Entrepreneurial Vocabulary

General

Word/Expression	Meaning
Business Plan	A business plan is a detailed document of your company's next steps, including past achievements and other reasons why one should believe the company will be successful (e.g. size of the market, operational plans, skills of the team, etc.). Moreover, a Business Plan serves multiple purposes: it helps you plan, organize and keep track of your startup's progress, explain your vision to investors and to your team, and have an overview of your whole startup, which often helps you review decisions and plan ahead. There is a balance, though, between planning and action.
Business Model	Business model is how your business creates, delivers, and captures value. It combines your offering, how you reach your customer, and how you make money – so much more than just the product.
MECE (Mutually Exclusive, Collectively Exhaustive)	MECE is jargon used for shortening Mutually Exclusive, Collectively Exhaustive. It means that the sum of the parts should equal exactly the total (not more or less than the total), while not having any overlaps between any of the parts. E.g., Dividing a group of people in four groups as (1) Men 30 years old or more, (2) Men younger than 30 years old, (3) Women 30 years old or more, (4) Women younger than 30 years old, is MECE.

Customers

Segmentation	Segmentation is used to describe Mutually Exclusive, Collectively Exhaustive ways of dividing markets. Criteria for segmentation is ideally influence and impact how customers make purchasing decisions within your category, though might also include gender, age, location, income, and pretty much anything that will divide customers into groups that will allow them to meaningfully be dealt with in different ways.
Targeting	Targeting is choosing which customer segment(s) your will company focus on. For instance, if you are selling an energy drink, you may want to

	focus on young adults between 18 and 25 years old who do not get enough sleep due to studying or work. That does not mean that other groups will not buy your product, but means that your product development, your marketing, and all your efforts will be done keeping in mind that this is the group you want to serve best.
Customer Persona	A useful way of thinking about your target customer behavior is to create a persona. Instead of using generic "Men between 18 and 25 years old", choose or create a persona with a name, and try to understand his/her behavior as an individual. This allows alignment of the company, plus you can refer back to this person during decision making throughout the process.

Offering

Value Proposition	Value Proposition is jargon used for describing your offering in terms of the value you create for your customer. While your product might be an energy drink, your value proposition could be "Providing a drink for college students that increases focus and alertness to study".
Product-Market fit	"Fit" is a short way of saying that a product or service creates significant value to its target market. E.g., an energy drink is a good fit to young adults in college, but it might be a poor fit to elderly retired couples. Further, for your specific target market, you develop a list of prioritized needs, then cater to just the top needs. Your energy drink should not also try to encompass being all-natural, low cost, AND offer the most flavors – these are too many competing priorities. Determine who you want to cater to, and do it really well.
Your Core	Your core is the key component of your company that will allow you to create, capture, and sustain value. It allows you to have a competitive edge in the near term, plus a strategy to continue that edge in the long term. The four main categories of a core are: ● Assets - IP, best talent, etc. ● Product / Service – best in a category, or for a specific customer, or most innovative offering ● Value Stream – better in an operational characteristic like cost, delivery, shipping, or service

	• Disruption – creating barriers for customers entering or leaving through switching costs, data generation, network effects, or other
MVP	MVP is the Minimum Viable Product, which we sometimes refer to as the Minimum Viable Proof. It is a term used to describe the product or proof of a hypothesis that can be done with the least resources, that has the minimum amount of features, but is yet viable for going to market or answering the key question you need to understand. It is particularly useful for startups to test how receptive the market may be before investing too many resources in development.

Operations

Marketing Channels	A company is able to reach its customers through different marketing channels. These are different from marketing tactics, which might include different promotional offers, and instead are the specific locations one might choose to try to reach the customer. The best ones vary by industry (for example: social media may work for fashion if executed well, but is typically not a high yield marketing channel in most industries). "Pounding the pavement" is typically one of the highest payoffs early in the company: making calls and developing one's network in the industry.
Key Activities	The most important activities in executing a company's value proposition. An example for Bic would be creating an efficient supply chain to drive down costs.
Key Resources	The resources that are necessary to create value for the customer. They are considered an asset to a company, which are needed in order to sustain and support the business. These resources could be human, financial, physical and intellectual.
Partner Network	In order to optimize operations and reduce risks of a business model, organization usually cultivate buyer-supplier relationships so they can focus on their core activity. Complementary business alliances also can be considered through joint ventures, strategic alliances between competitors or non-competitors.
Multi-side platform / market	For a smooth day to day business operation, some companies will serve mutually dependent customer segments. Most service

	businesses operate by bringing together people in two different arenas, such as bringing together drivers with individuals needing rides, or online marketplaces connecting consumers with people selling their goods.
Distribution Channels	A company can deliver its value proposition to its targeted customers through different channels. Effective channels will distribute a company's value proposition in ways that are fast, efficient and cost effective. An organization can reach its clients either through its own channels (store front, online store), partner channels (major distributors), or a combination of both.
Supply Chain	Supply Chain defines the chain of companies involved in the supply of a product to its final consumer.
Sourcing/Purchasing	Sourcing and purchasing is the area of the company dedicated to choosing suppliers and effectively buying necessary goods and raw materials.

Financial

Word/Expression	Meaning
Value creation - products and services	Value creation is a term that is used in two occasions. In the first definition, value creation is the benefit generated by a product or service. If a consumer product creates value for the customer, this creation is reflected as Willingness to Pay for such product. As an example, let's say you invented a new heater that saves 10 dollars/month in energy. This value creation will be reflected in the willingness to pay for heaters - i.e. a customer would be willing to buy it instead of another heater if it is up to 10 dollars/month more expensive. This increased willingness to pay is the value created by the product. Sometimes, value creation might be hard to measure - if the new smartphone is 10% faster than the previous one, and consumers care about speed, this new smartphone creates value, which should impact the Willingness to Pay of users (i.e. it will be more expensive than the old one if sold simultaneously).
Value creation - Financial definition	The second definition of Value Creation is the investors' perspective. Let's say you borrow money in the bank for 10% per annum interest rate. If you invest it in your startup, it will create value if, at the time of an exit, the cash

	you receive is worth more than the money you borrowed (principal) plus 10% interest for every year. If it equals exactly the principal plus 10% p.a., then there was no value creation. If it is worth less than that, then there were a value destruction.
Revenues	All the money you received from sales.
Profit	Profit is what is left of the money you received from your customers after you paid all your expenses (roughly revenues - costs = profits, although in detail there are other things, e.g. taxes, that should be considered).
Break-even	Break-even is the period when your profits become zero, i.e. at the moment when revenues surpasses costs.
Profit margin	Profit margin is your profit divided by your revenues for a specific time period. E.g. if you have revenues of $10 million, and profits of $1 Million, your profit margin is 10%.
COGS	COGS stands for Cost of Goods Sold, meaning the cost of acquiring and providing the products you sold. This does not include Fixed Costs – items like marketing and administration.
CapEx	CapEx stands for Capital Expenditure, and it is the expenses used for investing in acquiring long-term assets. For instance, if you buy a machine for $1 Million, and raw materials for $2 Million, and then you sell all your production for $4 Million, your capex is $1 Million, and your COGS is $2 Million, and your revenues are $4 Million.
Bootstrapping	Bootstrapping is when an entrepreneur attempts to found and build a company from personal finances or from the operating revenues of the new company, using no outside capital. This is often preferred for many early stage companies in order to prove demand and allow higher valuation when investors might add more growth potential.
Investors	Any individual or company willing to provide money for a venture or cause, usually expecting to have a financial return over their invested capital. There are several types of investors including friends and family, angel investors, Venture Capitalists, Private equity firms, and even yourself in on your startup.
Family and Friends Investors	Sometimes parents, grandparents, friends or other relatives may provide early capital for a startup. They usually bring the upsides of trust, risk-taking and no bureaucracy, but also bring downsides such as lack of

	professionalism, expertise, and above all, the risk of damaging a valuable personal relationship.
Angel Investors	Usually experienced and wealthy individuals that invest their own capital, individually or in groups, in seed or early stage rounds of funding. Many often only invest in industries where they have prior experience - which also means they bring more than money to startups (e.g. introductions within their network, expertise, advice)
Venture Capitalists	Firms that invest the money of wealthy individuals and/or institutions (a.k.a. Limited Partners) in startups. VC firms have a larger portfolio and often invest significantly more capital in startups and only after significant proof of demand of the company, plus ask for a lot more control over the startup's decision.
Crowdfunding	Funding a project or venture by raising monetary contributions from a large number of people, typically via the internet, such as through Kickstarter or Indiegogo. These contributions are typically viewed as pre-orders for a company, since the contributions usually require significant costs to fulfill on the incentives.

Equity

Note: These are several years down the road (sometimes 10+) for most companies.

Shareholders	Any individual or company who owns shares in a given company.
IPO	IPO stands for "Initial Public Offering" - i.e. the moment when a company first offer stocks to be publicly traded on stock exchange environments.
Shares	Shares are titles of ownership in a company. Legally a company is many of any determined number of shares, and each of them is owned by a person or company. The number of shares an individual has in a company determine how much of the company he or she owns. E.g., in a company with 1,000 shares, a person who owns 10 shares holds 1% of the equity. Moreover, companies may issue more shares, and if said person does not acquire any of the issued shares, his or her equity gets "diluted", i.e., the same number of shares is worth less % of the company.
Dilution	Say you own 800 shares of your startups' 1,000 shares. You and your team decide to raise capital from an investors, who wants to own 20% of your company. Your company then issues 250 new shares which are bought by the investor, who now owns 250/1,250 = 20% of the company.

	In this case, the investor's money stays in the company to be utilized in its activities, and your 80% of the company gets diluted to 64% (800 shares of 1,250). If the company does not issue new shares, and you sell 250 of your own shares to the investor, he will then own 250/1,000 = 25% of the company, and the money will go to your pocket, for your own use.
Exit (or Liquidity Event)	A moment of Exit is when one or more shareholders sell a part or the total of their shares. This can be done through an IPO, buyout by a larger organization, or buyout by another investor. When investors initially put in money, they tend to want there to be an exit in mind – asking themselves how they will get their money back.
Annual interest/ Cost of Capital	Annual interest is what an investor expects from his/her investments - and what debt holders have to pay while they keep the money they borrowed. The minimum interest rate an investor demands from his investments is called Cost of Capital, i.e. it is the cost in terms of annual interest that the investor incurs for his own money. Annual interest is often referred to as "X % p.a.", meaning one should pay X % per annum of interest.
Principal	Principal is the money you initially borrowed, excluding any interest you paid or have to pay.
Return on invested capital	Return on invested capital (or ROIC) is a percentage metric that compares how much money you are making (profit) with how much you invested (invested capital). This is the arguably the most important financial metric. If your ROIC is larger than your cost of capital, you are creating value. If it is smaller, you are destroying value. If your cost of capital (in this case, how much you pay for the loan) is 10% per year, and your investment pays 11% per year (your ROIC), you are creating value, with a spread of 1% per year over your cost of capital.
Cost of Capital	The cost of capital is usually the actual annual cost of money, added by a risk perception. For instance, if your money actually costs 10% per year, and you are invested in a large bank that assures you 11%, your additional risk might be very low or even zero. If you are investing that same money in a startup, you might require a minimum return of 25%, which means to compensate the risk of investing, you would have to make at least 25% per year over your invested capital.