Entrepreneurship Terminology 101

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Many new entrepreneurs and students drown in entrepreneurship verbiage and are too embarrassed to ask teachers, seasoned entrepreneurs, angel investors, and VCs for definitions. So, we compiled definitions of the most critical terminology for student entrepreneurs. Feel free to download, email or print for your students.

Here we go!

Accelerator (or Startup Accelerator) — A formal program whereby entrepreneurs spend time with mentors who provide coaching, networking, financial investment, and typically incubator space in return for a portion of the equity in the startup. Accelerators typically receive 5–10 percent equity for their services upfront, sometimes with the option to purchase additional equity in the future.

Angel Investor (aka Angel) — An individual or group of individuals that invest money into startups, typically in exchange for equity.

Acqui-hire — The acquisition of a company for the purposes of hiring their employees — not for the intrinsic value of the company.

Bootstrapping — The act of self-funding a startup.

Burn Rate (or "burn") — The rate at which a startup or company spends money. Typically measured per month.

Business Model — The vision, mission, and anticipated strategies related to product/service development, organization, legal, finance, sales, marketing, and management of a startup.

Business Plan — A document that describes the business model in detail. Some investors will say that “business plans are dead or a waste of time; just create a pitch deck.” However, this oversimplifies the value gained by asking difficult questions about how the startup will be organized, grown, and managed.

C Corp — A corporate structure whose profits are taxed separately from its owners under substep C of the Internal Revenue Code.

Company — A self-sustaining organization of synergistic people and resources.

Convertible Note — Short-term loan made by investors that converts into equity based on an established milestone (e.g., valuation of the startup at a later funding round).

Copyright — Legal right of ownership of original work, used to protect literary works, live performances, photographs, movies, and software (although rarely used for software).

Corporate Refugee — Former corporate employee disillusioned with a corporate environment. Corporate refugees can either stay in the same role at their current employer, seek other job opportunities at their current employer, seek a job at another employer, leave the workforce permanently (e.g., retire) or, as is becoming more common, launch their startup.

Cost of Acquisition (CAC) — Generally calculated as the total cost that reflects the marketing and sales costs divided by the number of new customers over a given period. At the beginning of the startup lifecycle, these costs are typically very high due to significant sales and marketing costs relative to new customers acquired.

Crowdfunding — Crowdfunding is raising capital to fund a startup, product, invention, project, literary work, event, or special cause. This is usually done through a web-based campaign on a specific crowdfunding platform. There are four types of crowdfunding platforms: Reward Crowdfunding, Equity Crowdfunding, Donation Crowdfunding, and Debt Crowdfunding.

Customer — (I know it might seem like I am insulting your intelligence here; instead, I am helping you avoid a frequent mistakes made by new entrepreneurs.) An individual or group that PAYS you money for your product or services. Don't confuse a customer with a user of your product or service.

Early State Company — A startup that has matured to the point when market validation has been achieved, but process improvement and team expansion are required for the company to scale.

Entrepreneur — An individual who is the founder and manager of a startup.

Equity — The amount of ownership that an individual or organization owns in a startup or other firm is typically represented as a percentage.

Exit — The sale of an organization for, ideally, a significant amount of cash or equity in another company. This is why individuals such as angels and VCs give you money. They need a return on their investment, just like you do. The other form of exit is shutting down the company.

Gig Economy — An economy where growth is driven by independent contractors vs. traditional employees. Example: Uber's drivers are classified as contractors and help contribute to the "gig economy."

Incubator — A physical space with areas to collaborate where entrepreneurs congregate and manage their startups.

Intellectual Property (IP) — Refers to ideas, including inventions, music, and literature. IP falls into two categories:

· Industrial Property includes patents for inventions and industrial designs for products and processes.

· Copyrights are legal rights of ownership to original work used to protect literary works, live performances, photographs, movies, and software (although rarely used for software).

Friends, Fools, and Family (The 3 Fs) — Three external sources of investment capital that are available to many first-time entrepreneurs. Less than one percent of startups receive venture capital, so The 3 Fs are frequently used as a source of initial capital.

Limited Liability Company (LLC) — A corporate structure whereby the company's members cannot be held personally liable for the company's debts or responsibilities. Limited liability companies are considered a hybrid between corporations and sole proprietorships.

Minimum Viable Product (MVP) — Most basic feature set in a product or service to determine if your value proposition resonates with prospective customers. A big trap first-time entrepreneurs fall into is adding features and functionality that are not required and convoluting the insights that need to be acquired.

Monthly Recurring Revenue (MRR) — This represents the measure of monthly revenue for service providers and typically Software-as-a-Service (SaaS) providers.

Non-Compete Agreement (Non-Compete) — Agreement between two parties (e.g., employee and employer) whereby one party (e.g., employee) agrees not to work for or create an entity that competes with the other party (e.g., the previous employer).

Non-Disclosure Agreement (NDA) — Agreement between two parties whereby “the disclosing party” provides proprietary information to “the receiving party” and restricts the sharing of the proprietary information with third parties. Don’t ask angel investors to sign NDAs — they won’t, and you will lose credibility.

Operating Agreement — An agreement between the members of a Limited Liability Company (LLC) which governs the business, including member powers, rights, duties, and obligations. It also outlines the decision-making process related to operational, functional, and financial issues in a structured manner. The operating agreement of LLC companies is similar to bylaws used by corporations.

Pitch — A brief presentation, typically under twenty minutes, whereby entrepreneurs present a rapid overview of their business model to prospective investors or other interested parties.

Pitch Deck — A series of electronic slides, usually under twenty, that displays the elements of a business model.

Pro Forma — Forward-looking financial documents, such as cash flow statements, based on hypothetical conditions.

Runway — How long, usually measured in months, a startup has before it runs out of cash.

Software as a Service (SaaS) — Software that is provided as an ongoing service, as opposed to a traditional initial outlay to purchase a software package. This pricing model particularly appeals to small- and medium-sized businesses (SMBs) that don't traditionally have the budget to make large software purchases. SaaS companies have particular appeal to angel investors and venture capital firms based on the consistent and compounding effect of revenue.

S Corp — A corporate structure where profits are passed on to the shareholders and taxed on their personal returns.

Scale — Achieving rapid customer adoption (growth) while simultaneously expanding the organization and refining processes to maintain growth.

Seed Capital — The initial investments made in a startup by someone other than the founder(s).

Series A (or A Round) — A startup's first significant round of funding, which is typically funded by angels.

Series B, C, D, etc. — The subsequent rounds of investments in a startup.

Software Engineer — An individual who designs, develops, tests, and maintains the software. Don't call them programmers unless you want software engineers to increase their fees and hold you in complete contempt for ignorance.

Startup — An organization formed to provide a product or service that is being consumed by users or customers.

Startup Idea — A series of hypotheses created with the goal of formulating a startup.

It is important not to confuse a "Startup" with a "Startup Idea." If you want to lose credibility with successful entrepreneurs, investors, etc., tell them you have a startup when you just have a "startup idea."

Term Sheet — A non-binding agreement between an entrepreneur and investor that ultimately is incorporated into investment agreements (such as an operating agreement).

Trademark — This can be a word, phrase, symbol, and/or design that identifies and distinguishes the source of the goods (products) of one party from those of others. Typically we think of brands, logos, icons, and taglines in the startup world when discussing trademarks.

User — Person or organization that consumes a product or service provided by an organization (startup, early stage or mature organization).

User Interface (UI) — Series of screens, pages, buttons, and images displayed on a screen (such as a smartphone, laptop, or monitor).

User Experience (UX) — The process that a user goes through when interacting with a service (e.g., software) or a product.

Unicorn — A company within the startup world valued at more than $1 billion. This is the dream scenario of many entrepreneurs. Just buy an island, a jet, a yacht, and a couple of new homes.

Valley of Death — The time between the initial startup or investment and when the startup runs out of cash.

Value Proposition — A statement a startup or organization uses to describe how it will help its customers.

Venture Capital — Investment made by a group of accredited investors provided by funds or specific firms, typically in exchange for equity.

Venture Capitalists — Individuals who invest in early-stage companies (post-startup phase). Angel investors invest in startups.

Wantrepreneur — An individual that has a startup idea but never executes to turn the idea into a startup.

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