Glossary of Business Terms

A

Accounts receivable: money due from customers carried as "open book" accounts. These should be carried in the current-assets section of the firm's balance sheet.

Acid-test ratio: a method of judging a firm's ability to meet current debt quickly. The formula is: total cash + receivables ÷ current liabilities. One common standard ratio is one to one (1:1).

Advisory board: a group of individuals willing to serve in an advisory capacity in exchange for stock or other benefits.

Aging of receivables: (1) an inventory of accounts receivable classified by the debt's age; (2) a method of estimating bad-debt losses by aging the accounts and then assigning a probability of collection to each classification. For example, accounts aged more than six months might be assumed to be worthless, while those more than 90 days delinquent might be assumed to be worth only 50 cents on the dollar.

Angel: a term for a private investor who often has nonmonetary, as well as monetary, motives for investing.

Anchor store: a large, well-known store in a shopping mall considered by developers and merchants to be an attraction to draw customers. The presence of such an anchor increases the market potential for other businesses and makes adjacent locations more desirable for entrepreneurs. Malls without powerful anchor stores often encounter financial difficulty.

Armchair entrepreneur: a person who loves to talk about new ventures and what he/she plans to do about them, but never does anything. He/she is all talk and no action.

Asset-based financing: refers to financing an enterprise by using its hard assets for collateral to acquire a loan of sufficient size with which to finance operations. This method is widely used in leveraged buyouts (LBOs).

Asset lending: the loaning of money on the value of assets offered as security. The lender is protected from loss by the liquidation value of the assets.

Assumptions: preconceived notions on which management bases reasonable financial projections or other probable developments. They are usually found in the financial section of the corporate business plan.

B

Balance sheet: an accounting statement showing the financial condition of a company at a point in time, including present assets, liabilities and net worth. The basic equation is: assets = liabilities + net worth.

Bank-holding company: a corporation that owns or controls the voting stock in one or more operating banks.

Barter arrangement: an agreement to exchange goods for services directly without money as a medium of exchange. This is a great tool for the entrepreneur.

Belly up: refers to going bankrupt.

Bet on the first tee box: derived from golfing etiquette, which says that once a bet is made before the match begins on the first tee box, it is not good form to ask to change the terms later in the match. In business, this phrase refers to the importance of making firm agreements between business associates at the beginning of the relationship. It is exceedingly difficult to renegotiate deals down the line. The moral: Don't wander into deals with only a vague understanding of the terms.

Better Business Bureau (BBB): a nonprofit association of local businesses that attempts to control unethical business practices. Consumer information is available through the association.

Bill of lading: a written document or a receipt issued by a transportation company, showing the name of the shipper and the receiver and itemizing the goods shipped.

Blue sky: refers to claims of future business profits that are greatly exaggerated or even nonexistent.

Blue-sky laws: laws regulating security sales designed to eliminate fraud. "Blue-sky laws" is the common term for state laws that regulate the sale of securities in the state.

Blue-suede shoes: used to describe people who are particularly adept at selling deals that are either illegal or should be. Such deals have little benefit to the purchaser.

Board of directors: the people elected by stockholders of a corporation who are responsible to that group for overseeing the overall direction and policy of the company.

Boilerplate: often refers to the legal clauses routinely included in all contracts that, while important, have little to do with the actual substance of the contract.

Brainstorming: a meeting technique used to foster ideas, solve problems, set goals, establish priorities and make assignments for their accomplishment. First, participants are encouraged to offer suggestions without any self criticism or group evaluation. When the ideas stop coming, each idea listed is discussed individually.

Break-even analysis: a means of determining the quantity that has to be sold at a given price so that revenues will equal cost. The break-even point in units equals the total fixed cost divided by the difference between the unit price and the unit variable cost.

Break-even point: refers to the level of sales at which total revenue equals total costs incurred—the point at which the venture is meeting expenses with no profit and no loss.

Bridge loan: refers to short-term, temporary financing used until permanent financing can be secured.

Business plan: a thoroughly researched and documented outline of a proposed venture. The objective is to convince would-be investors of the positive future of the venture. It usually contains the following sections:

- Cover Page
- Table of Contents
- Executive Summary and Overview
- Management and Organization
- Product/Service Plan
- Marketing Plan
- Financial Plan
- Operating and Control System
- Growth Plan
- Appendix

Buyout agreements: (1) a means of protecting principal parties in a venture from undue financial loss should the personal and/or business relationships among the founders or investors for some reason disintegrate. They

are often included in buy-sell agreements to save aggravation, legal expense and goodwill among the parties involved; (2) a wise provision inserted into agreements between private investors and entrepreneurs that allows entrepreneurs to get rid of troublesome investors.

Buy-sell agreements: contracts between associates that set the terms and conditions by which one or more of the associates can buy out one or more of the other associates.

Bylaws: rules under which a corporation is governed. These rules can be amended as provided by state law and the bylaws. They are the rules and regulations under which a board of directors operates a corporation.

C

Capital: a term commonly used as a synonym for cash. It includes: *(1) goods,* such as material assets, equipment, machinery or tools; and *(2) funds, i.e.,* cash assets.

Capital expenditure: refers to money spent for the purchase or expansion of plant or equipment.

Carrying cost: costs incurred from the storage of inventory.

Cash cow: a product or service that sells very well and has a low cost. The name implies the relative ease with which cash is obtained—like milking a cow.

Cash flow: the measurement of the differences between the actual cash received by a firm and its actual cash expenditures. Only the flow of cash is measured. Non-cash transactions, such as depreciation, amortization, credit sales and purchases on account are ignored. It is the most important consideration of business survival.

Cash-flow projection: a forecast of the cash flow for a period of time in the future. It is also called a cash budget.

Cash on delivery (C.O.D.): means the buyer must pay for the goods at the time of delivery.

Channels of distribution: the systems of economic institutions through which goods flow into the hands of consumers or industrial firms.

Closely held corporation: a corporation owned by a few individuals, who also own all the stock. Thus, no stock in the corporation is publicly traded. State regulations administer the establishment of corporations.

Collateral: the asset(s), such as real property or an automobile, which provide security for a loan.

Commercial bank: a state or nationally chartered bank that accepts demand deposits, grants business loans and provides a variety of other financial services. It is typically used by the entrepreneur as an asset lender.

Commercial paper: an unsecured promissory note sold on the open market by corporations having a prime credit rating. Such notes usually have a short maturity and pay a relatively low interest rate.

Common stock: shares that represent the ownership interest in a corporation. Both common and preferred stock have ownership rights, but the preferred normally has prior claim on dividends and, in the event of liquidation, on corporate assets. Both common and preferred stockholders' claims are junior to claims of bondholders or other creditors of the company. Common stockholders assume the greater risk, but have the voting power and generally exercise the greater control and may gain the greater reward in the form of dividends and capital appreciation. Common stock and capital stock are terms often used interchangeably when the company has no preferred stock.

Competitive edge: factors that give a company an advantage over its competitors in the marketplace. One theory of entrepreneurship is that the venture must develop some competitive edge over its competition if it is to profitably exist in the market.

Concept: (1) a set of thoughts that communicate to others the precise nature of the enterprise one proposes to undertake; (2) a set of cohesive ideas about how to create and deliver value to a market.

Consignment: a policy of placing one's goods with a middleman or prospective customer, while retaining title to them. The middleman or customer does not pay for the goods until they are sold or used. If they remain unsold, the goods may be returned.

Consumer behavior: the activities of individuals in the marketplace—including the process involved in decision making, purchasing and evaluation. In other words, the term refers to how people go about acquiring their standard of living.

Contract: a promise, or a set of promises, that the law in some way recognizes as a duty.

Contract labor: refers to workers hired on an "as needed basis" to do specific work.

Convenience goods: goods that consumers want to buy with minimum effort—usually relatively low-priced items that are purchased frequently.

Convertible bonds: bonds that may be exchanged for other securities of the corporation, usually common stock. The buyer of a convertible bond or preferred stock has the security of the promised interest or preferred dividend, yet can enjoy profits from the rise in price of the stock into which the convertible security can be converted once that stock's price exceeds the stipulated conversion price.

Copyright: an exclusive right granted by the federal government to the publisher to publish and sell literary, musical and other artistic materials. Copyright is honored for 50 years after the death of the creator.

Corporate bylaws: specific rules concerning the internal affairs of a corporation.

Corporate licensing: using popular corporate names to sell products with which they have not been previously associated.

Corporate raiding: the practice of one corporation attempting to gain control of another through stock purchases.

Corporation: a legal entity created under state law. It is a form of organization wherein ownership is vested in the stockholders.

Cost-benefit analysis: any process by which organizations seek to determine the effectiveness of their spending in meeting policy objectives.

Cost of goods sold: (1) purchase price of merchandise sold by a retailer; (2) the cost of raw materials, purchased parts and labor in making a product; and (3) that which is deducted from net sales to determine gross margin (gross profit).

Creator: the innovator, one of the necessary team-member roles in any new or growing venture. He/she is the one who conceives and nurtures the business idea. See Management team.

Creditor: individuals or firms to which money is owed. There are two kinds: *(1) General:* a class of claimants who are paid from funds remaining after preferred and security creditors have been satisfied. They have no preferred status or security for their claims. *(2) Preferred:* a class of claims that must be paid first, by order of the court in a bankruptcy case. This class includes taxes, wages, court costs and secured creditors.

Current assets: assets or property that can be converted to cash in a short period of time. This usually includes accounts receivable, inventory and short-term notes receivable.

Customer in hand: a customer already interested enough and ready to purchase a product or service, e.g., advance orders and deposits.

Cutting edge: at the forefront of a new trend.

Cybermall: a collection of business-related Web pages.

D

Deal: the series of arrangements an entrepreneur makes with investors or employees. Deals are the result of negotiating to accomplish specific goals under the most advantageous terms.

Debenture: a company's long term IOU (bond) backed by the general credit of the firm, rather than by a lien on any specific asset.

Debit: an entry in an account. The left side of an account ledger is where such entries are made.

Debt capital: funds or assets acquired by borrowing.

Debt service: the money needed to pay the amount due on a loan.

Debt-to-equity ratio: the relationship of debt to stockholder equity (ownership), or net worth, in a firm's capital structure. The higher the ratio (i.e., the more debt there is relative to equity), the greater the firm is leveraged.

Debt with warrants: a loan that obligates the company to repay a certain amount of money over a certain period of time at an agreed-upon rate. This carries with it the right to purchase stock at a fixed price within a specified period of time. It differs from convertible debentures in that all debts must be repaid, and in addition, the note holder is given warrants. Under convertible debentures, the note holder might not recoup the full loan before converting it into stock.

Deep pockets: used to describe financial backers with seemingly endless funds to invest in entrepreneurial as well as other ventures.

Default: the failure to pay a debt, make scheduled payments or meet any term of a credit contract.

Deficit financing: borrowing money with which to pay expenses that exceed revenues.

Delinquency: a past-due credit account or debt payment.

Demand deposit: money placed with a financial institution that must be returned upon demand by its owner. A checking account is the most common form.

Demographics: the science of grouping human populations statistically by such characteristics as age, sex, family size, income and occupation.

Depreciation: the periodic allocation of the cost of a tangible long-lived asset over its estimated useful life. Depreciation is usually calculated for man-made assets.

Dilution: the reduction of a stockholder's percentage of ownership in an enterprise. It is usually done by selling more common stock to other parties and is sometimes called "watering down" the stock.

DINK: an acronym for a Double-Income, No-Kids household.

Direct-response marketing: presenting a product or service to the consumer without the use of middlemen. This allows control over distribution and measures effectiveness of promotional campaigns. Examples include direct mail, advertising mail order, direct-response television advertising and catalogues.

Discount rate: the interest rate the Federal Reserve charges on loans to its member banks.

Discretionary income: the amount of disposable personal income available for spending and saving after the basic necessities of food, clothing and shelter have been provided.

Dissolution: the legal termination of a corporation, which entails liquidating all assets, paying off all liabilities and distributing the remaining balance to the company's stockholders.

Distribution channel: the various organizations responsible for moving the product from the producer to the ultimate consumer.

Dividend: a distribution of profit made to the stockholders of a corporation. There are four kinds: *(1) Cash:* payment in cash. *(2) Extra:* a dividend paid in either stock or cash in addition to the regular or usual dividend the

corporation has been paying. *(3) Property:* payment made in assets other than cash, e.g., inventory, marketable securities of other companies, fixed assets, etc. (4) *Stock:* payment of dividend stock.

Dog: used to describe any venture that is not performing according to expectations.

Dormant partner: a limited partner who neither actively participates in managing the company nor is disclosed to the public as being a partner. Such a person is also called a "silent partner."

Double taxation: a term referring to the fact that earnings of a corporation may be taxed twice, as the net income of the corporation and again as the dividends distributed to the stockholders. Adept management can often abate its impact in closed corporations.

Downside: refers to the risk of losing money on a venture.

Driving force: someone with the energy and vision to take a "concept" and make it a reality. It is one of the team-member roles needed in every new or growing venture. In small-scale operations, it is an organizer; in larger operations, it is the CEO. See Management team.

Drop shipment: a purchase made by some central buying organization from a manufacturer who ships the goods directly to the individual stores rather than to the chain's home office or its distribution center. It refers to any shipment made directly to a dealer or industrial buyer at the instigation of some merchant wholesaler.

Drop shipper: a merchant wholesaler who performs most wholesaling functions with the exception of storage and handling. Instead, he/she forwards orders to the manufacturer, who ships directly to the customer. Payment is made by the customer to the drop shipper, who has paid the manufacturer.

Due diligence: refers to a form of research. It is a reasonable investigation conducted by the parties involved in preparing a registration statement to form a basis for believing the statements contained therein are true and that no material facts are omitted.

Dun & Bradstreet: a firm that gathers and sells credit information on business firms.

E

Earnest money: partial payment in advance, showing the serious intent of a buyer. It is also called "front money."

Earnings: the total remuneration of an employee or group of employees for work performed, including wages, bonuses, commissions, etc.

Earnings/dividend ratio: the ratio of company profits to dividends declared.

80/20 principle: a phenomenon in which a venture may get 80 percent of its business from 20 percent of its product line, while spending 80 percent of its effort to gain the remaining 20 percent of volume.

E-mail: short for electronic mail, which is the cheapest and fastest way to communicate among employer, employee and customer.

Employee stock ownership plan (ESOP): a plan set up under federal law that allows employees to buy stock in the company with funds borrowed from a bank, with the principal repaid from an employees' profit-sharing plan.

Employment contract: an agreement between an employer and an individual to induce him or her to work for the company. The need for a contract arises when some firm wants a talented person to leave a good job to come work for it and that person demands assurances of fair treatment. Most managers are reluctant to offer these contracts.

Employment taxes: payroll taxes and any variety of taxes levied by the government based on an employer's payroll. This includes Social Security, known as FICA (Federal Insurance Contribution Act), and FUTA (Federal Unemployment Tax Act).

Encryption: a coding technique used to secure sensitive data, such as credit-card information.

End user: the ultimate consumer of a product or service.

Enterprise zone: a relatively small geographical area, usually located in an economically depressed location, which is designated as an Enterprise Zone by state governments. To encourage development, the business firms in the zone are granted a wide range of governmental benefits and incentives.

Entrepreneur: a word derived from the French word "to undertake." It refers to someone who is willing and eager to create a new venture in order to present a concept to the marketplace.

Entry strategy: the way an entrepreneur plans to get business. Some of the various strategies are:
Franchising
- Buying a business
- Part-time business
- Expanding a hobby
- Spin off from current employment
- Observation of market need
- Exploitation of invention
- Turnarounds
- Inventions

Equity: the total assets minus total liabilities.

Equity capital: funds invested in a business by its owner(s).

Equity kicker: when a company negotiates a loan by offering the lender an option to buy future equity in the company at an attractive price.

Escape dause: a clause in a contract that allows one party to avoid performing to the terms of the contract if stated events happen. For example, many contracts are reduced or cancelled in case of "acts of God," war or strike.

Escrow: the placing of money in a special and separate account under the control of a third party, usually a financial institution, to be held until the completion of conditions set forth in an agreement.

Exit: (1) the way an entrepreneur gets his/her money out of the venture; (2) the vehicle for selling the enterprise; (3) what venture capitalists look for when funding new ventures—their way to realize the dollar profits from the investment.

Exporter: one who sells and/or ships goods to customers in other countries.

F

Face value: the amount printed on a bond or other debt instrument, on which the borrower computes interest and which it repays at maturity.

Factor: a financial institution that buys accounts receivables from a firm and bills customers directly— in contrast to a bank, which only lends on accounts receivable.

Factoring: (1) the selling of accounts receivable; (2) the selling of invoices at a discount.

Feasibility study: research to determine the economic feasibility of a proposed business venture.

Finance charge: the total cost of credit.

Financial institution: any firm that deals with money and/or securities. Banks, savings and loans, insurance companies, hard-asset lenders, credit unions, stockbrokers, consumer financial companies and investment bankers, as well as a host of other highly specialized organizations, are examples of the institutions that operate in the large and highly complex world of finance.

Financial middlemen: institutions that get money from those who have it and sell it to those who need it.

Financial statement: a periodic accounting report of a company's activities. It usually includes a balance sheet and income statement.

Finder's fee: the commission paid to a person for furnishing to the payer a buyer or a property or for arranging an introduction that leads to a deal.

First-in, first-out method (FIFO): an inventory-costing method under which the cost of the first items purchased are assigned to the items sold and the cocst of the inventory is composed of the cost of items from the first purchases.

First-round financing: the first infusion of capital in a new venture after the initial seed money has been exhausted.

Fixed asset: property with relatively long life, such as land, buildings and equipment.

Fixed capital: money invested in fixed assets.

Fixed cost: a cost that remains constant within a relevant range of volume or activity. Compare with Variable cost.

Flagship: a product or service upon which a company gains and maintains its reputation and top rating in the marketplace. It is considered to be a firm's front runner in the market.

Focus group: a form of market research using structured discussions with a select, predetermined group of potential consumers to learn their reactions to a new product or service.

Foreclosure: a legal proceeding taken by the lender to bring to an end the borrower's right to a property by paying the debt.

401 (K) plan: a type of company-sponsored retirement program whereby the amount withheld, often matched by the employer, is not taxed until it is withdrawn from the plan.

Franchise: a contract between two parties. In modern usage, it is a license from the franchiser that entitles its holder to operate a particular type of business according to certain stated conditions and arrangements.

Franchising: a distribution system by which a parent company is linked to independent companies that buy a right to own and operate the franchise along the lines of the parent company's comprehensive marketing program.

Frequently asked questions (FAQ): a list of answers to common questions on a given topic, usually posted by newsgroups.

Friendly takeover: the acquisition of one company by another at the invitation of the first company.

Front money: money provided for the initial efforts to launch an enterprise. It is the same as seed money, i.e. money paid in the early stages of a deal.

G

Going public: the process by which a corporation offers its securities to the public.

Golden parachute: an employment contract designed both to discourage unfriendly takeovers and to protect top executives in the target firm should the takeover occur. If an executive is fired, for whatever reason, he/she would be entitled to receive in a lump sum the present value of the contract. Currently, entrepreneurs are trying to decrease golden parachute obligations.

Goodwill: the difference between the market value of a firm and the market value of its net tangible assets.

Gopher: Internet server software that presents a clear menu of choices, searchable by subject. It can be linked to World Wide Web pages and to other Gopher servers.

Greenmail: the profit paid to the party who has acquired a large block of stock in a company ostensibly in an effort to take control of it, by its management in a move to ward off the takeover threat. It's a buyback.

Gross margin: the net sales minus the cost of goods sold. It is also known as gross profit.

Gross markup: the difference between what the customer and the retailer pay for goods. It is also called gross margin or gross profit. Gross markup is usually expressed as a percentage.

Gross sales: the total sales for a given accounting period. It includes goods that are later returned.

Growth industries: industries predicted to show abnormally rapid growth in the future.

Growth potential: the difference between a venture's present sales volume and its sales potential.

H

Hard assets: assets with liquidating value, such as equipment and machinery.

Harvest: the liquidating of the accumulated assets and equity of a venture in the process of converting a profitable investment into cash to realize one's profit.

Heavy hitter: someone with lots of money or brains. Such a person is a potential angel to the entrepreneur. See Angel.

Holding company: a corporation that owns either a controlling interest in another company or all of its shares. The accounts of a wholly-owned subsidiary may be consolidated with those of the parent company. Normally, this is a company whose main assets are securities in other companies.

Homed-based business: an entrepreneurial venture operated from one's own home.

Home page: the default document for a particular Internet location. It appears when you access a site and is linked to many other pages at that site and may be linked to other sites anywhere in the world.

Hyperlink: in a hypertext system, an underlined or otherwise emphasized word or phrase that, when clicked on with a mouse, displays another document.

Hypermedia: a term similar to Hypertext, except objects, such as graphics, video and sound bites, not just text, can be linked. See Hypertext.

Hypertext: a method of preparing and publishing text in which readers can choose their own paths through the material by clicking on certain words or phrases.

Hypertext markup language (HTML): the simple code used to create Web pages.

I

Immediate-response advertising: a type of advertising intended to cause the potential consumer to buy a particular product within a relatively short time.

Importer: a business person who buys goods from foreign markets.

Impulse goods: goods purchased without prior planning on the buyer's part. The sight of the products in the store triggers the purchase.

Incentive: a reward, whether monetary or psychological, that motivates and/or compensates an employee for performance above standard.

Income statement: a financial statement that shows the amount of income earned by a business over a specific accounting period. All costs (expenses) are subtracted from the gross revenues (sales) to determine net income, which outlines the profit-and-loss financial statement (P&L).

Incorporate: to form a corporation using an established legal process.

Incubator space: a rental space for start-up businesses found on university campuses and industrial parks, often sponsored by city governments. Incubators nurture young companies by offering work space at low rent, business services at low cost and opportunities for consultation with business experts.

Indirect cost: a manufacturing cost that is not traceable to a specific product or cost objective and which must be assigned by some allocation method.

Individual retirement account (IRA): a special savings plan that allows employees to set aside funds and defer taxes on these funds with the purpose of withdrawing these funds at retirement, when they will be taxed at a lower rate.

Industry profile: a breakdown of the history, participants, total sales volume, trends, growth potential and other pertinent facts on a particular industry.

Infrastructure: a term that includes specialists outside the normal management team, such as attorneys, CPAs, bankers, insurance brokers, consultants and other types of advisers, who provide necessary support and resources to the entrepreneur to operate a business.

Initial markup: the original markup taken on a product before any markdowns are taken.

Initial public offering (IPO): the first stock sales to the general public.

Innovation: a product that is novel or unique in the marketplace.

Institutional investors: organizations with enormous amounts of money to invest—pension funds, insurance companies, bank trust departments, mutual funds—which now, with the dealers, are responsible for 80 to 90 percent of all trading.

Intangible rewards: rewards of no monetary value that an employee receives from the employer, such as being praised for a job well done or given in-house recognition for outstanding performance.

Internal Revenue Service (IRS): the federal agency that interprets and enforces the U.S. tax laws governing assessment and collection of revenue for the government.

Internet relay chat (IRC): the name of a program that allows individuals to "talk" to any number of people who are logged on to the Internet all over the world.

Internet service provider (ISP): the term for the company that supplies Internet accounts and server space for Web pages.

Intranet: refers to using World Wide Web/browser technology internally in a company's network.

Intrapreneur: a term coined by Gifford Pinchot III to identify an "entrepreneur" working within the confines of a corporation, while retaining some degree of independence. An intrapreneur usually works within a corporate venture group.

Inventory control: the process of balancing incoming and outgoing stock to ensure that adequate supplies are on hand with which to do business.

Inventory turnover: the ratio upon purchase of inventory. It includes invoice price, less cash discount, plus freight, transportation, applicable insurance, taxes and tariffs.

Investment banker: a person who serves as a middleman between the suppliers of capital and the users of capital. This person is also known as an underwriter.

Investment tax credit: a special tax credit allowed to businesses by Congress to encourage investment in corporate assets.

Invoice: an itemized list of goods sent by a seller to a buyer. It usually gives prices, terms of sale, shipping dates or any other information relevant to the sale.

Issued stock: a type of share of stock sold or transferred to the stockholders from the authorized pool of stock.

J

JAVA: a sophisticated programming language for writing applications that run across the Web. Unlike HTML, it's fairly difficult to use without a background in programming.

Jobber: a wholesale merchant who acts as a middleman, buying goods from manufacturers, then selling them to retailers.

Joint venture: usually refers to a short-lived partnership with each partner sharing in costs and rewards of the project. It is common in research, investment banking and the health-care industry.

JPEG: a graphics format used for displaying photographs and realistic artwork on the Web.

Junk bonds: bonds of a speculative grade that represent a higher risk to investors but offer the opportunity for higher interest. They are considered undervalued assets and used as a money source in takeover attempts.

Just-in-time inventory: a Japanese technique of inventory control in which supplies are delivered to the production site as needed rather than being stockpiled in a warehouse "just in case."

K

Keogh plan: a type of retirement account for the self-employed and their employees, similar to IRAs. The maximum allowable annual contribution varies upward from 15 percent of annual income and is regulated by a complicated set of laws.

Keystone: a retail policy by which a merchant doubles the cost of a product, e.g., 50 percent margin or 100 percent markup on cost.

L

Last-in, first-out method (LIFO): an inventory-costing method under which the cost of the last items purchased are assigned to the first items sold and the cost of the inventory is composed of the cost of items from the oldest purchases.

Lead blocker: the term for someone or something that provides an easier entrance or acceptance into a tar-get market, such as associated products, celebrity endorsements or affiliation with a reputable person or institution.

Lead time: the anticipated amount of time required to activate specific goals, such as implementing advertising to coincide with a market-ready product.

Lease financing: financing the acquisition of a plant or equipment by leasing it rather than buying it.

Leasehold: a payment made to secure the right to a lease for specified terms.

Leasehold improvement: an improvement to leased property—considered an intangible asset to the lessee— which becomes the property of the lessor at the end of the lease.

Lease-purchase agreement: an agreement wherein part of the lessee's monthly rent is applied toward the purchase of the property. When the agreed equity is reached, the ownership is transferred to the lessee.

Legal structure: one of the various forms of business organizational structure. These include sole partnership, corporation, S corporation, limited corporation and R&D partnership.

Letter of credit: a bank's written guarantee of available funds for drafts.

Letter of intent: a letter addressed to a company from a customer, supplier, distributor, investor, or other interested party, stating the desire to conduct business. A letter of intent does not necessarily obligate the party writing it but can be an influential device to sway prospective investors or bankers to finance the venture based on evident industry and market support.

Leverage: often refers to a company that has interest-bearing debt. It is the difference between the profit (calculated as a percent) generated from borrowed money and the interest rate on the loan.

Leveraged buyout (LBO): the purchase of a company financed by borrowing on its assets.

Liability: a debt of the business—an amount owed or an obligation to perform a service to creditors, employees, government bodies or others. It is a claim against assets.

Licensing agreement: a legal contract in which the licensor grants to the licensee rights to use specific property rights in exchange for royalties.

Lien: a legal claim against property as security for repayment of credit.

Limited liability company: a new type of business entity that, when properly structured, combines the liability protection of a corporation with the favorable tax treatment of partnerships..

Limited partner: an individual who has limited liability in a partnership. He/she cannot participate in management.

Limited partnership: a form of partnership composed of both a general partner(s) and a limited partner(s). The limited partners have no control in the management of the company and are usually financially liable only to the extent of their investment in the partnership.

Line of credit: short-term financing, usually granted by a bank up to a predetermined limit. The debtor can borrow up to the limit of credit without needing to renegotiate the loan.

Liquidation: the process of converting assets into cash.

Liquidity: the relative amount of ease in converting assets to cash.

Listserv: a program that manages on-line discussion forums or lists. Messages are sent by e-mail to other members of the listserv.

Location: site, considered to be the most important element of success in establishing a retail business.

Long-term debt: consists of loans that are to be paid back over a period greater than a year.

Long-term liabilities: amounts to the debt of a business that matures more than one year ahead, beyond the normal operating cycle, or is to be paid out of noncurrent assets.

Loss leader: a product/service priced below cost to attract customers to a retail business.

Low-ball pricing: an unethical practice in which a seller deliberately quotes an unrealistically low price that he/she does not intend to honor in order to block out competition. he/she hopes to make a profit from extra charges on the product or service.

Luck: (1) opportunity at the right time, or (2) when preparation meets opportunity.

M

Maintained markup: the difference between what an item actually sells for and what it costs. Initial markup less markdown equals maintained markup.

Management team: a group of individuals who combine their talents to run an enterprise. These areas become a fully integrated system and often include:

Driving Force
Creator/Innovator
Sales
Production
Engineering
Marketing
Finance

Manufacturer: a business engaged in the production of goods.

Manufacturers' agent/representative: an agent who generally operates on an extended contractual basis. He/she often sells within an exclusive territory, handles non-competing but related lines of goods, and possesses limited authority with regard to prices and sale terms.

Margin: also called markup—the amount the entrepreneur adds to a product's cost to obtain its selling price.

Marginal cost: the actual additional out-of-pocket cost of producing one more unit.

Markdown: a reduction in price—usually in connection with retail pricing.

Market: (1) the actual and/or potential buyers of a product or service; (2) a place where exchanges between buyers and sellers occur.

Market demand: the degree to which the market accepts a market offering.

Market driven: describes an enterprise created to exploit a market opportunity.

Market niche: the particular appeal, identity or place in the market that a product or company has. What one does well, different or better than others in the market.

Market penetration: the degree of success and acceptance of a product by a specified target market.

Market positioning: the projection of a product as having a certain desired image that makes it appealing to a certain segment of the market for that type of product.

Market price: the price for which a product can be sold in the market to a bona fide buyer.

Market segment: a specified, homogeneous, identifiable portion of the market.

Market share: that portion of the total market sold by a specific company, expressed as a percentage.

Marketing: the performance of business activities that direct the flow of goods and services from producer to consumer.

Marketing plan: a written formulation for achieving the marketing goals and strategies of the venture,usually on an annual basis. Business plans always contain a marketing-plan section.

Marketing research: the systematic gathering, recording and analyzing of data about problems relating to the marketing of goods and services. Such research may be undertaken by impartial agencies or by business firms or their consultants for the solution to their marketing problems.

Markup: amount added to the cost of a product or service to determine its retail price.

Media: the means used by the transmitter of a message to deliver it to the intended receiver in a communications system. In advertising, it refers to the newspaper, radio, television, magazines, billboard, direct mail and other methods used to carry advertisements.

Merchandizing: a term that is used in many ways, depending upon the industry. In retailing, it refers to all activities connected with buying and selling merchandise, including store display, promotional, pricing and buying acumen. Even such factors as store layout and fixture design play a role in "merchandising a store." In manufacturing, the term refers to the activities that are intended to make the offering attractive to potential buyers, such as packaging, sales promotion, special pricing deals and other promotional activities.

Merchant: a business unit that buys, takes title to and resells merchandise.

Merchant wholesaler: a wholesaler who takes title to goods he/she buys for resale to institutions that intend to either resell the goods as they are or process them in some way for resale.

Merger and acquisition (M&A): a legal combination of two or more organizations into one business unit.

Mezzanine financing: a layer of money (either debt or equity), which comes after the initial investment, but still during the early growth stages of a new venture. It is used to finance operations until the firm is ready to go to market for its long-run financing.

Middleman: a business concern that specializes in performing operations or rendering services directly involved in the purchase and/or sale of goods in the process of their flow from producer to consumer. Middlemen are of two types: merchant and agent.

Money sources: methods of obtaining capital available to the entrepreneur. Sources include family, friends, banks, private placements, factors, venture capitalists and investment bankers.

Multiple: slang for a firm's price-earnings ratio. It is used for quick valuations of a firm, e.g., a firm that earns $4 million a year in an industry that generally values stock at 10 times earnings (multiple of 10) would be valued at $40,000,000.

Multimedia–GUI browsers: software that allows a graphical or point-and-click method of accessing the information contained on the World Wide Web. Some examples are Netscape and Internet Explorer.

N

Net income: an amount calculated by subtracting all expenses and taxes from total revenue. Dividends are paid out of a corporation's net income.

Netiquette: the written and unwritten set of rules of proper behavior when communicating on-line.

Net net: the income from a real-estate property after subtracting all the costs and taxes.

Net sales: the dollar amount of sales made during a specific time period, excluding sales tax and any returns or allowances.

Net worth: determined on the balance sheet by subtracting liabilities from assets.

Network: the establishment of common channels with important people in a variety of related fields to provide information and contacts that can be used to help the entrepreneur become successful.

Newsgroup: an electronic discussion group devoted to a single topic, in which users participate by posting, reading and replying to messages.

New venture: a new business providing products/services to a particular market.

Niche: a small segment of a market in which an entrepreneur feels strongly competitive vis-a-vis competitive firms.

Nominal partner: a person who is not an actual partner but allows his/her name to be identified with the business. Entrepreneurs often use sports professionals or actors for this purpose.

Non-compete/non-disclosure agreement: a legal agreement stipulating that the signee not disclose confidential information about the company and/or product, and/ or preventing the signee from joining or starting a similar venture.

O

Offering: the financial "package" presented by a new venture.

Operating expenses: the costs—including selling, administrative and general overhead costs—involved in a business's operations throughout a period of time.

Organization chart: a diagram outlining the "chain of command" that makes up the structure of a business, showing specific areas of responsibility.

Original equipment manufacturer (OEM): a company that assembles all the necessary parts to produce a finished product.

Overhead: the operating cost not directly associated with the product or its marketing, such as rent, managers' salaries, administrative expenses, etc.

Owner security: the resource invested by the owner of the business. Owner's equity equals assets minus liabilities. It is also called residual equity.

P

Partnership: a business association of two or more people. There are two types of partnerships, the general and the limited partnership.

Patent: a federal governmental grant to an inventor, giving exclusive rights to an invention or process for 18 years. A U.S. patent does not always grant rights in foreign countries.

Penetration pricing: a strategy in which the price is set low in order to penetrate the market quickly.

Penny stock: the term for very-low-priced stocks, sometimes selling at a few pennies a share. These stocks are usually issued by companies with small equity requirements.

Perks/perquisites: nonmonetary benefits that supplement one's salary, such as travel benefits, expense accounts and so on.

Personal financial statements: a person's balance sheet and tax returns for the past three years. They are sometimes required by prospective investors of the founders/managers of the start-up.

Physical distribution: the handling and moving of raw materials, fabricated parts and finished products from production to consumption.

Pipeline: the nickname for the various methods of bringing a product or service from the producer to the ultimate consumer.

Popcorn head: a person with many ideas, many of them good, who does nothing about them.

Preferred stock: a corporate security that has preference over common stock in receiving dividends and assets. Its dividend is usually stated as a fixed percentage of par value or as a stipulated sum each year, but the

company has no legal liability to pay it if the company has not earned the money to do so. There are five different types. *(1) Cumulative:* if the dividend is not paid when due, it accumulates as a backlog that must be paid before common stockholders receive dividends. *(2) Non-cumulative:* if the dividend is missed, it is not required to be paid at a later time. *(3) Participating:* can enjoy additional dividends after the common stockholders are paid a stated amount. *(4) Nonparticipating:* cannot receive any dividends other than the fixed amount offered. *(5) Voting:* has voting privileges.

Prestige pricing: the policy of charging relatively high prices to enhance the quality image of the product or seller.

Pre-tax profit: a common misconception. Profit is profit only after all expenses are deducted, and taxes are a cost of doing business.

Price: the sum of money (or equivalent) for which something is bought or sold. While tradition held that it was the amount paid by the buyer, the government now leans toward the view that it is the amount received by the seller at his/her plant or the amount paid by the buyer minus the transportation costs.

Price/earnings (P/E) ratio: a ratio that measures the relationship of the current stock-market price of a stock to its current or estimated future earnings per share.

Price leader: (1) a firm whose pricing behavior is followed by other companies in the same industry or (2) a product/service whose price has been reduced to attract people to purchase.

Principal: the original amount borrowed or financed. Interest is paid on the principal or the face amount of a note.

Private placement: the sale of securities not involving a public offering and exempt from registration pursuant to certain exemptions. It is an offering of securities to obtain investors that is exempt from registration and limited in distribution.

Privately held: describes a corporation that does not offer shares to the public. It usually does not have to publish an annual report or comply with SEC regulations; however, there are some exceptions.

Product driven: describes an enterprise developed to exploit a new product/service. It is a product/service looking for a market.

Production: the act of producing.

Production control: the planning for the smooth, continuous flow of raw goods to finished goods.

Product liability: the responsibility of the manufacturer, wholesaler or retailer for damages occurring through use of the product.

Product life-cycle: the stages of market acceptance a product/service travels from its birth to death.

Product line: the assortment of goods marketed by a company, or a group of products that are closely related because they either satisfy a class of need, are used together, are sold to the same customer groups, are marketed through the same types of outlets or fall within given ranges.

Product/service mix: the composite of products offered for sale by a firm or a business unit.

Profit: what results from revenues when all expenses have been paid.

Profit margin: (1) a measure of profitability; (2) the percentage of each dollar of sales that is net income; (3) net income divided by sales.

Profit potential: how much money can be made from the venture.

Pro forma: indicates a projection in the future. It is used with the financial-documents list, e.g., pro forma cash flow, pro forma income statement and pro forma balance sheet.

Promissory note: a written and often negotiable instrument in which the maker promises to pay to the lender a definite sum at a later date.

Promotion: a series of efforts aimed at stimulating demand for a product. It includes advertising, personal selling, publicity and special promotional events designed to gain the public's attention and interest in the seller's proposition.

Proprietary: refers to that which is owned, such as a patent, formula, brand name or trademark associated with the product/service.

Prospectus: a formal written offer to sell securities. It gives a plan for the proposed business enterprise or the facts concerning an existing business that an investor needs to make an informed investment decision.

Prototype: an original model or working example of the product or innovation.

Proxy: written authorization for a designated party to vote the stock of another party.

Psychographics: the analysis of consumers' psychological characteristics for marketing purposes.

Public accounting: the field of accounting that offers services in auditing, taxation and management advising to the public for a fee.

Public company: See Publicly held corporation.

Public offering: the sale of a company's shares of stock to the public by the company or its major stockholders.

Publicity: the use of media sources to present news stories about a specific product or service.

Publicly held corporation: a corporation registered with the Securities and Exchange Commission (SEC). Its securities are traded publicly.

Purchase order: a formal specification sheet issued by the buyer to the supplier to secure goods or services.

Q

Quantity discount: a reduction in price allowed for buying certain quantities.

R

Raider: also known as a corporate raider. It refers to an aggressive investor who buys into a company with the hopes of taking over its management.

Red herring: in business terminology, refers to a preliminary prospectus that is distributed to prospective investors, which has a legend in red ink on the cover, stating that the registration statement (i.e., SEC approval) has not yet become effective.

Red ink: slang for losing money on a venture.

Refinance: to renew, revise or reorganize existing debt that incorporates or pays off current debt.

Registered stock: stock that has been somehow registered with the SEC and thus can be sold publicly.

Research and development (R&D) partnership: a legal form of organization made popular by the Internal Revenue Code, which allows such partnerships to write off immediately all expenditures for research and development work. High-tech firms use them to attract money or R&D work, later granting the partners either stock or royalties for the rights to the partnership's patents or products.

Return on investment (ROI): the amount earned in proportion to the capital invested, usually stated as a percentage.

Risk factor: an estimate of the chance of loss with a new venture.

S

S corporation (S corporation): a firm that has elected to be taxed as a partnership under the subchapter S provision of the Internal Revenue Code.

Sales budget: (1) a detailed projection of sales by product for a coming period of time; (2) the projected sales expense; (3) the anticipated cost of the sales operation.

Sales forecast: a future projection of anticipated sales volume of a product or service.

Sales plan: the setting of specific goals, volume in dollars and/or units, and the strategy anticipated to accomplish them.

Sales potential: the ratio of a venture's sales to the total industry sales of the available market.

Sales quota: a sales goal assigned to a marketing unit for use in the management of its sales efforts.

Sales rep: the abbreviation for sales representative, i.e., a salesperson.

Savings and loan (S&L): a type of financial institution and potential source of funding for the entrepreneur.

Search engines: programs, such as Yahoo, Lycos and Infoseek, which let the user search the distributed database of the World Wide Web.

Seasonality: the variation of sales activity caused by the time of the year.

Second-round financing: the second time an entrepreneur attempts to raise additional capital. It is often used for growth and expansion activities.

Secured bonds: bonds that give the bond holder a pledge of certain assets of the company as a guarantee of repayment.

Securities and Exchange Commission (SEC): a federal agency established by Congress to monitor stock practices and corporation affairs for the protection of the investor. The SEC administers the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act, the Investment Company Act, the Investment Advisers Act and the Public Utility Holding Company Act.

Seed capital: money used by the entrepreneur in the beginning stages of an enterprise.

Selling equity: to sell a portion of one's ownership of a business.

Serial line internet protocol (SLIP) or **point-to-point protocol (PPP):** are the connections that link a computer directly to the Internet via telephone line, which are provided for a fee by a service vendor.

Service: an intangible function that benefits the consumer.

Share of stock: a unit of ownership in a corporation, which can be held privately or publicly.

Shelf life: the length of time a product continues to be saleable or aesthetically pleasant to customers.

Short-term debt: consists of loans that are to be repaid within one year.

Silent partner: a partner who has a financial interest in the company but plays no active role, even though he/she may be known to the public as a partner.

Skim the cream: a strategy for pricing a new product/service at a high level in order to take advantage of the willingness of some consumers to pay it.

Skunk works: small units within a large organization that use the entrepreneurial approach, organized for the purpose of developing products or services.

Small Business Administration (SBA): a federal agency created in 1953 to assist with business loans and other problems relating to the operation of small business.

Small Business Administration (SBA) loan: one of two types of SBA loan services: (1) SBA can provide a guarantee for 90 percent of a loan obtained from banking sources; (2) SBA can provide a direct loan for amounts under $150,000.

Sole proprietorship: a business firm owned by only one person and operated for his/her profit.

Specialty goods: consumer goods having unique characteristics and/or brand identification for which a significant group of buyers is habitually willing to make a special purchasing effort, such as fancy food, stereo components, sporting equipment, cameras, men's suits, etc.

Specialty store: a retail outlet carrying a large selection in limited merchandise lines, such as women's or men's clothing.

Spin-off: a divestiture of a business operation into a separate legal entity.

Star: a product or service with a high growth rate that is rising into market dominance.

Start-up capital: money needed to launch a new venture during the pre-start-up and initial period of operation.

Stock certificate: a document issued to a stockholder by a corporation indicating the number of shares of stock owned by the stockholder.

Stock dividend: a proportional distribution of securities to the company's stockholders.

Stockholders' equity: the portion of a business owned by the stockholders.

Stock-option plan: a form of deferred compensation that gives an employee the right to buy a company's stock for a given period of time at a stipulated price.

Subordinated debt: debt whose claims on assets are somehow inferior to the claims of another class of debt. The superior debt has first claim to the assets used as collateral for the debt, e.g., in case of default, a second mortgage on a home gets nothing until the first mortgage has been fully satisfied.

Subsidiary: a company whose stock is more than 50 percent owned by another company.

Syndication: a group of investors or underwriters who band together to speculate on the success or failure of a venture or public offering.

T

Take-one: a coupon or mail-order offer attached to a product as incentive for future purchase at a discount or bonus.

Takeover: the purchase of one company by another.

Target market: the market selected for penetration by a firm's management.

Tax benefits: the deductions, protection, savings and shelters that result from investing in a start-up.

Taxable income: the amount on which income taxes are paid.

Technical obsolescence: occurs when a product or service is no longer in demand because of a new, superior technology or innovation.

Telemarketing: the combination of computers and telephones to provide automated marketing contact.

Term loan: a loan with an original maturity beyond one year.

Terms: the specifications set forth for repaying loans or paying invoices, such as the time limits and amount to be paid.

Test market: the target of a controlled market release of a new product to survey consumer reaction.

Testimonial: an endorsement of a product by a satisfied customer or a celebrity.

Time value of money: refers to an inherent property of money, namely, that all money commands interest, either imputed or explicit. Interest costs are a function of the interest rate and the time for which the money is being rented (used). Thus, time costs money.

Toolbox: slang for the instruments, tactics and methods available to a manager for making a deal. The person who is unfamiliar with the tools that are available is handicapped in cutting deals. Some tools are money, securities, rights, options, perquisites, tax benefits, employment, licenses, distribution rights, leases, royalties, etc.

Track record: an athletic metaphor for an individual's history of performance in any given field of endeavor.

Trade out: a form of business bartering or exchanging services or products that are mutually beneficial.

Trade show: an industry-wide market where many manufacturers demonstrate their products and actively solicit sales.

Trademark: a brand or part of a brand that is given legal protection because it is capable of exclusive appropriation.

Trading area: a district whose size is determined by boundaries within which it is economical in terms of volume and cost for a marketing unit or group to sell and/or deliver.

Turnaround: the successful effort to reverse the financial downfall of a company.

Turnaround artist: a person who takes over management of a troubled enterprise to save it.

Turnkey operation: a product/service concept, completely assembled, installed or set up to begin operation, which is then leased or sold to an individual to run as his/her own venture.

U

Undercapitalization: situation that occurs when a new enterprise is started with too little money to carry it through the beginning stages of development.

Underwriter: the middleman between the company issuing new securities and the investing public.

Unit cost: the cost incurred in the production of one unit of a product; usually computed by dividing total production cost by the number of units produced for a given time period.

Unlimited liability: a legal situation in which the owner of a business is fully liable for all of its debts and obligations to the extent of his or her total estate. People who enter business with unlimited liability can be pauperized through little fault of their own.

Unsecured bonds: debt bonds issued on the general credit of a company.

Unsecured loan: loan granted solely on the strength of the maker's signature.

V

Value added: enhancement of a basic product.

Variable cost: a cost whose sum changes in direct proportion to productive output or any other volume measure. Compare with Fixed costs.

Vendor: the source of supply, raw materials or finished goods throughout the production and distribution processes.

Venture capitalist: an investor who provides early financing to new ventures—often technology-based—with an innovative product and the prospect of rapid and profitable growth.

Venture manager: an intrapreneur within the corporation who is responsible for launching, managing and operating a new venture.

Vertical integration: when an organization controls many or all major functions of a business, from raw materials to distribution of finished products.

Videotex: an information medium that allows consumers to shop and bank electronically.

Vulture capitalist: a slang term for a venture capitalist. It developed because of numerous instances in which the venture capitalist who had invested in a new enterprise has fired a firm's management or taken the company away from them in an attempt to make it more profitable.

W

W-2 form: the Internal Revenue Service's Wage and Tax Statement. By the end of January of each year, employers must provide each employee with at least two copies of his or her withholding statement—showing earnings for the preceding year and various deductions. Employees must file one copy of their W-2 Forms with their federal income tax forms.

Warrant: an option to buy a certain amount of stock for a stipulated price that is transferable—it can be traded.

Watchdog: someone on the management team charged with safeguarding a firm's financial assets, e.g., a CPA or bookkeeper.

Wholesaling: the activities involved in selling goods or services to those who are buying for the purpose of resale or business use.

Word-of-mouth advertising: when one satisfied customer tells another about a particular product or service. It is ideal because it costs nothing to the entrepreneur and is more credible and, thus, more effective than other forms of advertising.

Working capital: the amount of funds available to pay short-term expenses. It is seen as a cushion to meet unexpected or out-of-the-ordinary expenses. It is determined by subtracting current liabilities from current assets.

World Wide Web (WWW): a vast collection of information in hypertext and hypermedia format on "home pages."

Write off: the reassigning of a payment as an expense rather than a depreciable asset.

Y

Yield: the rate of return on an investment. For example, if a person invests $10,000, for which he/she receives $1,000 a year in dividends, the yield is 10 percent.