Glossary of terms and acronyms that are useful in entrepreneurship

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AP - Accounts Payable: Money that a firm owes to others, but has not yet paid.

AR - Accounts Receivable: Money that others owe to the firm, but have not yet paid.

Arm's Length: A transaction that involves parties who have no other personal, financial, or professional relationships. A transaction between family members or business partners in not "arm's length."

ARPU: Average Revenue Per User, this refers to how much money each user will generate for the provider of a product or service. If each new user of iTunes would buy (on average) $100 worth of music in their first year, the ARPU for iTunes would be $100.

AUM: Assets under management.

Availability Bias: A term in psychology and economics that refers to the fact that the things we know about, have experienced, or have seen are considered more likely, and those that we have not are considered less likely –often a great variance to the facts.

Back Channel: A term referring to an alternative secondary and less formal communication methods often used in business or politics to avoid making an issue public until it is better understood.

Barrier to Entry: Something that makes it difficult for a new competitor to enter an established market. It can be regulatory or economic. Uber bypassed the regulatory barrier to entry in the taxi market by using unlicensed cabs and drivers –leading to legal challenges. It is difficult to sell new operating systems when Windows already has so many copies installed and there is a switching cost to retrain workers and install alternatives.

Beachhead: Finding a small place to gain a foothold in a market, from which expansion may be possible. It is taken from the military concept of storming the beach (Normandy) as a first step in invading a region. Steel mini-mills found a beachhead by making cheap rebar and they moved into more profitable markets later.

Born Global - Firms that are created to operate globally from their inception.

Break-even Point: Once a new venture finds enough revenue to exceed the expenses we say they have reached break even.

Business Acumen: The demonstrated experience and skillset that an individual possess to enable them to execute a business strategy competently. Many new ventures look for more experienced (gray hair) leaders to help develop and execute their business models.

Business Model - How a company creates, delivers, and captures value in the market place. That value can be in economic, social, governmental, cultural or benefits in other contexts

Business Model Innovation - By developing a new business model, a company can often compete with, or displace, more established competitors.

CAC or CoCA: **Customer Acquisition Cost** or **Cost of Customer (or Client) Acquisition**, represents how much a venture must spend to attract one more customer. For example, if a venture spent $2,000,000 on advertising and 100,000 new users signed up. That yields a CAC of $20/user.

CAGR: **Cumulative Annual Growth Rate** is an accounting number that represents how fast an industry is growing from year to year.

CEO - Chief Executive officer

CFO - Chief Financial Officer

CIO - Chief Information Officer

COGS - Cost of Goods Sold

Component Innovation: When the larger product or service remains largely the same, but components of the larger system change. Replacing carburetors with fuel injection was a component innovation in automobiles. Replacing incandescent headlights with LEDs is another. It can be a radical innovation for the component but is probably an incremental innovation for the larger product. **Recombinant Innovation** is a related term.

Confirmation Bias: A term used in psychology and economics that refers to the tendency to favor information that confirms our pre-conceptions and to ignore (or not believe) information that differs with our pre-conceptions. This often leads to mistakes that could have been avoided.

COO - Chief Operating Officer

Core Logic -Articulates the mission and business model for how an organization creates value.

Corridor Principle - One notices opportunities or open doors because of the path that one is on. If you do not walk the corridor, you cannot see the open doors.

Creating value: Implementing an idea or innovation which makes a difference that might be economic, social, cultural, or other.

Creative Destruction: Joseph Schumpeter, Harvard University and an economist from Austria, proposed in 1934 that new products and technologies make old products and technologies obsolete.

Crisis Driven –Need pull innovation on steroids. Ex: Zika Virus vaccine

Crossing the Chasm: Getting from the early adopters to the early majority in Rogers Diffusion of Innovations theory. Also a book by G. Moore describing this process.

CTO Chief Technical Officer

CV Commercial Venture -Any organization created to return a profit to the owners.

Disruptive Innovation: A process, proposed by Harvard Professor Clayton Christensen, in which innovation allows an organization to find a niche in a less profitable and interesting part of the market and then learn how to grow and take over the more profitable parts of the market from much more established competitors.

Domain Knowledge: When a person has experiences and knowledge that allow them to have a good understanding of a particular business area or technology, we say they have domain knowledge.

Double Dipping: It is often desirable for a venture to try to generate multiple benefits and revenue streams from one activity. Walt Disney began with cartons and movies, but then sold merchandise based upon the characters and eventually created Disneyland and Disney World theme parks. George Lucas wrote and produced the Star Wars movies but then found other revenue streams from Star Wars licensed merchandise and sales of DVDs and books.

Due Diligence: Whenever a company is acquired, merged, or makes or takes a significant investment, legal and business teams examine as much available information to ensure that the transaction is as informed as it can be.

EBIDTA Earnings before Interest, Depreciation, Taxes, and Amortization

Economy of Scale: As a company grows and makes and sells more products and services the variable costs tend to increase, but the fixed costs may not increase much. This leads to a lower unit cost and a higher net profit from the economy of scale. Tesla had to build factories top build it first few cars and thus the cost of each car was quite large. As they sell more and more the cost per unit goes down.

Effectual Entrepreneurship: A model postulated by Saras Sarasvathy in 2001 as an alternative to causal entrepreneurship which sets goals and then seeks resources. EE looks at the resources and then selects the goals.

Elasticity of Demand: Price elasticity of demand is a measure of the relationship between a change in the quantity demanded of a particular good and a change in its price. The higher the price the lower the demand, but some things (water, air, medicine, etc.) are so necessary that they are not so price sensitive.

Elevator Pitch: If you enter an elevator and have to explain what you are doing in only a minute or two it is termed an elevator pitch. It is now used to describe short explanations given to investors or customers to induce them to look more carefully at the opportunity.

Entrepreneurial Capacity - the ability of entrepreneurs to react to entrepreneurial opportunities. this is often affected by culture, education, experience, and the entrepreneurial environment.

Entrepreneurial Environment or Entrepreneurial Opportunity Environment. The conditions in any country or region that can permit and encourage entrepreneurial activity. this includes cultural issues, the educational levels, political environment, and regulatory issues, among others.

Escalating Commitment: This is another term from behavioral psychology and behavioral economics that describes a decision maker's increased reinvestment of resources in a losing course of action. This bias is often caused by our desire to avoid a loss. An investor who continues to invest in a venture once it is clear that it is failing is said to **throw good money after bad** as part of his escalating commitment to this deal.

Exit: Entrepreneurs and Investors often want to be able to invest in an idea, make it successful and then harvest the economic benefit by exiting the venture or investment. That exit may come through a company being acquired by another company or from going through an Initial Public Offering (IPO) to sell the stock publicly.

GAAP Generally accepted accounting principles

Gating Items: Decision theory identifies things that must happen before the next step in the process can occur. These can be established through negotiation or may be an inherent part of the process.

Gazelle A very rapidly growing new venture over a sustained time period. At least 20% yearly growth is a rule of thumb.

GEM Global Entrepreneurship Monitor - Begun in 1999 by a collaboration between universities to follow ten countries. It expanded to 42 countries by 2008 and over a hundred by 2014. It monitors and reports on entrepreneurship in countries around the world.

GL General Ledger in accounting

Guerrilla Marketing: Any innovative, unconventional, and low-cost marketing technique aimed at obtaining maximum exposure for a product. Use of social media and **viral marketing** techniques have become established forms of what were once guerilla marketing techniques.

Halo Effect: The halo effect occurs when some kind of positive association can be created with a well-known brand or person. The famous case of Theranos explosive growth and collapse featured partnerships with well-known institutions such as Walgreens and Cleveland Clinic and featured several famous board members. New ventures often try to recruit famous board members or advisors to help with fund raising and marketing.

Incremental Innovation: Innovations that remain close to the original products or services but add some innovative features. As contrasted with **radical innovation**.

IP Intellectual property

IPO Initial Public Offering

Intellectual Property: There are four primary forms: patents, trademarks, copyrights, and trade secrets. Investors often want to know how you will protect your intellectual property to maintain a competitive advantage. http://www.jackmwilson.net/Entrepreneurship/TE/TE-Chap4-IntellectualProperty.pdf

LBO Leveraged Buyout

Knowledge Push – New knowledge or research suggests some new opportunities.

Known and In the Know: To be known is to have name recognition in a particular industry. To be in the know is to understand that industry and who the key players are.

Lean Launchpad A model of entrepreneurship developed by Steve Blank and adopted by the National Science Foundation that bypasses the business plan and focuses on customer development and the search for a viable business model.

LLC Limited Liability Corporation

LLP Limited Liability Partnership

Management Risk: The risk associated with untested leadership. If one has never run a startup before, the team may have lots of management risk.

Market Risk: The risk associated with market adoption. Before a product is brought to market, a venture may only have preliminary indications of potential market acceptance. This is why the Lean Launchpad focuses on getting a **Minimum Viable Product** (MVP) out and interacting until one gets market acceptance. This is often called **Product Market Fit**.

Market Segmentation: Analyzing a market and decomposing that market into different parts or segments in order to find a suitable **"target market."**

Mass Customization: Have it your way. Dell Computer, in 80s and 90s built PCs to order and shipped directly to the customer. Converse allows customers to order personalized athletic shoes

Minimal Viable Product (MVP): In the Lean Launchpad one is encouraged to bring the product to market once you have a viable product even though it may not be as feature rich as you want for later products. A minimal product is not enough. It must also be viable. The software industry often markets “beta” versions of software to test the market and product before the full release.

NAFTA North American Free Trade Agreement - a trilateral trade agreement between the United States, Canada, and Mexico

NDA Non-disclosure agreement

Need Pull Innovation– When an unfulfilled need is present, and someone comes up with an idea to fill that need. Compare to **knowledge push** or **technology push**.

Next Value Inflection Point: This is an investment term referring to a subsequent future milestone that would lead to an increase in the overall value of the venture. For example: if a venture establishes product market fit through sales of a minimum viable product then this would lead to increased valuation.

NTBF - New Technology Based Firms

Operational Experience: Many new ventures are started by people with a passion, but without much operational experience in the area. These ventures often recruit team members, who bring past experiences, to help in this area.

Opportunity Cost: When a decision is made to take a particular action, it may mean forgoing other potentially more attractive investments. “If I invest my time or money in this venture, what better investments (of time and/or money) must I pass up?”

P&L: Profit and Loss financial statement

Pain Point: A product or service should target some market problem (pain point) that people would be willing to pay money to solve.

Personal Attribution Error: Often called the **fundamental attribution error** or the **attribution error**. We tend to blame others for their mistakes, but we often blame our own mistakes on circumstance beyond our control.

Piggybacking: Finding a way to get your product to the market by connecting to some other better-known product. Many software vendors work with computer manufacturers to pre-load their software on the computers in trial versions –which they hope to induce the customer to buy.

Pivot A change in direction of a new venture based upon information obtained from prospective customers

Premature Scaling: Trying to grow too fast and then being unable to deliver the quantity or quality of product desired. When UMassOnline was founded, we tried to limit annual growth to less than 40% each year since we did not feel we could deliver quality at growth rates larger than that. If a successful product grows too fast it might burnout or fail.

Pre-money Valuation: What a company is worth the moment before funding. See Post-money valuation below.

Product Market Fit: How well is a particular product accepted by the market as a solution to a particular unmet need.

Proof of Concept: For a product, service, or business model there is often a desire to find an early example that shows that the overall concept is likely to work. ILinc built a software proof of concept that allowed it to sell millions of dollars of software for future delivery to companies like IBM, AT&T, Sprint, Aetna, Office Depot, and others. (ILinc)

Prospect Theory: Behavioral Economics describes how people can make decisions based upon known risks. The decisions are not always rational. Kahnemann (Nobel Prize) and Tversky. (https://en.wikipedia.org/wiki/Prospect_theory)

Planning Fallacy: Human beings consistently underestimate the time and resource needed to complete tasks and project.

Post-money Valuation: What a company is worth the moment after funding, calculated as the pre-money valuation plus the cash invested. If I invest $1 million for 20% of a company, then the post-money valuation would be $5 million and the pre-money would be $4 million.

Process Innovation – making an existing process work better –Ex: Total quality management, business process re-engineering, Six Sigma, Lean Management, etc.

Protectionism: Actions taken by nations to give advantage to their own local industries. These are often tariffs, but can also be done through other kinds of restrictions on imports.

Radical Innovation: Innovation that significantly departs from the established product or services. As contrasted with Incremental Innovation.

Red Flag: Warning of danger. A sign that things may not as good as they look.

Red Herring: A distraction –which is often intentional. It can cause you to ignore red flags that you might have noticed. They can cause an entrepreneur to focus on the wrong issue.

Revenue Model: How does a venture obtain the necessary revenues and become a sustainable venture? An important part of the business model canvas.

Rogers' Diffusion of Innovations: A theory that describes the way that new ideas, products, and services roll out into markets. It identifies regions like "early adopters", "early majority," "laggards," and others. Crossing the chasm describes part of the movement through these regions.

RFP Request for Proposal

ROA Return on Assets

ROE Return on Equity

ROI Return on Investment

ROS Return on Sales

SEC Securities and Exchange Commission

SBA Small Business Administration

SBIR Small Business Innovation Research Grant

Segmenting a market: Identifying a market and then dividing it into various sub markets or segments in order to identify a **"target market."**

Scale/Scalability: In business it is desirable to grow revenues at a greater rate than expenses. If you can do that the company is scalable.

Serial entrepreneur: An entrepreneur who has had a track record of starting several businesses. It is better if they are successes, but even a few failures provide experience.

Signaling: Taking an action that signals to the market place that this is a venture to be taken seriously. It could be getting a famous investor, or leader, or adding an influential board member. Price signaling can be used by raising the price to signal higher quality (wine sales and colleges are two examples of the latter).

Skin in the Game: If someone has something to lose in a venture one can say they have "skin in the game." Investors want founders/entrepreneurs to have skin in the game.

Social Enterprise: An organization that incorporates social, environmental, and cultural goals. Often they are pursuing the **"triple bottom line."**

Social Entrepreneurship: When entrepreneurship and innovation are primarily directed toward creating social value rather than economic value. This can be done by either non-profit organizations or for-profit organizations.

SME: Small Medium-sized Enterprises

STTR: Science and Technology Transfer Research

Suboptimal Solutions: A solution that does not meet all the needs of the customers. Sometimes, this can be used to get into a market and then the venture can work to meet the unmet needs. **Disruptive Innovation** does this.

Sweat Equity: A term used to describe an ownership interest in a company that was procured by work over time and not by a financial investment. The two young founders of ILinc earned their percentages over several years of work.

Talent Triangle: Technical project management expertise, leadership, and management/strategy expertise make up the necessary talent triangle. https://www.pmi.org/learning/training-development/talent-triangle

Target Market: Once an appropriate market segment has been identified as interested in a product or service, that segment may be designated as the target market.

Third-Party Validation When an uninvolved and unrelated entity does something to indicate that your product, service, or business model has value.

TM Trademark

Total Addressable Market (TAM) : That portion of the target market that you feel that your product or service could reach..

TPP Trans-Pacific Partnership -Pacific area free trade agreement (proposed and very controversial)

Traction: Once a product or service begins to get market acceptance, we can say they are getting traction. This can also refer to strong third party endorsements of a product or service.

Trade liberalization A process in which any country remove obstacles to trading with other countries. This often refers to reduction or removal of tariffs and other legal barriers to trade. In many cases there are bilateral and multilateral agreements (WTO, NAFTA and TPP are examples) to define the trading environment. These are often controversial because they remove protections for internal markets in the expectation that the growth of external markets will be more beneficial and enhance the local economy more than any local losses. This is often a subject of political disagreement.

Triple Bottom Line: Focusing a company on environmental and social (internal and external stakeholders) goals rather than only on financial and economic goals.

Uppsala Model - Created by Professors from Uppsala University in Sweden to describe the process of a company evolving from a domestic to an international firm. It is an incremental model as compared to the "**Born Global**" model.

Unicorn A startup company that achieves a valuation of $1 Billion dollars.

Unicorpse A Unicorn that tried to grow too rapidly and encountered obstacles that eventually proved to be fatal

USPTO United States Patent and Trademark Office

VC Venture Capitalist

Viral Marketing: a method of marketing whereby consumers are encouraged to (or spontaneously) share information about a company's products or services on social media or by word of mouth.

Willful Blindness: When one intentionally ignores negative factors in order to avoid liability or avoid admitting defeat it may be termed “willful blindness.” This can have negative legal consequences as well as business consequences since one “could have or should have known.”

WTO World Trade Organization

Wikipedia has a more complete list of business acronyms here: <Wiki> https://en.wikipedia.org/wiki/List_of_business_and_finance_abbreviations