START UP GLOSSARY

+ A +

Acquisition
When one company buys controlling stake in another company. Can be friendly (agreed upon) or hostile (no agreement).

Agile
A philosophy of software development that promotes incremental development and emphasizes adaptability and collaboration.

“Able to move quickly and easily: “as agile as a monkey”; “an agile mind”.” (Source: Google Define)

There is plenty of debate and argument about the mis-use of the term ‘agile’. It should only be used in it’s proper context to avoid argument.

Angel investor
Individual who provides a small amount of capital to a startup for a stake in the company. Typically precedes a Seed Round and usually happens when the startup is in its infancy.

+ B +

B2B
Business to business. This describes a business that is targeting another business with its product or services. B2B technology is also sometimes referred to as enterprise technology. This is different from B2C which stands for business to consumer, and involves selling products or services directly to individual customers.

Benchmark
The process by which a startup company measures their current success. An investor measures a company's growth by determining whether or not they have met certain benchmarks. For example,

company A has met the benchmark of having X amount of recurring revenue after 2 years in the market.

Board of directors

A group of influential individuals, elected by stockholders, chosen to oversee the affairs of a company. A board typically includes investors and mentors. Not all startups have a board, but investors typically require a board seat in exchange for an investment in a company.

Bootstrapped

A company is bootstrapped when it is funded by an entrepreneur's personal resources or the company's own revenue. Evolved from the phrase "pulling oneself up by one's bootstraps."

Bootstrapping

"Bootstrapping or booting refers to a group of metaphors that share a common meaning: a self-sustaining process that proceeds without external help." (Source: Wikipedia)
The meaning will vary depending on context. Bootstrapping in computing and software development, varies slightly to bootstrapping in business. The commonality is the characteristics of 'self-sustainability' and creating something that can be 'grown'.

Bootstrap Startup

"Bootstrapping involves launching a business on a low budget. Practically this means that you'll outsource (most likely off-shore) your design and development, you,'ll rent your servers, you won,'t have an office and you'll have no salary. Prior to launch, the only expensive professional services which you'll buy will be your legal advice and accountancy services. Everything else, you'll have to pick up yourself and learn as you go along." (Source: RWW)
An Example of 3 Stages of a Bootstrap (Source: Ash Maurya):

1. Ideation (Demo)

2. Valley of Death (Sell)

3. Growth (Build)

Note that a bootstrap and lean startup have differences and bootstrapping does not mean spending any money.

“Bootstrapping and Lean Startups are quite complementary. Both cover techniques for building low-burn startups by eliminating waste through the maximization of existing resources first before expending effort on the acquisition of new or external resources. While bootstrapping provides a strategic roadmap for achieving sustainability through customer funding (i.e. charging customers), lean startups provide a more tactical approach to achieving those goals through validated learning.” (Source: Ash Maurya)

Bridge loan

Also known as a swing loan. Short-term loan to bridge the gap between major financing.

Business Plan

“A business plan is a written document that describes a business, its objectives, its strategies, the market it is in and its financial forecasts. It has many functions, from securing external funding to measuring success within your business.” (Source: Business Link)
A business plan is a static operational document to how your business will run.

Business Model

“The Business Model Canvas is a strategic management template for developing new or documenting existing business models. It is a visual chart with elements describing a firm’s value proposition, infrastructure, customers, and finances. It assists firms in aligning their activities by illustrating potential trade-offs.” (Source: Wikipedia)
A business model is a dynamic document that describes how your company creates, delivers and captures value.

The 9 Business Model Canvas Building Blocks (Source: Business Model Generation):

1. Customer Segments
2. Value Propositions
3. Channels
4. Customer Relationships
5. Revenue Streams
6. Key Resources
7. Key Activities
8. Key Partnerships
9. Cost Structure

Burn Rate
“The rate at which a new company uses up its venture capital to finance overhead before generating positive cash flow from operations. In other words, it’s a measure of negative cash flow.”
(Source: Investopedia)
When your burn rate increases or revenue falls it is typically time to make decisions on expenses (eg reduce staff).

Buyout

A common exit strategy. The purchase of a company's shares that gives the purchaser controlling interest in the company.

+ C +

Capital

Monetary assets currently available for use. Entrepreneurs raise capital to start a company and continue raising capital to grow the company.

Capital under management

The amount of capital, or financial assets, that a venture capital firm is currently managing and investing.

Capped notes

Refers to a "cap" placed on investor notes in a round of financing. Entrepreneurs and investors agree to place a cap on the valuation of the company where notes turn to equity. This means investors will own a certain percentage of a company relative to that cap when the company raises another round of funding. Uncapped rounds are generally more favorable to an entrepreneur/startup.

Convertible debt

This is when a company borrows money with the intent that the debt accrued will later be converted to equity in the company at a later valuation. This allows companies to delay valuation while raising funding in it's early stages. This is typically done in the early stages of a company's life, when a valuation is more difficult to complete and investing carries higher risk.

Customer Development Model
“The ‘traditional’ way to approaching business is the Product Development Model. It starts with a product idea followed by months of building to deliver it to the public.” (Source: Find The Tech Guy)

However the Customer Development Model begins by talking to prospective customers and developing something they are interested in purchasing/using. These concepts are promoted strongly by Steve Blankand Eric Ries who encourage startups to get early and frequent customer feedback before developing their products too far (in the wrong direction).

The four steps to the model (Source: Find The Tech Guy):
1. Customer Discovery
2. Customer Validation
3. Customer Creation
4. Company Building

+ D +

Debt financing
This is when a company raises money by selling bond, bills, or notes to an investor with the promise that the debt will be repaid with interest. It is typically performed by late-stage companies.

Disruption
Also known as disruptive innovation. An innovation or technology is disruptive when it "disrupts" an existing market by doing things such as: challenging the prices in the market, displacing an old technology, or changing the market audience.

“An innovation that helps create a new market and value network, and eventually goes on to disrupt an existing market and value network (over a few years or decades), displacing an earlier technology. The term is used in business and technology literature to describe innovations that improve a product or service in ways that the market does not expect, typically first by designing for a different set of consumers in the new market and later by lowering prices in the existing market.” (Source: Wikipedia)

The term ‘disruptive technologies’ was coined by Clayton M. Christensen and articulated in his book The Innovator’s Dilemma.

The term ‘disruption’ is now often used by startups to describe any product or idea that may change existing markets or products (planned or unplanned). However to be used correctly it should link to Christensen’s original theory. The confusion is best explained here.

An example is the disruption Wikipedia caused to the Encyclopedia market.

Due diligence

An analysis an investor makes of all the facts and figures of a potential investment. Can include an investigation of financial records and a measure of potential ROI.

+ E +

Elevator Pitch

“An elevator pitch is a concise, carefully planned, and well-practiced description about your company that your mother should be able to understand in the time it would take to ride up an elevator.” (Source:Business Know How)

Being able to pitch your idea is crucial for entrepreneurs and valuable in any formal or informal networking situation. It allows you to quickly describe your concept to anyone in a short period of time, including potential partners or investors.

Enterprise

The term enterprise typically refers to a company or business (i.e. an enterprise tech startup is a company that is building technology for businesses).

Entrepreneur
"An entrepreneur is an individual who accepts financial risks and undertakes new financial ventures. The word derives from the French "entre" (to enter) and "prendre" (to take), and in a general sense applies to any person starting a new project or trying a new opportunity." (Source:wiseGEEK)

Entrepreneur in residence (EIR)
A seasoned entrepreneur who is employed by a Venture Capital Firm to help the firm vet potential investments and mentor the firm's portfolio companies.

Equity
"In finance, equity is ownership in any asset after all debts associated with that asset are paid off." (Source: Investopedia)

Equity = Assets minus Liabilities

In terms of startup, it is commonly used to describe a business giving up a percentage of ownership in exchange for cash. An equity investor is then entitled to share in any future profits and/or sale of business assets (after debts are paid off).

Exit
This is how startup founders get rich. It's the method by which an investor and/or entrepreneur intends to "exit" their investment in a company. Commons options are an IPO or buyout from another company. Entrepreneurs and VCs often develop an "exit strategy" while the company is still growing.

+ F +

Fund of funds
A mutual fund that invests in other mutual funds.

+ G +

Ground floor
A reference to the beginning of a venture, or the earliest point of a startup. Generally considered an advantage to invest at this level.

+ I +

Incubator

An organization that helps develop early stage companies, usually in exchange for equity in the company. Companies in incubators get help for things like building their management teams, strategizing their growth, etc.

Intraprenuer

“Coined in the 1980s by management consultant Gifford Pinchot, intrapreneurs are used by companies that are in great need of new, innovative ideas. Today, instead of waiting until the company is in a bind, most companies try to create an environment where employees are free to explore ideas. If the idea looks profitable, the person behind it is given an opportunity to become an intrapreneur.”
(Source: Investopedia)

‘Intrapreneurs’ hold many similar characteristics to ‘Entrepreneurs’ any may well leave their jobs to pursue a career as an entrepreneur. Companies seek out intrapreneurs to effect change within their organisations.

IPO

Initial public offering. The first time shares of stock in a company are offered on a securities exchange or to the general public. At this point, a private company turns into a public company (and is no longer a startup).

+ L +

Lead investor

A venture capital firm or individual investor that organizes a specific round of funding for a company. The lead investor usually invests the most capital in that round. Also known as "leading the round."

Lean
Also referred to as: lean manufacturing, lean enterprise, lean production.

“The core idea is to maximize customer value while minimizing waste. Simply, lean means creating more value for customers with fewer resources.” (Source: Lean Enterprise Institute)

The definitions and usage of ‘lean’ vary depending on context and application. The origin of the word in business can be linked back to the 90’s.

“Lean manufacturing is a management philosophy derived mostly from the Toyota Production System (TPS)”. (Source: Wikipedia)

The key focus is around the reduction of waste whiling focusing on delivering value to the customer.

Lean Startup
“Lean startup is a term coined and trade marked by Eric Ries. His method advocates the creation of rapid prototypes designed to test market assumptions, and uses customer feedback to evolve them much faster than via more traditional product development practices, such as the Waterfall model. It is not uncommon to see Lean Startups release new code to production multiple times a day, often using a practice known as Continuous Deployment.” (Source: Wikipedia)

You should note the slight differences between lean and bootstrapping.

“Bootstrapping provides a strategic roadmap for achieving sustainability through customer funding (i.e. charging customers), lean startups provide a more tactical approach to achieving those goals through validated learning.” (Source: Ash Maurya)

An Example of 3 Stages of a Lean Startup (Source: Ash Maurya):

1. Customer Discover (Problem/Solution Fit)
2. Customer Validation (Product/Market Fit)
3. Customer Creation (Scale)

Note that a bootstrap and lean startup have differences and bootstrapping does not mean spending any money.

Leveraged buyout

When a company is purchased with a strategic combination of equity and borrowed money. The target company's assets or revenue is used as "leverage" to pay back the borrowed capital.

Liquidation

The process of dissolving a company by selling off all of its assets (making them liquid).

+ M +

Mezzanine financing

A form of hybrid capital typically used to fund adolescent and mature cash flow positive companies. It is a form of debt financing, but it also includes embedded equity instruments or options. Companies at this level, which are no longer considered startups but have yet to go public, are typically referred to as "mezzanine level" companies.

MVP Minimum Viable Product

A minimum viable product (MVP) is the "version of a new product which allows a team to collect the maximum amount of validated learning about customers with the least effort" (similar to a pilot experiment)

+ N +

Non Disclosure Agreement (NDA)

Non-disclosure agreement. An agreement between two parties to protect sensitive or confidential information, such as trade secrets, from being shared with outside parties.

+ P +

Pivot

The act of a startup quickly changing direction with its business strategy. For example, an enterprise server startup pivoting to become an enterprise cloud company.

Portfolio company

A company that a specific Venture Capital firm has invested in is considered a "portfolio company" of that firm.

Preferred stock

A stock that carries a fixed dividend that is to be paid out before dividends carried by common stock.

Proof of concept

A demonstration of the feasibility of a concept or idea that a startup is based on. Many VCs require proof of concept if you wish to pitch to them.

Pro rata rights

Also known as supra pro rata rights. Pro rata is from the Latin 'in proportion.' A VC with supra pro rata rights gives him or her the option of increasing his or her ownership of a company in subsequent rounds of funding.

+ R +

Recapitalization

A corporate reorganization of a company's capital structure, changing the mix of equity and debt. A company will usually recapitalize to prepare for an exit, lower taxes, or defend against a takeover.

ROI

This is the much-talked-about "return on investment." It's the money an investor gets back as a percentage of the money he or she has invested in a venture. For example, if a VC invests $2 million for a 20 percent share in a company and that company is bought out for $40 million, the VC's return is $8 million.

Round

Startups raise capital from VC firms in individual rounds, depending on the stage of the company. The first round is usually a Seed round followed by Series A, B, and C rounds if necessary. In rare cases rounds can go as far as Series F, as was the case with Box.net.

+ S +

SaaS

Software as a service. A software product that is hosted remotely, usually over the internet (a.k.a. "in the cloud").

Seed

The seed round is the first official round of financing for a startup. At this point a company is usually raising funds for proof of concept and/or to build out a prototype and is referred to as a "seed stage" company.

Secondary public offering

When a company offers up new stock for sale to the public after an IPO. Often occurs when founders step down or desire to move into a lesser role within the company.

Sector

The market that a startup companies product or service fits into. Examples include: consumer technology, cleantech, biotech, and enterprise technology. Venture Capitalists tend to have experience investing in specific related sectors and thus tend not to invest outside of their area of expertise.

Series

Refers to the specific round of financing a company is raising. For example, company X is raising their Series A round.

Stage

The stage of development a startup company is in. There is no explicit rule for what defines each stage of a company, but startups tend to be categorized as seed stage, early stage, mid-stage, and late stage. Most VCs firms only invest in companies in one or two stages. Some firms, however, manage multiple funds geared toward different stage companies.

Startup

A startup company is a company in the early stages of operations. Startups are usually seeking to solve a problem of fill a need, but there is no hard-and-fast rule for what makes a startup. A company is considered a startup until they stop referring to themselves as a startup.

+ T +

Term sheet

A non-binding agreement that outlines the major aspects of an investment to be made in a company. A term sheet sets the groundwork for building out detailed legal documents.

+ V +

Valuation

The process by which a company's worth or value is determined. An analyst will look at capital structure, management team, and revenue or potential revenue, among other things.

Venture Capital (VC)

Money provided by venture capital firms to small, high-risk, startup companies with major growth potential.

Venture capitalist

An individual investor, working for a venture capital firm, that chooses to invest in specific companies. Venture capitalists typically have a focused market or sector that they know well and invest in.

Vesting

When an employee of a company gains rights to stock options and contributions provided by the employer. The rights typically gain value (vest) over time until they reach their full value after a pre-determined amount of time. For example, if an employee was offered 200 stock unites over 10 years, 20 units would vest each year. This gives employees an incentive to perform well and stay with the company for a longer period of time.

Source:

https://sparknlaunch.wordpress.com/2012/03/24/the-startup-dictionary-learning-the-lingo-2/

http://www.techrepublic.com/article/glossary-startup-and-venture-capital-terms-you-should-know/