all: articles of incorporation or formation documents, corporate bylaws, board meeting minutes, board resolutions, shareholder notifications and announcements of shareholder meetings, and a shareholder schedule.

mission – *n*: a company's brief statement of what it intends to accomplish, for whom and to what end. A company's *mission statement* should communicate, in a powerful, brief form, its *raison d'être* (reason for being) to its employees, partners, customers, suppliers and other partners.

mission statement – *n*: a brief (typically 15-75 words) statement that concisely conveys a company's mission or *raison d'être* (essential reason for being) to its key stakeholders, including employees, shareholders, customers, suppliers, and partners. A good mission statement should communicate what you do, how you do it (your *business model*), for whom (who's the customer?), and based on what underlying principles of behavior (e.g., integrity, quality, customer satisfaction).

MOU – *n*: (see *memorandum of understanding* or *letter of intent*)

MSRP – *n*: (see *manufacturer's suggested retail price*)

multiple – *n*: finance/valuation term; a general term to describe any metric that is expressed as a multiple of another metric.

Example: The price-to-earnings, or PE multiple, is commonly used as a measure of the relative value of a given public company's stock compared to that of other companies. The company's market value of equity per share (share price) is stated in terms of a multiple of reported net income per share (earnings).

multi-tier distribution – *n*: a mode of product distribution, common in certain industries such as retail, in which vendors (i.e., producers of the original products) sell to an intermediary *distributor*, who may carry multiple vendors' products, and who in turn sell products to the retailers or sales entities that actually sell to end-user customers. (see example (b) under *distributor*)

N

nascent market – *n*: a very new, formative market; the market development stage in which vendors sell their products or services to *innovator* and *early adopter* customers. In typical nascent markets, rapid innovation occurs, many new competitors (including startups) enter, and competition tends to revolve around innovation and product features rather than around brand, service or price.

net income/loss – *n*: finance/accounting term, sometimes referred to as *after-tax income*, or simply as *earnings*; the income or loss remaining after deducting all expenses from revenues, including interest, taxes, depreciation and amortization.

net income/loss margin – *n*: financial/accounting term, often referred to as *net margin*; the income (profit) or loss remaining after deducting all expenses from revenues, expressed as a percentage of revenues. Margin calculations allow for comparisons between different-sized businesses.

net margin – *n*: (see *net income/loss margin*)

NDA – *n*: (see *non-disclosure agreement*)

NSO – *n*: (see *non-qualified stock option*)

non-disclosure agreement – *n*: also referred to by its acronym *NDA*, or as *confidential disclosure agreement*, *confidentiality agreement*, or *secrecy agreement*; a contractual agreement between two or

more parties in which the parties commit to keep certain specified information confidential, or not to disclose it to others. *NDA*s are frequently signed by two organizations at the beginning of business discussions in which the parties anticipate divulging business, technology or product planning secrets to each other. An *NDA* can be a "one-way *NDA*" (in which the first party agrees to maintain the confidentiality of the second party's secrets), or "two-way *NDA*" (in which both parties mutually agree not to disclose the other's secrets). *NDA*s are typically very brief (1-3 pages) and are often form agreements reflecting very standard legal terms and language.

non-qualified stock option – *n*: often referred to by its abbreviation (*NSO*); a type of stock option that is less tax-advantageous, for both the employer and the recipient, than an *incentive stock option (ISO)*. Unlike *ISO*s, which can only be granted to a company's employees, *NSO*s can be granted to non-employees (e.g., *outside directors* on a company's *board of directors*, or contractors). Typically, *NSO*s are accommodated within a company's *option plan* that also provides for the issuance of *ISO*s.

O

OEM – *n*: acronym for *original equipment manufacturer*; counter-intuitively, this term refers to a company that markets and sells a product that is produced by another company; typically, *OEM*s will *private label* the product (i.e., market the product under its own brand name rather than that of the product's manufacturer).

– *adj*: referring to an *OEM* distribution strategy, business model or partner.

– *v*: a) to source (acquire the right to sell) a product from another manufacturer and then to *private label* it (i.e., market it under one's own brand); b) to distribute one's products through *OEM*s. [Note that the verb usage of this term is confusingly applied by different people and in different industries to denote essentially opposite acts: on the one hand, "to *OEM*" can refer to the act of producers selling their products through others who re-brand them; on the other hand, "to *OEM*" is also occasionally used to denote the act of acquiring products from another producer and then selling them under one's own brand.]

offshore

– *adj*: from an American perspective, describing a business entity or activity that is based or carried out outside the United States

– *v*: to conduct a business activity or function (e.g., back-office operations, IT development, call center, manufacturing, etc.) outside the United States

operating agreement – *n*: the legal foundation document describing an *LLC (limited liability company)*; this document serves the same function for an *LLC* as *corporate bylaws* serve for a corporation.

operating expenses – *n*: finance/accounting term; expenses related to the operations of the business (e.g., salaries, rent, office equipment, depreciation, selling and administrative expenses, etc.).

operating income – *n*: finance/accounting term; also referred to as *operating profit*; profits from operations calculated by subtracting the cost of goods (or services) sold (*COGS*), as well as the costs to run the business (salaries, rent, etc.) known as *operating expenses*, from *revenue*. *Operating income* measures the health of the core business before taking into account the effects of financing charges, such as interest, and taxes.

operating margin – *n*: finance/accounting term; *operating income* as a percentage of *revenues*. *Operating margin* measures the health of an organization's business operations by showing operating profitability on a percentage basis, which allows for apples-to-apples comparisons with larger and smaller businesses.

option – *n*: (see *stock option*)

option pool – *n*: (see *stock option pool*)

outside director – *n*: a member of a company's *board of directors* who is not an employee or officer of the company. *Outside directors* are usually either major investors (or representing a large investor group) and/or individuals with extensive industry experience who can offer useful advice and valuable professional contacts.

outsource – *v*: to contract with an outside service provider to handle a certain business function for a company; typically considered with non-core functions

Example: Functions frequently outsourced by companies include IT acquisition and administration/support, manufacturing, packing/shipping/order fulfillment, and various human resources functions such as payroll processing and benefits administration.

P

P&L – *n* and *adj*: (see *profit and loss*)

p2p – *adj*: (see *peer-to-peer*)

paid-in capital – *n*: finance/accounting term; equity investments in a company. The cumulative amount of *paid-in capital* for a company at any given point in time is shown as a line item on the liabilities and shareholders' equity side of the company's *balance sheet*.

pass-through entity – *n*: accounting/legal term; a legal form of organization that does not pay income taxes at the organization level. Instead, the owners of the organization pay taxes based on their *pro rata* ownership share of the organization. Examples of pass-through entities include *partnerships*, *LLCs* and *S corporations*.

partnership – *n*: a legal organization structure in which multiple individuals, called *general partners*, manage the business and are *liable* for its debts based on their *pro rata* ownership shares; other individuals known as *limited partners* may invest in the *partnership* while not being directly involved in management, and are liable only to the extent of their investments.

payables – *n*: (see *accounts payable*)

patent – *n*: a grant by the United States federal government or a foreign government to an entity (individual inventor, company or organization) giving the entity the exclusive right to produce and sell an invention for a given period of time. Federal patent law identifies the specific rights of a patent holder for different types of patents.

– *v*: the act of applying for and receiving a patent for an invention or piece of *intellectual property* (e.g., "I intend to *patent* my new invention.")

peer-to-peer – *adj*: describing the network- or Internet-based transfer of data directly from computer-to-computer, or user-to-user, rather than through a central server. Peer-to-peer networks are difficult to monitor as the traffic does not pass through a server, whereas more traditional file-sharing networks moved files through a server, allowing for monitoring – and theoretically, control – of file-sharing behavior.

pipeline – *n*: a sales projection (see *sales projection*).

portfolio company – *n*: term used by *venture capitalists* and other *private equity firms* to describe companies in which they own equity; a company in an investor's investment *portfolio*.

positioning – *n* and *v*: marketing term; the perception that a company attempts to create in the minds of its targeted customers regarding that company's product or service offering relative to competitors' offerings; the attribute or attributes associated with a company or product relative to competitive companies or products in the same market. Also, marketing activities associated with creating a company's or product's positioning.

Example: A strong *positioning* statement should clearly and succinctly address the following: "For _____ [your target customers or market segment], ... _____ [your product or brand] ...is/provides/enables _____ [your product's or service's most important benefits] ...because _____ [reason why]. Unlike _____ [your primary competitors], _____ [your brand] does _____ [highlighting your brands primary competitive differentiation, i.e., what makes you better]."

post-money valuation – *n*: the value or nominal worth of an entire company immediately after a *financing round*. A company's *post-money valuation* is equal to the *pre-money valuation* (i.e., the value set immediately *prior to* the financing round) plus the amount of money raised in the *financing round*. (see also: *pre-money valuation*)

PPM – *n*: (see *private placement memorandum*)

PR – *n*: (see *public relations*)

pragmatist – *n*: one who makes practical decisions; in the parlance of Geoffrey A. Moore's Crossing the Chasm, the *early majority* and *late majority* customers for a given category of products or services (i.e., those mainstream customers who represent the vast majority of all potential buyers) are *pragmatists*; they make purchase decisions based on their perception of the product's practical utility and benefit, references and testimonials from fellow *pragmatists*, and their perceptions of emerging industry standards.

pre-money valuation – *n*: the financial value or worth established for a company immediately prior to a *financing round*. The *pre-money valuation* plus the dollar amount raised in the *financing round* equals the *post-money valuation*.

preferred stock – *n*: equity, or stock, that offers owners different, preferential rights to those of *common stock* owners. In a liquidity event, the preferred stock owners are typically paid before the common stock owners.

price – *n*: the amount of money a business charges customers per unit for a product or service
– *v*: to set the formal, listed price of a product or service

price the round – *v*: (see *lead the round*)

price sensitivity – *n*: economics/marketing term, a.k.a. *price sensitivity of demand*, or *demand sensitivity*; the degree to which unit demand for a business's products or services (i.e., the market's desire to buy) falls when prices are raised, or rises when prices are reduced.

Example: a) We're fortunate that the market for Product A has low price sensitivity. when we raised prices by 20 percent, we sold the same number of units the following quarter. [In this case, the market can also be described as *price insensitive*; i.e., demand doesn't change appreciably with a change in price.] b) When we lowered the price of Product B by 5%, we stimulated an immediate 25% increase in unit sales, showing that market to be highly price sensitive.

principal – *n*: finance term;

principal amount – *n*: finance term; a.k.a. *face value*, or *face amount*; in the case of debt, the amount a borrower promises to repay at or by a specific *maturity date*.

private banking – *n*: full-service banking and financial services offered generally to high-net-worth individuals by larger commercial banks and financial institutions. Also known as *private client services*.

private client services – *n*: (see *private banking*).

private equity – *n*: *equity capital* invested in a private company. The three primary sectors of the private equity market are traditional private equity, or *LBO (leveraged buy-out)*, *venture capital* and real estate.

private label – *adj, v or n*: also *white label*; referring to a product distribution business arrangement or strategy under which the company that produces the product enables its distribution partner (sometimes referred to as an *OEM*) to market the product under the OEM's brand or "label."

Example: a) Certain manufacturers of over-the-counter drugs such as ibuprofen choose to distribute them through national drug store and grocery chains, each of which in turn *private labels* the product with its own store's brand name. b) Although many flat-panel television sets and computer monitors are manufactured by relatively unknown companies in Asia, they are marketed under *private label* by various Western companies so that they appear to consumers to be produced by the company that brands and distributes the product.

private placement – *n*: a fundraising process in which the company raising the money markets and sells securities (debt or equity) directly to a small group of investors – either *institutional investors*, *venture capitalists* or *angel investors* – for investment rather than resale purposes. From a legal perspective, a *private placement* is a securities offering that is not subject to registration requirements under the Securities Act of 1933.

private placement memorandum – *n*: also referred to by its abbreviation (*PPM*); the *prospectus* used in conducting a *private placement*; the marketing and legal document written by a company (or its attorney or investment banker) for the purpose of raising money (either equity or debt) through a *private placement*. A company provides a *PPM* to prospective investors, generally *accredited investors*, who use the *PPM* as a tool to evaluate the investment opportunity.

pro forma – *adj*: financial/accounting term; forward-looking, or predicting future financial performance.
– *n*: "pro formas" is a way of informally referring to pro forma financial statements.

pro forma financial statements – *n*: financial statements intended to represent the future financial performance of a company; often prepared to represent the predicted financial performance of company after a certain hypothetical or expected future event occurs. For example, if a company is planning to acquire another firm or to raise new capital, it will prepare *pro forma financial statements* to represent what the combined entity will look like in terms of anticipated financial structure and future performance.

projection – *n*: (see *sales projection*)

pro rata – *adj*: finance/legal term; reflective of proportional shares or ownership. An individual's or entity's *pro rata* share is their due or proportional share. The term *pro rata* share is often used when discussing ownership, financing, and fundraising.

Example: If you own 50% of a company, your *pro rata* share of the profits will be 50%. If the company were to raise \$2 million in its next financing round and you were asked to invest your *pro rata* share, you would invest \$1 million (or 50 percent of \$2 million). If you didn't invest at least \$1 million, your ownership stake of 50% would be *diluted* (proportionally reduced).

product line – *n*: a range of related products marketed by the same company, typically under a common *brand name*.

Example: Nokia's cell phone *product line* includes a range of models of various sizes, with various levels of functionality, and at various price points. Apple's iPod *product line* includes digital music players in a range of sizes, storage capacities and prices, in addition to a selection of add-on products such as covers, carriers, head phones and speakers.

product launch – *n*: the orchestrated introduction of a new product (or version of a product) to the market; the events surrounding making the product available for purchase for the first time. Depending on your company's *distribution channel*, a comprehensive *product launch* could entail a number of elements and activities, possibly including: advertising campaign, direct marketing campaign, public relations campaign, brochures and sales literature, point-of-sales displays, product demonstrations, sales training, call-center training (both pre-sales and post-sales support), inventory stocking in the distribution channel, etc.

product manager – *n*: (see *product management*)

product management – *n*: the cross-disciplinary business function that entails taking responsibility for a product from initial conception through development to ultimate product launch and lifecycle management. In its broadest interpretation, *product management* encompasses oversight of the following aspects of a product: a) identifying target markets and customers and their unmet needs; b) translating those unmet needs into market requirements and associated product specifications to guide the business's engineering/product development function; c) overseeing product development and testing; d) working with marketing and sales to successfully launch the product or service once it is complete; and, e) tracking the product's success in the market, understanding changing customer needs and perceptions, and recommending ongoing product enhancements, new models, product line extensions, etc. In some businesses, *product management* is a stand-alone business function, whereas in other companies, it is organizationally a part of either the *marketing* or *product development* (engineering) function.

product marketing – *n*: the element of the marketing function within a business that entails identifying and analyzing target markets, researching and defining customer requirements, and developing product specifications for the engineering or product development function of the business. *Product marketing* is a hybrid activity that straddles the marketing and product management functions of a business, and as such, it can be found organizationally in either group within a company.

product risk – *n*: one of the four categories of *venture risk*, sometimes referred to as *technology risk*; the likelihood that a new venture will fail to produce the envisioned product in the planned timeframe due to unanticipated technology and/or product development challenges, or that

productize – *v*: to take a capability – a new service, product or product feature – that the company has provided to a single customer or a few customers on a custom basis, and turn it into a standard, fully-tested, -packaged, -supported and -marketed product offering of the company.

profit and loss

- *n*: often referred to by its acronym, *P&L*; a) shorthand for a *profit and loss* statement, an alternative name for an *income statement*; b) informal name for a *business unit* or *strategic business unit*, a stand-alone business within a larger company that is managed and accounted for separately (see *business unit*)
- *adj*: referring to a *profit and loss* statement

promote – *v*: to market a product or service to a target market or customer set. (see also: *marketing communications*)

promotion – *n*: a) the act of promoting, or marketing to a target market or customer set; b) a specific marketing campaign or offer. (see also: *marketing communications*)

Example: The free toaster *promotion* was deemed a great success, having attracted thousands of new customers to try our product.

prospect

– *n*: prospective customer; an individual or entity who has expressed potential interest in purchasing a given product or service, and has been screened or *qualified* by the sales team to verify that

they are serious in a near-term purchase (i.e., they have the necessary budget set aside, they have a current need or interest, and they are not predisposed to a competitive solution)

– *v*: to seek out, contact and qualify prospective customers for a given product or service

proxy – *n*: the written authorization given by one individual to another to cast a vote. Shareholders may sign a corporate proxy giving authorization to another person to vote for them in a shareholder vote.

Proxy is also a general term describing one who has the authority to represent or replace someone else, or anything that is a suitable replacement for another thing.

psychographic profile – *n*: marketing term; combination of psychology and demographics that make the marketing responses of those groups different from those of other groups. Understanding a group's psychographic profile and its relationship to its neighbors is a critical component of high tech marketing.

public relations – *n*: often referred to by its abbreviation, *PR*;

Q

qualify – *v*: to interact with a sales *suspect* (an individual or entity who has expressed preliminary interest in a company's product or service) with the purpose of determining whether or not they are a serious customer – with budget, serious intent to buy in the near-term, and without an ingrained preference for a competitive product. A prospective customer who has been successfully *qualified* is sometimes referred to by the sale organization as a *qualified prospect*.

R

rapid-growth market – *n*: stage of market development where competitors are scaling rapidly to meet growth in customer demand (often in excess of 50%/year); Vendors have *crossed the chasm* and are selling to *early majority* (pragmatist, or mainstream) customers; competition around customer references, emerging industry standards, and service; IPOs occur

receivables – *n*: accounting term; informal vernacular for *accounts receivable*

Refine stage – *n*: the fourth stage of the *Venture Value Chain*. In the *Refine stage*, companies should focus on creating consistently cash-flow positive, self-funding operations. The company should be managed for predictable growth in revenue and profitability. Public companies such as General Electric, Microsoft and Wal-Mart are masters of *Refining*. These companies consistently grow revenues (sales growth, or top-line growth) and profitability (earnings growth). Mastering the *Refine stage* can lead to higher valuations in the *Liquidity stage*, the final stage of the *Venture Value Chain*.

reseller – *n*: (see *VAR* or *value-added reseller*)

resolution – *n*: (see *board resolution*)

restructuring – *n*: the significant makeover of an existing company typically involving the closing of plants, firing of employees, reworking the company capital structure, bringing in new management and relocating operations. Typically *restructuring* occurs

retained earnings – *n*: finance/accounting term; earnings (profits) that a company retains and accumulates for the purpose of reinvesting in operations, rather than distributing those earnings to its *shareholders* as a *dividend*.

return on equity – *n* : often abbreviated *ROE*; indicator of profitability of a company. Net income less preferred dividends over common equity, expressed as a percentage.

return on cash equity (contributed or invested equity) – *n* : indicator of profitability of a company. Net income less preferred dividends over *cash equity* (contributed or invested equity) equity, expressed as a percentage. *Cash equity* equals the sum of all cash equity invested in the company in all of its *financing rounds*.

RFP – *n* : sales and marketing term; acronym for request-for-proposal.

RFQ – *n* : sales and marketing term; acronym for request-for-qualifications.

round – *n* : (see *financing round*)

run rate – *n* : annualized revenue; the result of extrapolating recent financial results for a period shorter than one year (e.g., results for the most recent quarter or half year) to represent a full-year period; that is, the result of *annualizing* recent results. This method is often used to characterize the performance of early-stage, high-growth businesses, since annualizing the revenue *run rate* of a company based on its latest quarter may be far more impressive (and arguably more representative) of the company's current status than the potentially far smaller revenue number from its last full fiscal year.

Example: Whereas a startup has produced revenue of \$800,000 in the past twelve months, \$500,000 of that amount has been generated in the most recent quarter. By annualizing the last quarter's results (i.e., multiplying that quarter's results times 4), the company can claim it is generating revenue at a \$2 million *run rate*.

S

S corporation – *n* : a form of legal organization for a business, commonly used only by small and/or *closely-held* companies (the "S" refers to Subchapter S of the U.S. Internal Revenue Code). *S corporations* are "pass-through" entities for tax purposes; that is, they pay no corporate tax, and all financial profits or losses "pass through" or "flow through" proportionately to the shareholders on a *pro rata* basis. This form of organization can be advantageous for shareholders, because: a) it avoids double taxation; and b) individual shareholders can receive the tax benefits of a business's losses. However, an *S corporation* can have no more than 75 shareholders and is subject to limitations as to whom or what type of entity can own the business. (Note: See also *LLC* or *limited liability corporation*, another form of business legal organization that shares the "pass-through" feature of the *S corporation*.)

sales forecast – *n* : (see *sales projection*)

sales projection – *n* : also *projection*, *pipeline* or *forecast* or *sales forecast*; a time-denominated schedule or list of product or service sales anticipated by a company; *projections* show future expectations of dollar-based revenue amounts listed according to the period (month, quarter and/or year) in which the sales are expected to occur. Detailed *sales projections* often list expected revenue by specific customer, by individual product or service, and/or by sales person, channel or region. Projections may or may not entail probability weighting of future sales.

Sarbanes-Oxley Act – *n* : a business reform act signed to law on July 30, 2002. The Act mandated a number of reforms to enhance corporate responsibility, enhance financial disclosures and combat corporate and accounting fraud, and created the "Public Company Accounting Oversight Board," also known as the PCAOB, to oversee the activities of the auditing profession. The full text of the Act is

available at: <http://www.law.uc.edu/CCL/SOact/soact.pdf>. The Act has many implications for private businesses. You should consult your attorney about how the Act will effect your business.

Sarbox – *n* or *adj*: shorthand for (see *Sarbanes-Oxley Act*) or describing matters pertaining to Sarbanes-Oxley compliance.

SBA – *n*: the U.S. Small Business Administration, the federal government agency responsible for assisting small and young companies and entrepreneurs (see www.sba.gov).

SBIR – *n* or *adj*: acronym for *Small Business Innovation Research*, the name of a U.S. federal government grant program administered by the Small Business Administration (SBA) that provides funding solely to small, for-profit businesses to develop and commercialize certain technologies. (See also *STTR*.) (For more information, see www.sba.gov/sbir or http://grants.nih.gov/grants/funding/sbirsttr_programs.htm).

scale – *v*: to grow a business, often rapidly, once its products have been commercially released and customer sales have commenced. Generally speaking, companies *scale* successfully by developing a well-thought-out and highly repeatable formula for production, distribution/sales, operations and customer service.

Scale stage – *n*: the third stage of the *Venture Value Chain*. In the *Scale stage*, the company typically raises institutional financing (equity or debt) to enable rapid scaling of the enterprise. Key tasks of the *Scale stage* include: recruiting and orienting management and staff; building infrastructure (systems, processes and procedures) necessary to grow the business; developing and refining the product line; developing/strengthening the brand and building brand recognition; and expanding sales. The *Scale stage* is the make-or-break stage for many startup companies. It is during this stage that a company's products or services must *Cross the Chasm* from selling to *early adopter* customers to selling to the far more numerous, but difficult-to-please, *early majority* customers.

search engine – *n*: a website or Internet-based software application whose purpose is to assist people in finding appropriate Internet content or websites. For example, Ask, Google and Yahoo! all offer *search engines* for public use.

search engine marketing – *n*: often referred to by the acronym *SEM*, activities associated with paying operators of other websites to somehow direct traffic to your website; *SEM* may entail bidding for keywords with search engine operators (e.g., Google AdWords).

search engine optimization – *n*: often referred to by the acronym *SEO*; the act of making changes or adjustments to one's website with the intent of improving its search engine rankings – that is, making the website in question appear higher on the list of search results when someone searches for certain keywords (descriptive words or phrases that others may associate with your company or the products or services your company offers).

SEC – *n*: (see *Securities and Exchange Commission*)

secretary – *n*: (see *secretary of the corporation*)

secretary of the corporation – *n*: the legally-designated corporate officer responsible for keeping *minutes* of *board meetings*, drafting *board resolutions*, and maintaining the company's *minute book*

security – *n*: a financial instrument, such as a *stock* or *bond*, used by legal entities such as companies or government agencies to raise money from individual or institutional investors.

Securities and Exchange Commission (SEC) – *n*: the U.S. federal government agency with primary responsibility for overseeing and regulating the *securities* industry – i.e., the formation, underwriting, selling, buying, trading and optioning of stocks and bonds by corporations, investment banks, brokerages,

and commercial banks. The primary mission of the SEC is to protect investors and maintain the integrity of the securities markets (both private and public). The SEC also oversees other key participants in the securities world, including stock exchanges, broker-dealers, investment advisors, mutual funds, investment banks, and public utility holding companies. Through its EDGAR online system, the SEC provides free public access to all filings companies make with the SEC (for example, filings required prior to public offerings, as well as 10K annual reports and 10Q quarterly reports); such filings are very useful data sources when conducting *comparable companies analysis* or *valuation analysis*. (For more information, visit www.sec.gov.)

seed financing – *n*: financing to fund an early-stage company, generally provided by either *angel investors* and/or a *venture capital firm*, to fund the early stages of a company's business plan. *Seed financing* typically occurs before a company has commercially released its product or service, and therefore before the business is generating revenue.

seed round – *n*: (see *seed financing*)

segment – *n* and *v*: (see *market segment* and *market segmentation*)

segmentation – *n*: (see *market segment* and *market segmentation*)

self-referencing – *adj*: describing a market or set of customers in which the customers interact intensively with one another and rely on each other (*reference* each other) for information about a type of product or service. *Self-referencing* customer groups tend to read the same periodicals, belong to the same clubs or professional associations, attend the same conferences, conventions and trade shows, or communicate with one another through word-of-mouth, Internet chat rooms or web logs ("blogs"), or at actual events such as industry conferences, conventions, concerts or other gatherings. Businesses value *self-referencing* customer groups because they tend to be relatively inexpensive and efficient to reach, communicate with and market to.

Examples: DentaSpecial Inc. has developed an innovative new device for use by dentists. Because dentists are a tightly *self-referencing* group, DentaSpecial can reach their prospective customers relatively efficiently inexpensively; rather than advertising on television or in popular magazines at great expense, the firm can promote its products by advertising in the professional periodicals and at the annual and regional conventions of dentists' professional association, the American Dental Association (ADA). Because dentists tend not to compete with each other beyond local boundaries, they are very comfortable "comparing notes" with their professional colleagues and sharing best practices with one another.

CoolTool Inc. has developed a revolutionary new woodworking tool and would like to market the tool to serious woodworkers. Fortunately, these – finish carpenters, cabinet-makers, and serious woodworking hobbyists – are a highly self-referencing group, "sharing" information and best practices by subscribing to a handful of publications such as *Fine Woodworking Magazine*. Advertising in, or purchasing the subscriber list for, such a limited-circulation publication costs a tiny fraction of broad-based marketing promotion to the general public (most of whom would not be interested in CoolTool's products).

SEM – *n*: (see *search engine marketing*)

SEO – *n*: (see *search engine optimization*)

series – *n*: In the case of *preferred stock*, each *financing round* is called a *series* (see *financing round*).

Example: ABC Ventures invested in both the Series A round and Series B round of the young company's funding.

Shape stage – *n*: The first stage of the *venture value chain*. In the *Shape stage*, an individual or small group of individuals develops, and progressively shapes the original business concept. This stage in the venture value chain involves idea generation, initial *business model* exploration, a reality check of the

validity of the business idea, business planning, and *business plan* validation. Entrepreneurs should fully work through the *Shape stage* prior to the *Launch* of a new business.

shareholders' equity – *n*: accounting/finance term; the residual ownership in an organization after deducting liabilities.

shrink-wrap license – *n*: a license and/or copyright agreement on product or software packaging which describes a company's copyright to the product in the package. The agreement generally states that the end user agrees to the copyright agreement upon opening the package.

SMBs – *n*: acronym for small-to-midsized businesses; also *SMEs* (small-to-midsized enterprises)

SMEs – *n*: acronym for small-to-midsized enterprises; also *SMBs* (small-to-midsized businesses)

SOHO – *n* and *adj*: acronym referring to *small office/home office*, a characterization for the millions of Americans who work from home, whether they're running their own small business or "telecommuting" from home on behalf of an employer.

sole proprietorship – *n*: a type of business legal organization with a single owner. *Sole proprietorships* are *pass-through entities*.

software-as-a-service – *n*: (see *application service provider*)

spin-off – *n*: a company or stand-alone, separate business unit that is created by being separated from an established business or institution. Typically, the spin-off offers a discrete set of products and/or services.

– *adj*: describing a business that has been or is being spun out from an established business or institution.

spin off – *v*: to create a *spin-off* business (see *spin-off*).

spin-out – *n*: (see *spinoff*)

stakeholder – *n*: owner of an organization. The term is also used generally to describe people who have an interest of any kind in a business, transaction or deal.

Example: When a startup raises money, there are several interested parties who are not owners of the company, but are stakeholders in the transaction. The investors, and managers have an interest in the success of the transaction, and thus are stakeholders. Further, advisors, consultants, lawyers, accountants and other professionals are stakeholders, because they are interested in the success of the transaction. All employees of the company, whether stockholding or not, are stakeholders as the success of a fundraising transaction allows the jobs to exist.

startup – *n*: also *start-up*; a new or early-stage company.

step-down – *n*: an decrease in stock price paid by investors in one *financing round* compared to that paid in the prior round. (see also *down round*)

step-up – *n*: an increase in stock price paid by investors in one *financing round* compared to that paid in the prior round.

stock – *n*: equity ownership in a corporation.

stock option – *n*: the right to purchase a company's stock in the future; an *option* is a legal offer or contract, typically granted by a company to an employee, *director*, or *advisor*, under which the grantee (holder of the option) has the ability to purchase a certain number of shares of the company's stock for a stipulated price (the *exercise price* or *strike price*). Most *options* are subject to a *vesting period* or *vesting*

schedule, under which the grantee's rights to purchase the stock in question *vests* over a period of time (continued tenure with the company); some *vesting schedules*, particularly those for corporate officers' options, are based on accomplishment of specific *milestones* instead of, or in combination with, tenure.

The purpose of a stock option is to provide a financial incentive (other than cash salary and/or bonus) to an individual whose contribution is considered important to the company's ongoing success. This incentive works in two ways: a) the *vesting schedule* (typically between three and five years) encourages the option recipient to stay with the company until his/her option fully *vests* (thereby giving him/her the right to *exercise* the option, or purchase the stock, at the given *strike price*; and, b) the option recipient has extra incentive to help make the company succeed, and to see that success reflect in an increased stock price, since the individual's *strike price* "locks in" his/her right to purchase stock at a (hopefully much lower) price set at the time the stock option was granted.

Example: ABC Corp. grants "Employee Smith" a stock option on January 1, 2006 for 36,000 shares of stock, at an *exercise price* of \$1.00/share, with a *vesting schedule* of 3 years vesting monthly in a straight-line fashion. Therefore, starting February 1, 2006 and each month thereafter for 36 months, Employee Smith *vests* on (earns the right to *exercise*) an additional 1/36th of her total options, of an additional 1,000 shares per month. At the end of the 3-year *vesting schedule*, her full 36,000-share option is *fully vested* (i.e., she has the right to purchase all 36,000 shares at \$1.00 per share.

stock option agreement – *n*: legal contract between a company granting a stock option and the individual receiving the stock option; an *option agreement* is usually very brief – often simply a letter agreement – that refers to (and typically incorporates by attachment) the company's governing *stock option plan*, and stipulates the date of the grant, the number of *shares* of *stock* in the grant, the *vesting schedule*, and the *strike price*.

stock option plan – *n*: an executive and employee compensation mechanism whereby executives and other key employees are granted stock options. Stock option plans allow companies to align the interests of executives and shareholders by rewarding both for increases in *valuation* (stock price). A company's *stock option plan* governs all *incentive stock options* (ISOs) and *non-qualified stock options* (NSOs) issued by the company; the *plan* typically stipulates the rules and parameters (e.g., *vesting schedules*) governing *options* granted under the *plan*.

stock option pool – *n*: new shares of stock that have been authorized but have yet to be issued, and are set aside for future issuance as stock options. Authorized by a company's board of directors, an option pool is typically denominated in a specific number of shares, the amount of which can range from a few percent of the company's currently outstanding shares to 15-25 percent (more typical of venture capital-backed companies) or greater.

stockholders' equity – *n*: (see *shareholders' equity*)

strategic investment – *n*: (see *strategic investor*)

strategic investor – *n*: an investor (typically a company) that invests primarily for strategic rather than financial (return) purposes – for example, in order to gain future access to a key new technology or product. (By contrast, *financial investors* make investment decisions primarily based on the prospect of a strong financial return.)

Example: Corporation Z, a large record company, made a *strategic investment* in a minority equity stake in the startup digital music distributor; they did so in the hopes of learning more about online media marketing, with the possibility of eventually acquiring the startup.

strategic business unit – *n*: (see *business unit*)

strike price – *n*: (see *exercise price*)

STTR – *n* or *adj*: acronym for Small Business Technology Transfer, a U.S. federal government grant program administered by the Small Business Administration (SBA) that is closely related to, and

administered alongside, the SBIR program. Unlike SBIRs, which require the principle investigator (PI) for the grant to be employed by the small-business grantee, STTRs do not require that the PI be employed by the small business, and typically entail the small business applying for the grant in collaboration with a university or other non-profit research institution. (See also *SBIR*.) (For more information, see www.sba.gov/sbir or http://grants.nih.gov/grants/funding/sbirsttr_programs.htm).

subscription agreement – *n*: legal/finance term; the legal agreement between a company and an investor governing the purchase and sale of stock. For a given *financing round* or *preferred stock series*, the *subscription agreement* will typically be identical for all investors in that round (with the exception of specific investors' names, signature dates and the number of shares purchased).

supplier financing – *n*: arrangements with a business's suppliers to provide funding either through extended or generous credit terms, or through partnered product development; one way for small or early-stage companies to reduce the need for outside financing

T

10-K – *n*: the SEC Form 10-K annual report filing that is legally required of all U.S. public companies pursuant to Section 13 or 15(d) of the Security Exchange Act of 1934; 10-K (annual) and 10-Q (quarterly) reports are publicly accessible at no charge on the SEC website EDGAR Online (edgar.brand.edgar-online.com).

10-Q – *n*: the SEC Form 10-Q quarterly report filing that is legally required of all U.S. public companies pursuant to Section 13 or 15(d) of the Security Exchange Act of 1934; 10-K (annual) and 10-Q (quarterly) reports are publicly accessible at no charge on the SEC website EDGAR Online (edgar.brand.edgar-online.com).

tagline – *n*: marketing/branding term; a few words – a phrase or sentence – associated with your *brand name* (either company or product/service name) and *logo* that connotes the nature or character of your business. A *tagline* should be brief, evocative and should imply what you do and/or what you stand for.

Example: Dell Computer's tagline is "Easy as Dell." Verizon's tagline is "We Never Stop Working for You." The tagline for Newman's Own is, "Shameless Exploitation in Pursuit of the Common Good." CompanyCrafters' tagline is, "You inc, therefore you are." [*All taglines are the trademarks or service marks of their respective owners.*]

target market – *n*: a market, or market segment, specifically targeted by a company or the product managers of a specific product. Your *target market* represents the group of customers that you want to buy your product or service.

tax ID – *n*: informal term for *Employer Identification Number* (see *Employer Identification Number*)

Taxpayer Identification Number – *n*: often referred to by its acronym, *TIN*, a term that may refer to either an *Employer Identification Number* or, in the case of a sole proprietorship, the individual business owner's *Social Security Number*.

tech transfer – *n*: (see *technology transfer*)

technology adoption curve – *n*: (see *technology adoption lifecycle*)

technology adoption lifecycle – *n*: a.k.a. *technology adoption curve*, the staged pattern by which virtually all new technologies or technology-related products are adopted by the market. Geoffrey A. Moore, in his seminal work on marketing for technology startups, *Crossing the Chasm*, defined the sequence of customer types to adopt (or buy) a given product as *innovators*, *early adopters*, *early*

majority, late majority, and laggards. Bear in mind that the *technology adoption lifecycle* follows the life of a technology, rather than a specific product or a company.

technology risk – *n* : (see *product risk*)

technology transfer – *n* : commonly referred to as *tech transfer*, the process of arranging for the commercialization of technology-based inventions or innovations originating in research universities, government or non-profit laboratories or large corporations. *Technology transfer* involves the organization responsible for originating the technology negotiating the transfer of the commercialization rights to that technology to a commercial entity (typically a for-profit company) via a *licensing agreement*. The business arrangements associated with *tech transfer* agreements can vary widely, but typically involve the company receiving the commercialization rights paying the owner of the *intellectual property* or *IP* (the inventing organization) some combination of up-front license fees, *royalties* (variable payments calculated as a percentage of future sales), and/or partial equity ownership (stock) in the commercializing company. (Stock ownership is only common in *tech transfer* deals in cases in which the commercializing entity is a startup company for whom the *intellectual property* being transferred is a strategic part of their product portfolio. Large, publicly-traded companies will typically acquire *tech transfer* intellectual property using some combination of the cash payment mechanisms described above – as opposed to stock).

term sheet – *n* : legal/venture capital term; a legal document, sent from a *venture capital* firm to a company in which they are interested in investing, that summarizes the terms of VC's investment offer – number of shares they are interested in purchasing, price per share they are willing to pay, terms describing the security (preferences, etc.), and other terms and conditions (whether they want representation on the board of directors, for example). The *term sheet* serves as the basis for the financing negotiation between the VC and the company; once all terms are agreed upon, the *term sheet* serves as the basis for lawyers to draft the formal investment agreement between the two parties.

TIN – *n* : acronym for *Taxpayer Identification Number* (see *Taxpayer Identification Number*)

trademark – *n* : legal/marketing term; an identifying name or graphical mark that is uniquely identified with a specific product, service or company. *Trademarks* can be names, logos, slogans or symbols, and serve as important elements in *branding* and building *brand equity*. Trademarks can be legally claimed or reserved by a company by simply labeling the mark or name with the trademark symbol TM. A more rigorous (and legally defensible) way to protect a company's exclusive rights to a mark or name is to formally register it (a *registered trademark*, indicated by the symbol ®) with the U.S. Patent and Trademark Office (PTO).

– *v* : to legally claiming exclusive use rights to a unique mark, name or slogan/tagline.

tranche – *n* : also *tranch*, finance/accounting term; a portion of a *financing round* or *series*. Venture investors often break up a given *financing round* into two or more *tranches*; that is, they commit the capital for the entire *round*, but disburse that capital in multiple *tranches* of pre-agreed amounts and timing.

U

underwrite – *v* : to assume financial risk as an *underwriter*. *Investment banks* are in the business of helping companies raise capital from public and private financial markets by *underwriting* companies' issuances of either debt or equity securities. The act of underwriting entails the *investment bank* (a.k.a. *underwriter*) purchasing the entire security issuance from the issuing company and then reselling those securities, typically to a *syndicate* of institutional and/or individual investors.

underwriter – *n* : a financial services firm or group of firms, usually *investment banks*, that buys an entire debt or equity *financing round* or *issuance* from a corporation, usually at a discount (up to 6%+ for an

equity issuance) and then resells it into the private or public markets. The act of buying and then reselling such a financing round, and taking on the associated financial risk, is known as *underwriting*.

upside case – *n*: in reference to a financial model, or financial projections: the financial model scenario (also known as *aggressive case* or *optimistic scenario*) that uses management's most aggressive (i.e., optimistic) assumptions – that is, assumptions that revenues will begin sooner and/or rise faster, and that the costs of doing business will be limited or contained. The financial projections resulting from your *upside case* assumptions should be better than those for your *conservative case* (lowest) and *base case* (medium).

url – *n*: acronym for uniform resource locator; an Internet address (for example, <http://www.companycrafters.com/theory.htm>) usually comprised of components including the access protocol (<http://>), followed by the *domain* name (www.companycrafters.com), and sometimes appended with an extension leading to a specific page or resource at that web address ([/theory.htm](http://www.companycrafters.com/theory.htm)).

useful life – *n*: the number of years over which a given large, one-time expense, such as research and development or financial closing costs, is deemed to have economic value to a business (see also *amortize* and *amortization period*).

V

VAD – *n*: acronym for *value-added dealer*

value-added dealer – *n*: (see *value-added reseller*)

value-added reseller – *n*: commonly referred to by its acronym, *VAR*, or simply as *reseller*; in some industries, referred to as *VAD*, or *value-added dealer*. *VARs* are often locally- or regionally-oriented businesses, typically fairly small and privately-held, that specialize in selling and servicing a certain category of products; *VARs* are most common in business-to-business sales. Most *VARs* will represent products from multiple vendors (the producers of the original products). Their value proposition to vendors is to offer access to local customers with whom the *VARs* have preexisting relationships, plus local pre- and post-sales support, in exchange for a *sales commission* that varies by industry. *VARs'* value proposition to end-user business customers is local service and support, often from a known supplier with whom the customer has an established business relationship.

valuation – *n*: the measure of how much a company is worth. (See also *pre-money valuation* and *post-money valuation*)

valuation analysis– *n*: the process of determining the value of an asset or company. There are many techniques for conducting valuation analysis, and it is often partially objective and partially subjective. Approaches used in valuation analysis include: the analysis of market multiples of comparable companies, and discounted cash flow analysis based on pro forma financial projections.

value chain – *n*: the series of steps by which value is created for a given product or service. For instance, value chain may include “value-added stages” such as original invention, product design and development, manufacturing/production, branding/marketing, distribution and sales, warranty service, and after-market service. When planning a new business, it is useful to understand and carefully analyze the value chain for your product or service, in order to thoroughly understand the types of companies or “players” who serve each function or “link” in the chain, and how much each link or function in the chain gets paid and by whom. (see also: *margin structure*)

value driver – *n* : an important factor that determines or causes an increase in value of a business, as viewed by investors

Example: For a brand new startup (i.e., a business still in the *Shaping stage* of the *Venture Value Chain*), key *value drivers* can include the assembly of a strong management team, a seasoned and influential board of directors and advisory board, the development of a compelling business plan, and the ability to produce a demonstrable prototype of product. Key *value drivers* for early-stage ventures (in the *Launch stage*) can include the completion of a first commercial version of the product and attracting the first paying customers. Important *value drivers* in the *Scale stage* usually include a strengthened management team, expanded infrastructure for sales, distribution and customer support, and predictably ramping revenue.

VAR – *n* : (see *value-added reseller*)

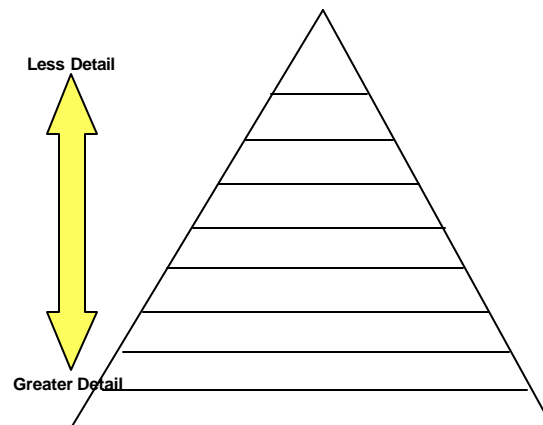
vendor – *n* : a term commonly used in business-to-business markets, referring to the original producer of a product or service

venture capital – *n* : often referred to by its acronym, *VC*; a general term for money that is invested in equity securities (stock) of early-stage, high-growth and/or high-potential companies that are privately-held (i.e., their stock is not publicly traded on an exchange). Venture capital is a high-risk asset class, and consequently venture capital investors seek high rates of return on investment. Sources of *venture capital* include *friends and family*, *angel investors*, *venture capital firms*, *corporate venture capital groups*, as well as *corporate strategic investors*.

venture capital fund – *n* : also *VC fund* or simply *VC*; a closed-end, private pool of capital dedicated to investments in the equity securities of privately-held, early-stage or high-growth companies. A venture capital firm (the “general partner”) raises a VC fund from institutional investors and/or high-net-worth individual investors (so-called “limited partners”). A successful VC firm will typically raise, manage and invest multiple VC funds over time.

venture capitalist – *n* : often referred to as by its acronym, *VC*; institutional investment firm, or an investment professional working for that firm, that specializes in making equity (stock) investments in privately-held, early-stage or high-growth companies.

venture communication pyramid TM – The venture communication pyramid TM is a tool designed to help startups better communicate their business message to investors, customers, partners and employees. By providing a simple, coherent communications model with cascading levels of detail, the Pyramid helps simplify and improve the impact of companies’ marketing and fund-raising efforts. At the top of the pyramid (least detail) is the company’s brand, and at the bottom is the company’s domain knowledge (greatest level of detail). Each cascading level of detail builds logically on the one before and enables the company to present its messages clearly, compellingly, concisely and consistently.



venture investor – an individual or institution who invests in early-stage companies; typically, people or organizations who purchase the privately-held, illiquid equity (stock) of startup companies. *Venture investors* may include angels (high-net-worth individuals), private venture capital firms, or corporate venture capital groups.

venture quotient TM – *n*: abbreviated *VQ*, the *venture quotient* measures the overall likelihood of success of a new venture (i.e., a startup business) by accounting for the four categories of *venture risk* (*technology/product, market, management, and financial risks*).

The VQ is calculated as follows:

$$VQ = 100 \times [(1 - R_P) \times (1 - R_K) \times (1 - R_M) \times (1 - R_F)]$$

Where:

R_P = Technology/Product Risk

R_K = Market Risk

R_M = Management Risk

R_F = Financial Risk

VQ scores range from zero to 100, with a theoretical VQ of "0" indicating guaranteed failure, and a theoretical VQ score of "100" indicating guaranteed success.

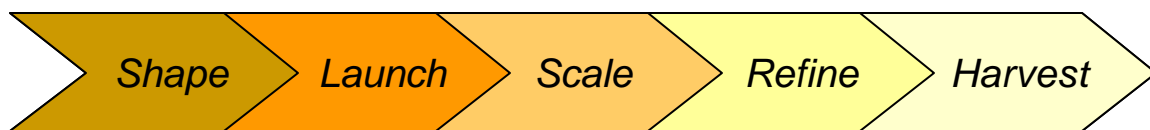
(For more information on the VQ analytical tool and how to apply it, see www.CompanyCrafters.com and click on the "Resources" tab.)

venture risk – *n*: the factors that can cause a startup business to fail. *Venture risk* is comprised of four major categories: *market risk, technology or product risk, management risk, and financial risk*.

venture value chain – *n*: abbreviated *VVC*, a conceptual model that describes the lifecycle of a startup company, covering the following five stages:

- *Shape* – develop, research and plan the original new-business concept
- *Launch* – start the business
- *Scale* – drive hyper-growth by rapidly scaling sales and operations
- *Refine* – manage for consistent and predictable revenue and profit growth
- *Harvest* – achieve liquidity for shareholders

Entrepreneurs and startup teams can use the venture value chain to identify where they are in the startup company lifecycle, understand the critical success factors for the business at each stage, and avoid unnecessary mistakes and oversights in planning and execution.



*The Venture Value Chain*TM

(For more information on the venture value chain, see www.CompanyCrafters.com and click on the "Resources" tab.)

vertically integrated – *adj*: describing a company or a company's operations that are performed in house throughout the value chain.

vest – *v*: become exercisable (referring to a *stock option* or *warrant*) after satisfying a *vesting schedule* or *vesting requirement*.

vesting schedule – *n*: also *vesting requirement*; the period of time over which a *stock option* becomes exercisable. Most *stock options* vest in a "straight line" fashion (i.e., linearly, or at a constant rate over

time) over a set term of typically 3, 4 or 5 years. As an option recipient or grantee satisfies the time requirements (typically linked to employment or service tenure), the option continues to vest incrementally until it is fully vested (i.e., the *vesting schedule* is 100 percent satisfied). (See illustrative Example under *stock option*.)

viral marketing – *n*: a term used to describe marketing campaigns in which customers proactively attract other customers to a product or service in a geometrically expanding network of customers (e.g., I recruit five people, then each of those in turn recruit five people themselves, etc.).

Example: Online digital photography services tend to benefit from viral marketing. For example, Jolie attends a class reunion, then posts her photos on an online service and e-mails the website link to a few dozen classmates. Each of the classmates can go online to view the photos for free, but they are first required to register with the photo service. If any of them want to order prints, they pay for that service. And, once these several dozen people are acquainted with the service, some will probably choose to post pictures themselves. For example, classmate Justin may subsequently choose to post photos of his newborn child and e-mail 25 people in his extended family to encourage them to view the pictures online. In this way, the online photo service benefits from *viral marketing* – in a sense, “free advertising” – as their customers promote the service through word-of-mouth to an ever-expanding network.

vision – *n*: a company's vision statement is the business's *raison d'être*, or reason for being; often erroneously confused with a *mission statement*.

VC – *n* or *adj*: acronym referring to either *venture capital*, a *venture capitalist*, a *venture capital firm*, or a *venture capital fund*.

VQ – *n*: (see *venture quotient*)

W

war room – *n*: in reference to due diligence. The central location, generally a dedicated room or office, for due diligence documents for potential investors, acquirers or investment bankers to use.

warrant – *n*: a legal contract between a company and an outside entity (individual or business) that gives the outside entity the right to purchase a predetermined number of shares of stock, at a predetermined *exercise price*, in the future.

win-win strategies – *n*: progressive thinking to make partnerships, negotiations, and alliances greater than the sum of the parts. Thinking creatively is the key to win-win strategies.

whole product – *n*: derived from thoughts in Geoffrey A. Moore's seminal work on marketing for technology startups, *“Crossing the Chasm”*; A completely configured end product or solution for the target mainstream customer.

working capital – *n*: finance/accounting term; defined as the excess of current assets over current liabilities. In practice, *working capital* is the *capital*, or money, you need to fund the day to day cash needs of a business.

X, Y & Z

zero coupon – *adj* : finance/accounting term; describing a debt instrument (a bond or note) that pays no cash interest during its life or for a portion of its life

More About CompanyCrafters

An Ann Arbor, Michigan-based management consulting firm focused on new venture launch and corporate spin-outs, CompanyCrafters applies an experienced entrepreneur's mindset to crafting and growing new businesses, bringing to bear a proven proprietary approach including a range of high-value tools and methodologies. CompanyCrafters delivers:

- **Frank and Realistic Opportunity Assessments.** Many new ventures – and pre-launch business plans – aren't fully thought through and contain an unnecessary level of business risk. CompanyCrafters uses a uniquely powerful approach to crystallize the risks and rewards presented by new opportunities, bringing clarity to key decisions.
- **Business Model Evaluation and Recommendations.** Most tech-oriented business opportunities can be played out through dozens of different approaches – combinations of business model, market focus and go-to-market strategy. CompanyCrafters applies a suite of powerful analytic tools to evaluate the range of approaches and determine the optimal strategy.
- **Business Planning.** CompanyCrafters works with the client's management team to deliver a rich and fully-developed business plan, pro forma financial forecasts, and marketing and execution plans to launch the new business, along with related documents such as an investor presentation and executive summary.
- **Risk Reduction Strategies.** New businesses are fraught with risks. CompanyCrafters leads its clients through a focused risk analysis and reduction exercise by evaluating venture risk in each critical area and developing risk mitigation strategies that focus management on executing against critical success factors.
- **New Business Launch and Execution Management.** CompanyCrafters can play an active role as advisors and interim executives in launching new businesses. We work with management to lay out 30/60/90 day execution plans and deliverables to keep the launch on track. We can also assist in recruiting and orienting the management team required to take the new venture forward.
- **Innovative Go-to-Market Growth Strategies.** CompanyCrafters works as an active, hands-on role to evaluate and steer the go-to-market strategies for new businesses as they navigate through the often tumultuous challenges faced by young, high-growth businesses.

To learn more, go to www.companycrafters.com.



You inc, therefore you are.