GLOSSARY OF BUSINESS TERMS

Accounts payable (AP). Bills to be paid as part of the normal course of business. This is a standard accounting term, one of the most common liabilities, which normally appears in the Balance Sheet listing of liabilities. Businesses receive goods or services from a vendor, receive an invoice, and until that invoice is paid the amount is recorded as part of “Accounts Payable.”

Accounts receivable (AR). Amounts owed to a business for sales made on a credit basis.

Advertising media. Methods and modes of communication used to promote products or services and generate sales; e.g., radio, television, telephone, printed ads, signs, mailings, novelty items and directory listings.

Assets. Cash and ownership interests in business or personal property (e.g., land, buildings, equipment, fixtures, furniture, leasehold improvements, machinery, patents, retirement accounts, trusts and vehicles).

Billable days (or hours). The time during which a business generates revenues for services rendered; “billable” time excludes time spent in administrative, marketing and training activities, as well as holidays and leaves.

Business plan. A written statement of business goals, proposed marketing activities, intended methods of production, identified managerial and technical strengths, and expected financial results over a specified period of business operation.

Break-even analysis. A mathematical tool used to determine what volume of sales (in units or dollars) will enable a business to exactly cover its costs and, therefore, “break even.” Break-even analysis can be used to set prices and to assess financial risks.

Capital. The cash and other assets needed to start or operate a business; also called “capitalization requirements.”

Cash flow(s). The cash moving into and out of a business; income received, and payments made out.

Collateral. Assets pledged as security for loans and other debts.

Competitive edge. Any advantage, improvement, innovation or other beneficial characteristic that enables consumers to distinguish between the products or services of competing businesses.

Cooperative. An association of persons (organization) that is owned and controlled by the people to meet their common economic, social, and/or cultural needs and aspirations through a jointly-owned and democratically controlled business (enterprise). The people of the cooperative are those who use its products, supplies, and/or services. Profits are also often returned to the members of the cooperative; however, cooperatives are often more focused on services for members than for investments.

Cooperatives can be created for several different reasons or to fulfill several different needs: jointly process goods, split costs, split control over work, purchasing power (bulk buys), shared employees, shared wages, etc.

Corporation. An organization chartered by a federal, state or tribal government for conducting specified for-profit or non-profit activities according to rules of operation ("bylaws") approved by the chartering agency. A business corporation is recognized as a legal entity that is separate and distinct from its owners ("shareholders").

Co-signer (Guarantor). A person who promises to pay another's debt obligation if that person fails to pay in the agreed-upon manner.

Current assets. Cash and other assets that can be converted to cash within a short period of time, usually less than one year; e.g., accounts receivable and inventory.

Current liabilities. Financial obligations that are due and payable within one year or less; e.g., accounts payable, accrued expenses payable and the total of principal payments that will be due on long-term debts within one year.

Debt financing. Funds borrowed to start or operate a business. When debt financing is "secured" a creditor has recourse against specific property assets ("collateral") as a secondary source of payment; i.e., the creditor could gain possession of the property and sell it to recover all or part of the outstanding debt. When debt financing is "unsecured" a creditor relies solely on the borrower's promise to pay; i.e., no collateral is provided.

Disbursement. Cash paid out of a business.

Economic feasibility. The ability of a business to sell products or services at competitive prices and realize enough revenues to cover its operating costs, repay its debts, sustain its growth and support its owner(s); also known as "financial" and "market" feasibility.

Encumbered assets. Assets used to collateralize debts; property with a lien, claim or liability resulting from a mortgage or other security agreement.

Equity. Ownership interest in a business; shares of stock in a corporation; the difference between the total value of assets and the total amount of liabilities; also called "net worth."

Expected life (of an asset). The period of time during which an asset can be utilized to generate income for a business.

Feasibility study. The process of exploring the financial and human potential of a business idea through concept formation, resource identification, information gathering, sales forecasting, financial analysis and risk assessment.

Financial package. A set of written documents developed for obtaining business financing; the "package" typically consists of application forms required by the prospective financier(s), a business plan and supporting documents.

Financial statements. Reports that summarize the financial condition and performance of a business; e.g., balance sheet, statement of operations and statement of cash flows. "Forecasted" financial statements predict the future financial condition and performance of a business.

5 P's of marketing. People, product, price, place and promotion; these key market factors interact to determine the market share that can be captured by a business.

Fixed costs. Business costs that are incurred and must be paid in fixed amounts and at regular intervals.

Factoring. An arrangement whereby a finance company makes an outright purchase of a business' accounts receivable at a discounted value, providing the business with ready cash at a cost that includes compensation to the finance company for the effort required to collect the receivables.

Income. Gross receipts of a business ("sales revenues"); the difference between a business' sales revenues and all direct and indirect costs of operation ("net income" or "profit"). "Personal income" includes all taxable and nontaxable funds received from salaries and wages, tips, dividends, public assistance, retirement accounts, gifts and inheritances.

Interest, prime rate of. The interest rate major banks charge for short-term loans to the biggest, most creditworthy businesses.

Interest, rate of. The amount charged for the use of borrowed funds. A "fixed" rate of interest does not change during the term of debt repayment; a "variable" or "adjustable" rate of interest varies in a specified relationship with the prime rate of interest, usually on a quarterly basis.

Interest rate risk. The risk that a lender's cost of borrowing funds will increase without any means of passing the increased cost along to borrowers to preserve the lender's established rate of return on loaned funds.

Job description. A written description of the qualifications, duties, responsibilities and reporting relationships of an employee.

Joint Venture. A commercial enterprise undertaken jointly by two or more parties that otherwise retain their distinct identities.

Lease. An arrangement by which a specified amount of money is paid for the use of property assets during a given period of time.

Letter of intent. A letter or other document from a contracting agency or customer indicating an intention to purchase from a business.

Liabilities. Amounts owed to others ("debts"); "current liabilities" are financial obligations that are due and payable within one year or less, and "long-term liabilities" are debts with terms of repayment extending beyond one year.

Limited liability company. A corporate structure whereby the members of the company are not personally liable for the company's debts or liabilities. Limited liability companies are hybrid entities that combine the characteristics of a corporation and a partnership or sole proprietorship.

Line of Credit. A line of credit, or credit line, is a preset amount of money that a bank has agreed to lend the business and that the business can draw on when needed.

Liquidity. A business' ability to convert accounts receivable, inventory and other property assets into cash quickly and easily.

Loan amortization schedule. The schedule according to which specified amounts of principal and interest will be paid until a loan or other debt is retired; also called "mortgage schedule."

Loan terms. The conditions for repayment of a loan; e.g., rate of interest charged, repayment schedule (amount, frequency and total number of payments), security required (if any) and actions to be taken in the event of a "default" (nonpayment or late payments).

Managerial feasibility. The capability of a business' owner(s) to plan, organize, direct and control the various management functions of a business, including accounting, finance, marketing, employee development and recordkeeping.

Market. The total demand of potential buyers for your product or service, also known as "market demand."

Market demand. People with unsatisfied needs or wants (potential buyers), money to spend (purchasing power) and a willingness to spend (motivation to buy).

Market penetration (maximum). A pricing strategy aimed at achieving the highest possible volume of sales by offering the same products or services as competitors, but at lower prices.

Market projections. Estimated future sales or "forecasted sales."

Market research. Gathering and analyzing primary and secondary market data for forecasting sales and predicting related buyer behaviors.

Market segmentation. Classifying "target markets" or consumer groups on the bases of demographics (e.g., population distribution, age, sex, stage in family life cycle, education, occupation, ethnic group, religion and special needs), distribution of disposable income and buyer behaviors.

Market share. The percentage or proportion of the total available market to be captured by a business.

Market value. The price that a prudent buyer would agree to pay, and a prudent seller would agree to accept in a sale of property subject to prevailing market conditions.

Net worth. The total ownership interest in a business; the difference between the total value of assets and the total amount of liabilities; also called "equity."

Organization. The legal form of business ownership and operation; e.g., sole proprietorship, partnership, corporation, subchapter S corporation and joint venture.

Organizational chart. A graphic depiction of an organization's "chain of command" or internal reporting relationship among persons, departments or other functional divisions.

Owner's draws (withdrawals). Cash withdrawn by the owner of a business as compensation for self-employment.

Partnership. A business operated by two or more owners subject to the terms of an oral or written agreement.

Profit. The difference between a business' sales revenues and cost of goods sold ("gross profit") or between a business' sales revenues and all direct and indirect costs of operation ("net profit").

Promotional activities. Advertising, signs, window displays, store exhibits, free samples, coupon sales, personal selling, public relations, stationery, business cards and other activities used to generate sales of products or services. "Advertising" attracts people to a business, "merchandising" heightens their interest in buying after they arrive, and "sales presentations" may be required to "make the sale."

Real property (real estate). Land and everything that is connected or permanently attached to it (e.g., structures and growing crops).

Receipts. Cash paid into a business for its products or services; cash sales and cash payments on accounts receivable.

Seed capital. Is investment contributed at a very early stage of a new venture, usually in relatively small amounts. It comes even before what they call "first round" venture capital.

Site selection criteria. Characteristics of a business location that impact its ability to generate sales and profits; e.g., accessibility, attractiveness, complementary neighboring business, lease/purchase price, lighting, number of/distance to competitors, parking facilities, population distribution/purchasing power, visibility, windows and signs, and volume of car and foot traffic.

6 C's of success in business. Character, capability, conditions (in the market environment), cash, credit and collateral; these are key factors in the success potential of a business as well as its ability to access capital.

S**ocial enterprise.** A commercial organization that has specific social objectives that serve its primary purpose. Social enterprises seek to maximize profits while maximizing benefits to society and the environment. Their profits are principally used to fund social programs.

Sole proprietorship. A business owned and operated by one person.

Structure of financing. The combination of owner's equity and debt used to fund the startup and operation of a business; the ratio or proportion of financing derived from owner's equity and debt.

Target market. A "market segment" or consumer group whose specific needs a product or service is designed to meet.

Technical feasibility. The capacity of a business to utilize resources and technology efficiently to produce goods or services cost-effectively—without adverse impact on the human or physical environment.

Trade credit. Short-term financing offered by suppliers to creditworthy businesses.

Unit contribution. The difference between the sale price and the variable cost of providing a product or service; the amount from each unit sold that is contributed toward coverage of fixed costs.

Variable costs. Business costs that fluctuate up and down ("vary") according to fluctuations in sales and production activities.

Venture capital. Is used two ways, first, people often take venture capital as any investment capital obtained through private investment or public investment funds directed to high-risk and high-potential enterprises. Second, within the more informed and sophisticated business circles, venture capital is defined more narrowly as investment money coming from the mainstream venture capital firms, a few hundred major firms, different from investment money from other private investors, angels, etc.

Wholesaler. A channel member that purchases from the producer and supplies to the retailer and primarily performs the function of physical distribution and amassing inventory for rapid delivery.

Working capital. The cash available to support the ongoing operations of a business.