Glossary of Terms

A

Accounts payable - Money owed by your business to suppliers for items or services purchased on credit.

Accounts receivable - Money owed to the business by customers for items or services that have been received or used, but not paid for.

Advertising - The things you do to tell people about your business and convince them to use your business. Advertising can be free or low-cost, or higher-cost. Examples of low-cost advertising are: Personal contacts or conversations with customers, word-of-mouth referrals, business cards and brochures, posters and flyers, websites, social media posts, email newsletters, and text messages. Examples of higher-cost advertising are: mass mailings, print advertisements (like ads in magazines or newspapers), and radio or television ads.

Angel investor - An individual who invests in a business in exchange for business shares or loan repayment. Angel investors typically provide smaller investments and are not directly involved with the business but may offer advice.

Assets - Something valuable owned by a business with a useful economic value that can be converted to cash. Examples: a business's bank accounts, accounts receivable, security deposits, current inventory, supplies, and equipment.

B

Bad debt - Accounts receivable (money owed to the business) that will not be paid. Example: if a customer doesn't pay their bill.

Balance sheet - A document that shows a business's assets and liabilities at a specific point in time.

Bank loan - A set amount of money that someone borrows from the bank. The bank charges the borrower interest and expects the money to be paid back at regular intervals and on time.

Barriers (or challenges) to entry - Challenges or obstacles that make it hard or prevent a new business from getting started. Examples: high start-up costs, customers being loyal to other business or brands, special tax benefits for existing businesses.

Barter - Trading products, goods, or services for other products, goods, or services without using money.

Break-even analysis - A set of calculations that tell you how much your business has to sell in order to cover the costs of running the business and making the product or service.

Break-even point - The number of units of a product or service that must be sold to cover a business' variable operating costs and fixed costs (or break-even). A business needs to sell more than the break-even point to earn a profit.

Business background - A section of the Business Plan that describes how to developed your business idea, why the business is needed, and what you have done to get your business started.

Business description - A section of the Business Plan made up of five parts: company description, business background, owner strengths and background, type of ownership, and your business' industry.

Business industry (or industry) - A group of businesses that produce similar products or services. Example: the pizza industry is made up of many different types of businesses that make and sell pizza. These businesses include sit-down restaurants, carryout-only pizza shops, companies that make frozen pizzas, and food trucks.

Business license - A legal document issued by a government agency that allows a business to operate within the government's geographical area. Business license requirements vary across states, counties, and towns.

Business plan - A comprehensive guide or roadmap that details all the steps to getting a business stared. Most business plans include: an overview of the business, a detailed business description, marketing plan, operations plan, and financial plan.

C

Capital - Wealth in the form of money and other assets owned by a business. This includes cash, inventory, and equipment.

Capital expenses - Costs for larger items (such as equipment, furniture, or remodeling) you need to purchase to get your business ready to open. These are usually one-time only costs for things that last a long time.

Capitalized - When a business has enough funding to cover pre- and post-opening expenses, with some money set aside for emergencies. This funding is enough to keep the business open and running until it becomes profitable.

Cash flow - The amount of money (or cash) coming into and going out of a business.

Cash flow statement - A monthly record of your receipts (cash coming in) and disbursements (cash going out). It usually covers a one-year time period, and shows when your business will receive cash (receipts) and when you need cash to pay bills (disbursements).

Cash reserve - also called **cash on hand**. The money you have right now that you can use to pay bills until your business starts making money. It can come from personal savings, loans, or from other sources like family, friends, or grants.

Cash shortfall - when your business doesn't have enough money (cash) in order to pay for something.

Collateral - Property or other assets which are offered to the bank to secure a loan. If a borrower stops repaying the loan, the lender can take ownership of the collateral.

Company description - A one to three sentence statement that includes the business name, a short description of the products or services the business will provide, and a short description of the business's customers.

Competitor - A business in the same industry that offers a similar product or service. A potential customer could choose to use that business instead of yours.

Contingency funds - Extra money that is set aside to cover emergencies or unforeseen future expenses.

Cost of goods sold - The amount of money it takes to make a product or provide a service, including the cost of materials, labor, and overhead.

Credit report - A record of a borrower's repayment of debts. Credit reports are created by a credit bureau and are used by a lender to determine if a loan applicant is likely to pay back a loan.

Crowdfunding - A method to raise money via the internet for a business or project. Generally, a successful crowdfunding campaign inspires a large group of people to each contribute a small amount.

Current assets (liquid assets) - Any money, inventory, accounts receivable (payments owed to you), and prepaid expenses (like insurance—that would be refunded) which can be collected on or sold and converted into cash within one year.

Current liability - Debts or financial obligations which are due within a year. Example: money owed to suppliers for materials to make a product.

Customer - A person who buys a product or service from a business.

Customer research - How you learn about the people who will potentially buy your product or service. There are many ways to do customer research. Lots of information can be found online, but it's also important to learn about people's preferences about your product or service. This can be done through interviews or surveys.

Customer segments - Different groups of customers who may want to purchase a product or service. Not every customer will be attracted to a product or service in the same way. Understanding differences, or segments, will help you reach each group more effectively using different marketing strategies.

D

Deficit - If your business is operating at a deficit, this means you are spending more money than you are bringing in—your disbursements are more than your receipts for that month. You are losing money.

Demographics - Statistical data about a population. Examples: age, gender, ethnicity, education, population estimates for a particular area, and income level. The US Census Bureau is a good source for demographic data.

Depreciation - A reduction in value of capital equipment and other items due to use, wear and tear, or because it becomes obsolete. Example: when someone buys a new car and drives it for years, the car's value depreciates (goes down) over time. Depreciation varies based on the item and how long it is useable.

Disbursement - cash going out of the business, for things like paying bills and buying supplies.

E

Economies of scale - Larger businesses often have a competitive advantage over smaller ones because larger businesses can often negotiate to purchase supplies in bulk at a lower price and hire more specialized workers. Typically, the larger the business, the lower its costs of producing a product or providing a service.

Effective frequency - The number of times people see or hear an ad before they remember it and the product.

Effective reach - The percent of people exposed to an advertisement who remember the ad and the product or service.

Employer Identification Number (EIN) - A nine-digit number you apply for with the Internal Revenue Service (IRS). The IRS assigns EINs to businesses and organizations for identification and tax purposes.

Ending cash balance - the amount of money a business has left at the end of the month. The ending cash balance for one month becomes the starting cash reserve for the following month.

Ending cash balance = cash reserve + receipts – total disbursements

Entrepreneur - A person who organizes and operates a business and is willing to take on personal or financial risk to do so.

Equipment - Something used to make, sell, or store a product or provide a service. These are things that have a useful life of one year or longer. Examples: rototiller, camera equipment, computer, heat-press. Land and buildings are not considered equipment.

Equity (net worth) - The difference between a business's total assets and total liabilities. Equity is how much your business is worth.

Equity = Total assets – Total liabilities

Executive summary - A short overview of your business plan that explains your business idea, customers, day to day operations, and finances. It helps people decide if they want to read your detailed business plan.

Expenses - The amount of money spent on different things that are necessary to keep the business running. Fixed operating costs and variable costs are types of expenses.

F

Facilities - The physical locations where the work will be accomplished or the business will be located.

Feasibility - The chance that your business will succeed. You figure out if a business is feasible by doing research about things like potential customers and similar businesses, figuring out the details of your business, and figuring out how much money you will need to get started.

Financial statements (or financials) - A collection of reports that outline the financial activities of a business for a specific period of time.

Fixed assets - An asset that cannot be converted to cash easily—things that might take a longer amount of time to sell. These are different than **current assets**, which is money you have in the bank and could spend today. Examples: vehicles, buildings, land, equipment and machinery.

Fixed operating costs - Costs you must pay to keep your business running, even if you don't sell anything. They are costs you pay every month or year, such as rent, utilities, insurance, and accounting services.

Frequency (as it relates to advertising) - The number of times a person sees or hears an advertisement over a period of time. When you increase the frequency of your advertising, you increase the chances that people will remember what you do.

G

Gross profit - Gross profit is the difference between total sales and costs of goods sold.

Gross profit per unit = price per unit – variable costs per unit

I

Income - Money paid to a business in exchange for providing goods and services.

Income statement - A financial report that shows a business's financial activity over a specific period of time, usually one year. It shows: total sales, cost of goods sold, gross profit, fixed operating and other expenses, net profit.

Industry (or business industry) - A group of businesses that produce similar products or services. Example: the pizza industry is made up of many different types of businesses that make and sell pizza. These businesses include sit-down restaurants, carryout-only pizza shops, companies that make frozen pizzas, and food trucks.

Industry research - Information you look up about the industry your business will be part of. Includes things like news, trends, and forecasts, economic indicators, market share, legal and regulatory issues, financial information, and innovations/new products.

Industry trends - Patterns that occur within a specific industry and describe industry activity over time. You can look up industry trends on price, customer behavior, marketing, manufacturing, technological advances, etc. Industry trends provide business owners with important data to help them remain competitive in their industry.

In-kind contribution (donated items) - Goods, services, and transactions not involving money or not measured in monetary terms. Example: your friend donated their old wheelbarrow to you for your new landscaping business.

Insurance rider - An additional insurance policy that adds additional coverage to an existing insurance plan. Example: an artist may need to purchase an insurance rider to cover their finished paintings during transport to and from an art show.

Inventory - Raw materials and products that are available to sell.

J

Jargon - Specialized language of a professional or occupational group that might not mean anything to someone who is not part of the group.

- Examples of jargon:
    - Computers: browser; cache; database; driver; freeware; resolution; URL.
    - Gardening: cultivate; aerate; espalier; hydroponics; pruning; transplanting.

L

Labor - The physical and mental effort needed to make and sell a product or provide a service.

Liabilities - Money a business owes to another business or company (like the bank or a lender).

Limited Liability Company (LLC) - A business type owned by one or more people. Owners are called ‘members’ instead of owners. Unlike a sole proprietorship, with an LLC your business and personal assets are separate. This means that if something happens to your business, you are not personally liable, or responsible.

Line of credit - A type of flexible loan from a bank. A line of credit is a specific amount of money that the borrower can access as needed (similar to a credit card, which has a limit to how much can be charged). The bank charges the borrower interest when the money is used, and expects the money to be paid back at regular intervals and on time.

Liquid assets (**or current assets**) - Any money, inventory, accounts receivable (payments owed to you), and prepaid expenses (like insurance—that would be refunded) which can be collected on or sold and converted into cash within one year.

Long-term liabilities - Money a business owes to another business or company that is not due 12 months from the ending date of the balance sheet. Example: long-term loans, mortgage.

Lot (building lot) - An area of land where a business is located. The lot includes all buildings, the parking area, and any other outside space (if applicable).

M

Market - The group of existing and potential customers who need or want what the business provides, and have the ability and willingness to pay for it.

Marketing - The things you do to tell customers about your business. These include things like designing a logo, making a website, and handing out business cards and flyers.

Marketing plan - A document that describes everything a business will do to tell people about the business and encourage them to buy from the business. It includes: why people need the product or service; target customers; other businesses that are similar; marketing strategies.

Market research - How you learn about similar businesses that you will be competing with for customers. Like customer research, it is valuable to use many sources of information. You can search online, conduct interviews with, and observe other businesses to do market research.

Market share - The portion of customers who will use your business instead of the competition.

Micro-enterprise - A small business that employs no or a few employees and is started with a small amount of capital. Most micro-enterprises provide goods or services for their local areas.

Micro-lender - A person or bank who lends small amounts of money or provides access to small amounts of credit that would not be cost-effective for a traditional lender.

N

Net loss - If your business spends more money than it makes, you are operating at a net loss, and your business is not profitable. To figure out if your business is operating at a net profit or loss, subtract your total fixed operating costs and other expenses from your total gross profit. If this number is negative, your business is operating at a net loss.

Net profit - If your business makes more money than it spends, you are operating at a net profit, which means your business is profitable. To figure out if your business is operating at a net profit or loss, subtract your total fixed operating costs and other expenses from your total gross profit. If this number is positive, your business is operating at a net profit.

Net worth (equity) - The total value of the business. It is calculated by subtracting total liabilities from the value of the assets.

O

Operating costs (or expenses) - How much it costs to run a business. These costs are broken into variable costs and fixed operating costs.

Operations plan - A section of the business plan that describes in great detail the day-to-day tasks required to run a business.

Owner capacity - A section of the Business Plan where you provide information about you, the business owner. This is where you share information about strengths and experiences that will help you be a successful business owner.

P

Partnership - A business owned by two of more people, with shared business decision-making responsibilities. They also share personal liability for the business, which means that if the business is sued or goes into debt, any legal action taken against the business affects all the partners.

Patent - an exclusive right granted for an invention, which is a product or process that is either a new way to do something or uses new technology to solve a problem. To get a patent, you have to fill out and pay for an application with the federal government. If you try to make your own version of something that someone else has a patent for without their permission, you can get into legal trouble or sued. This is called patent infringement.

Personal financial statement - A document that shows an individual's financial position at a specific point in time. It shows their assets, liabilities, annual income, and annual expenses.

Pre-paid expenses - Costs that have been paid for but have not yet been used or used up. Example: insurance or rent.

Pre-tax profit or loss - A business's profit before taxes are paid. Also called earnings (or losses) before taxes.

Pricing - The process of figuring out how much to charge for a product or service. Things to take into consideration when pricing products or services: a customer's willingness to pay, fixed expenses, variable expenses, gross profit, break-even point, and sales goals.

Product - Something that you make in order to sell. Your business's products are the things you sell to your customers.

Production methods - A section of the Business Plan where you describe how you make your product or provide your service, how you will sell it, and how you will manage other aspects of your business.

Profit - When a business makes money. This is when the amount of money coming into the business from sales is more than the amount of money the business needs to pay bills and buy supplies.

Profit and loss statement (income statement) - A financial report that shows a business's financial activity over a specific period of time, usually one year. It shows: total sales, cost of goods sold, gross profit, fixed operating and other expenses, net profit.

Profit margin - One of the ways to tell how good a business is at making money. Profit margin shows how many cents of profit have been generated for each dollar of sale. It's written down as a percentage.

Profit sales goal - An amount of money a business owner wants to earn after they have reached their break-even point. To figure out a profit sales goal, take your profit goal and divide it by the gross profit per unit. This will give you the number of extra units you need to sell to meet your profit sales goal (or, in other words, to make the amount of money you set as your goal).

Promotion - Things you do to encourage people to buy your product or service. Examples: coupons, incentives (like buy-one-get-one-free), having holiday sales, and free samples.

Public relations - Things you do to tell people about your business. These are good for building awareness of your business. Examples: attending or giving workshops or talks; donating your product to a community organization for a raffle prize; blogging or providing useful information about a specialized topic on social media.

R

Reach - The total number of people that receive an advertisement or promotion.

Receipt - Money coming into the business. A record of when your business will receive cash, such as when a customer pays for the product or service.

Regulation - A rule or law that controls the way a business can operate. Regulations can be set by the federal and local governments or by the business industry.

Renovations - Making changes to a building so that it's accessible, improved, and updated. Renovations make a building more useful, and more valuable.

Revenue (gross sales) - The amount of money a business made before any expenses are taken out. It's recorded on the top line of the income statement. Revenue is not the same as income or profit, which is the amount of money a business makes minus expenses.

S

Sales forecast or sales projections - A prediction of future sales for a period of time in the near future (typically 1 to 3 years). It estimates how much a business will sell over a period of time.

Sales tax - A tax paid to local and state government for the sale of certain products and services. The seller usually adds the cost of the tax to the item and the customer pays for the tax when they buy the product. Not all states or localities charge sales tax.

Sales volume - The number of goods or services sold in a specific period of time.

Seed capital - Also called seed money or seed financing. Money raised to get a business open and financed in its early stages.

Service - Work that you do for others as your business. Some businesses sell products, others sell services. Examples: landscaping, a car mechanic, house painting.

Small Business Development Centers - A partnership between the U.S. Small Business Administration (SBA) and typically a local college or university to help foster small business growth and development by providing individual counseling and low-cost business workshops for business owners and those looking to start a business.

Small business incubator - An organization, usually a private company, that helps new and startup companies to develop by providing services such as management training or office space.

Sole Proprietorship - A business owned and run by one person with no legal distinction between the business and the individual. The owner is responsible for all assets and liability.

Speculative business - A business with a very high risk of failing, but also with a possibility of high profits.

Start-up costs - The amount of money you need to pay for things to get your business up and running.

Supplies - General purpose consumable items stocked for recurring use that have a shorter life span than equipment and machines.

Surplus - If a business is operating at a surplus, this means that it is bringing in more money than it is spending each month. Business receipts are more than disbursements, and the business is making a profit.

T

Target market – The market (or customers) a business wants to sell its products and services to. Example: a business selling t-shirts with graphic designs may have a target market of people 16 to 33 years old.

Taxes - A required fee paid to city government, state government or the federal government to finance public works, services and infrastructure.

Taxpayer Identification Number (TIN) - An identifying number used for tax purposes. For some businesses, the owner's Social Security number can be used as the taxpayer number. Also see Employer Identification Number (EIN).

Total assets - all the things that your business owns that could be sold or have a cash value. They include current assets, such as cash, inventory, accounts receivable (payments owed to you), and prepaid expenses (like insurance – that would be refunded), and fixed assets, such as land, buildings, and equipment, minus depreciation.

Total assets = current assets + fixed assets

Total disbursements - the total amount of costs a business pays. Some are paid every month (rent and utilities) and others may only be once or twice a year (insurance and license fees). Total disbursements are made up of three types of costs: variable operating costs (or costs of goods sold), fixed operating costs, and other expenses.

Trademark - A recognizable word, phrase, symbol, or design that identifies and represents a business or product and makes it stand out from other businesses. Trademarks are registered with the federal government. You are not allowed to use part of a trademarked name or design in your own business. Examples of trademarks: The McDonald's golden arch, Nike's swoosh symbol and "Just Do It" catchphrase, Apple's iPod.

U

Up-front cash - The money you need to get a new business up and running. This includes the money you need to set up the business before it can open, and the money you need to run the business and cover expenses until your business earns a profit.

V

Variable operating costs - A cost that is different every month depending on how many sales a business makes. These are costs related to making a product or providing a service, like labor and materials. These costs are higher if you make a lot of your product, and smaller if you make less.

Venture capitalist - An investor who provides capital or support to businesses who need capital in exchange for a high return on investment. Venture capitalists generally invest large amounts of money and they have some degree of involvement in running the business, such as a seat on a business' board of directors.

Vocational goal - An employment or career goal that is a good fit for a person's unique strengths, resources, priorities, concerns, abilities, capabilities, and interests. Self-employment is NOT a vocational goal. It is a way to reach a vocational goal.

W

Word-of-mouth - the passing of information from person to person, usually in a casual or informal way. Word-of-mouth marketing can be a good way for potential customers to learn about a business – such as from friends, neighbors, or other people in their social circle.

Working capital - The difference between a business's current assets and current liabilities. It is the money a business has on hand to pay bills.

Other Resources

Online Business Dictionary