GLOSSARY

Absorptive capacity: A firm's ability to assimilate new knowledge for the production of innovations. The more related knowledge a firm has, the easier it is for it to assimilate the new knowledge.

Acquisition: When one firm purchases another, the acquired company gives up its independence and the surviving firm assumes all assets and liabilities.

Adaptive enterprise: One that changes its strategy or business model, as the conditions of the marketplace require.

Advertising: Public messages sent via any media that are intended to attract and influence consumers.

Affiliate revenue model: Based on steering business to an affiliate firm and receiving a referral fee or percentage of revenues.

Angels: The wealthy individuals, usually experienced entrepreneurs, who invest in business start-ups in exchange for equity in the new ventures.

Architectural innovation: Changes the way in which components of a product are linked together while leaving the core design concepts untouched.

Asset: Something of monetary value that is owned by a firm or an individual.

Balanced scorecard: A strategy formulation device as well as a report of performance.

Bankruptcy: A voluntary or involuntary state declared by a court in which an individual or company is unable to meet its financial obligations.

Barriers to entry: Whatever keeps a firm from entering an industry or market.

Base case: The calculation of cash flows is based on a set of assumptions, which portrays outcomes that are most likely to happen.

Black-Scholes equation: An exact formula for the price of a call option. The formula requires five variables: the risk-free interest rate, the variance of the underlying stock, the exercise price, the price of the underlying stock, and the time to expiration.

Board of advisors: The board of advisors is constituted to provide advice and contacts. The members have extensive skills and knowledge and provide good advice.

Board of **directors:** Is a group composed of key officers of a corporation and outside members responsible for the general oversight of the affairs of the entity.

Bond: Debt security issued by a firm.

Book value: Is the net worth (equity) of the firm, which is the sum of the investments in the firm plus net profits retained less losses incurred.

Bootstrap financing: Launching a start-up with modest funds from the entrepreneurial team, friends, and family.

Brand: A combination of name, sign, or symbol that identifies the goods sold by a firm.

Brand equity: The brand assets linked to a brand's name and symbol that add value to a product.

Break-even: When the total sales equals the total costs.

Break-even analysis: A means of determining the quantity that has to be sold at a given price so that revenues will equal cost.

Burn rate: Defined as cash in minus cash out on a monthly basis.

Business design: Incorporates the selection of customers, its offerings, the tasks it will do itself, and those it will outsource and how it will capture profits.

Business format Franchise: Involves the provision of a complete method including a license for the trade name and logo, the products and methods, the form of the physical facility, the strategy, and the purchasing system.

Business method patent: A type of a utility patent that involves the classification of a process.

Business model: A set of planned assumptions about how a firm will create value for all its stakeholders. The resulting outcome of the business design process.

Business plan: A document that describes the opportunity, the product, the context, the strategy, the team, the required resources, the financial return, and the harvest of a business venture.

Buy-Sell agreements: Contracts between associates that set the terms and conditions by which one or more of the associates can buy out one or more of the other associates.

C corporation: A business that provides limited liability, unlimited life, the ability to accept investments from other corporations, and the ability to merge with other corporations.

Cannibalization: The act of introducing products that compete with a firm's existing product line.

Cash flow: The sum of retained earnings plus the depreciation provision made by a firm. The cash coming into a firm minus the cash going out over a predetermined time period.

Certain: An outcome resulting from an action in that it will definitely happen.

Challenge: A call to respond to a difficult task and the commitment to undertake the required enterprise.

Champion: An executive or leader in the parent company who advocates or provides support and resources as well as protection of the venture when parent company routines are breached. The Champion helps describe and defend the venture and secure the necessary resources.

Chasm: A large gap between visionaries and pragmatists in the adoption process.

Cluster: A geographic concentration of interconnected companies in a particular field. Clusters can include companies, suppliers, trade associations, financial institutions, and universities active in a field.

Collaborative structure: Primarily consists of teams with few underlying functional departments. In a collaborative structure, the operating unit is a team which may consist of five to ten members.

Common stock: Evidence of ownership share.

Competence: Skill or aptitude; ability to perform an activity. This skill or aptitude is core (i.e., a *core competence*) only if it provides customer value, differentiates a firm from its competitors, and is extendable to other products.

Competitive advantage: A firm's distinctive factors that give a superior or favorable position in relation to its competitors.

Competitive intelligence: The process of legally gathering data about competitors.

Complement: A product that improves or perfects another product.

Complementors: Companies that sell complements to another enterprise's own product offerings.

Concept summary: A simple statement of the problem the new venture is solving and how the new venture will act to solve it.

Conjoint analysis: A quantitative measure of the relative importance of one attribute as opposed to another.

Copyright: An exclusive right granted by the federal government to the processor to publish and sell literary, musical, or other artistic materials. A copyright is honored for 50 years after the death of the author.

Corporate culture: The basic style of a company and how people work with each other.

Corporate new venture (or Corporate venture): New ventures that started by existing corporations for the purpose of initiating and building an important new business unit or organization, solely owned subsidiary or spin-out as a new public company.

Corporate venture capital: An initiative by a corporation to invest either in young firms outside the corporation or units formerly part of the corporation. These are often organized as corporate subsidiaries, not as limited partnerships.

Creativity: The ability to use the imagination to develop new ideas, new things, or new solutions.

Customer relationship management: A set of conversations that consist of 1) economic exchanges, 2) the product offering that is the subject of the exchange, 3) the space in which the exchange takes place, and 4) the context of the exchange, with the customers.

Customization: Is providing of a product customized to a user's preferences.

Debt capital: Money that a business has borrowed and must repay in a specified time with interest.

Design patents: Are issued for new original, ornamental, and non-obvious designs for articles of manufacture for a period of 14 years from the date of issuance.

Diffusion of innovations: The process of how innovations spread through a population of potential adopters.

Discount rate: Is the rate, r, at which future earnings or cash flow is discounted because of the time value of money.

Disruptive application: A new product that establishes an entirely new category and dominates that category.

Distributor: A firm that takes title to finished goods and then sells them.

Dominant design: A design whose major components and underlying core concepts do not vary substantially from one product model to the other, and which commands a high percentage of the market share for the product.

Dynamic capitalism: The process of wealth creation characterized by the dynamics of new, creative firms forming and growing and old, large firms declining and failing.

E-commerce: Involves digitally enabled commercial transactions between and among organizations and individuals.

Economic capital: The growth of the economy and the standard of living is a critical need for all people.

Economics: The study of mankind in the ordinary business of life. Economics can also be defined as the study of how society manages its scarce resources.

Economies of scale: The concept that larger volumes sold reduce per-unit costs.

Efficient market: A market where prices reflect all available information.

Elevator pitch: A short version of the venture story quickly demonstrates that you know your business and can communicate it effectively.

Emergent industries: Newly created or newly recreated industries formed by product, customer or context changes.

Emotional intelligence: A bundle of four psychological capabilities that leaders exhibit: Self-awareness, self-management, social awareness, and relationship management.

Entrepreneur: (1) A person who undertakes an enterprise or business with the chance of profit or loss (or success or failure); or (2) a person or group who engages in the initiation and growth of a purposeful enterprise for the production of goods and services.

Entrepreneurial commitment: A dedication of the time and energy necessary to bring the enterprise to initiation and fruition.

Entrepreneurial competence: The ability 1) to recognize and envision taking advantage of opportunity and 2) to access and manage the necessary resources to actually take advantage of the opportunity.

Entrepreneurship: Focused on the identification and exploitation of previously unexploited opportunities.

Equity capital: The investment by a person in ownership through purchase of the stock of the firm.

Ergonomics: Make a physical task easier and less stressful to accomplish.

Ethics: A set of moral principles for good human behavior. Ethics provides the rules for conducting activities in a manner acceptable to society.

Execution: A discipline for meshing strategy with reality, aligning the firm's people with goals and achieving the results promised.

Exit strategy: The way an entrepreneur or investor gets his or her money out of the venture.

Experience curve: Systematic production cost reductions that occur over the life of a product.

Experience curve pricing: Aggressive pricing designed to increase volume and help the firm realize experience curve economies.

Family-owned business: One that includes two or more members of a family who hold control of the firm.

Financial capital: Refers to financial assets such as money, bonds, securities, land, patents, and trademarks.

Financial structure: Mix of debt and equity used to finance a business.

First-mover advantages: Advantages accruing to the first to enter a market.

Flexibility: A measure of a firm's ability to react to a customer's needs quickly.

Focus group: A small group of people who are brought together to discuss a product or service.

Franchise: A legal arrangement in which the owner of a business format has licensed it to an individual or a local firm.

Franchisee: An individual or a local firm who receives the right through a contract to use the franchisor's business format, brand, and logo in a specific geographic region.

Franchisor: The organization that owns and operates a firm that controls the business format and its associated trademarks and logo.

Global: Strategy emphasizes worldwide creation of new products, sales and marketing.

Globalization: Globalization involves the integration of markets, nation-states, and technologies enabling people and companies to reach around the world to offer and sell their products in any country in the world.

Growing industries: Exhibit moderate revenue growth and have moderate stability and uncertainty.

Harvest plan: Defines how and when the owners and investors expect to realize or attain an actual cash return on their investment.

High growth: Business corporation aims to build an important new business and requires a significant initial investment to start-up.

Horizontal merger: A merger between firms that make and sell similar products in a similar market.

Hybrid: This model, sometimes called "bricks and clicks," utilizes the best of the Internet as well as other channels. A hybrid model can extend a company's reach to new market segments as well as global reach.

Independent Venture: A new venture that is not owned or controlled by an established corporation. An independent venture is typically unconstrained in their choice of a potential opportunity, yet is usually constrained by limited resources.

Industry: A group of firms producing products that are closely substitutes for each other and serve the same customers.

Initial public offering: The first public equity issue of stock that is made by a company.

Innovation: Invention that has produced economic value in the marketplace. It is the commercialization of new technology.

Installed base profit model: One of the most powerful profit models—the supplier builds a large installed base of users who then buy the supplier's consumable products.

Integrity: Can be defined as truthfulness, wholeness, and soundness. It can be described as the consistency of our words and our actions or our character and our conduct.

Intellectual capital: The sum of knowledge assets of an organization.

Intellectual property: The valuable intangible property owned by persons or companies.

International: A strategy that aims to create value by transferring products and capabilities from the home market to other nations using export or licensing arrangements.

Internet: A worldwide network of computer networks linking businesses, organizations, and individuals together.

Intrapreneur: An "entrepreneur" working within the confines of a corporation.

IPO: Initial public offering.

Joint venture: A short-lived partnership with each partner sharing in costs and rewards of the project; common in research, investment banking, and the healthcare industry.

Knowledge: The awareness and possession of information, facts, ideas, truths, and principles in an area of expertise.

Knowledge management: The practice of collecting, organizing, and disseminating the intellectual knowledge of a firm for the purpose of enhancing its competitive advantages.

Lead users: People who have an advanced understanding of a product and are experts in its use.

Leadership: The ability to create change or transform organizations. A real measure of leadership is the ability to acquire needed new skills as the situation changes.

Lean systems: Operations systems that are designed to create efficient processes by using a total systems perspective.

Learning organization: A firm that captures, generates, shares, acts, and uses its corporate experiences to improve and adapt.

License: A grant to another firm to make use of the rights of the intellectual property.

Licensing: Occurs when a firm (the licensor) licenses the right to produce its product, use its production processes, or use its brand name or trademark to another firm (the licensee). In return for giving the licensee these rights, the licensor collects a royalty fee on every unit the licenses sells.

Local or **regional:** Strategy focuses all its efforts locally since that is its pathway to a competitive advantage.

Logistics: The organization of moving, storing and tracking parts, materials, and equipment. Logistic systems usually are based on electronic networks such as a supply-chain intranet.

Loyalty: A measure of a customer's commitment to a product or a company's product line.

Management: A set of processes such as planning, budgeting, organizing, staffing, and controlling that keep the organization running well.

Marketing: A set of activities with the objective of securing, serving, and retaining customers for the product offerings of the firm. Marketing is getting the right message to the right customer segment via the appropriate media and methods.

Marketing objectives statement: A clear description of the key objectives of the marketing program.

Marketing plan: A written document serving as a section of the business plan and contains the necessary steps required to achieve the marketing objective.

Market potential: A prospective of the maximum sales under expected conditions.

Marketing research: The process of gathering the information that serves as the basis for a sound marketing plan.

Market segment: The market segment consists of a group with similar needs or wants and may include, geographical location, purchasing power, and buying attitudes.

Market segmentation: The market segmentation divides markets into segments, which have different buying needs, wants, and habits.

Mature industries: have slow revenue growth, high stability, and intense competitiveness.

Merger: The combining together of two companies.

Metanational: A company that possesses three core capabilities: 1) being the first to identify and capture new knowledge emerging all over the world; 2) mobilizing this globally scattered knowledge to out-innovate competitors; and 3) turning this innovation into value by producing, marketing, and delivering efficiently on a global scale.

Module: An independent interchangeable unit that can be combined with others to form a larger system.

Moral: The moral principles are concerned with goodness (or badness) of human behavior and usually are provided as rules and standards of human behavior.

Multidomestic: A strategy that calls for a presence in more than one nation as resources permit.

Natural capital: Refers to those features of nature, such as minerals, fuels, energy, biological yield, or pollution absorption capacity that are directly or indirectly utilized or are potentially utilizable in human social and economic systems.

Negotiation: A decision-making process among interdependent parties who do not share identical preferences.

New venture team: A small group of individuals who possess expertise, management, and leadership skills in the requisite areas.

Niche business: Seeks to exploit a limited opportunity or market in order to provide the entrepreneurs with independence, and a slow growth buildup of the business.

Non-profit organization: A corporation or a member association initiated to serve a social or charitable purpose.

Oligopoly: An industry characterized by just a few seller firms.

On-time speed: A measure of lead-time, on-time delivery, and product development speed.

Operations management: The supervising, monitoring, and coordinating of the activities of a firm carried out along the value chain. Operations management deals with processes that produce goods and services.

Opportunity: An opportunity is a timely and favorable juncture of circumstances providing a good chance for a successful venture or progress. (An auspicious chance of an action occurring at a favorable time.)

Opportunity cost: The value (cost) of the foregone action.

Option: The right to purchase an asset at some future date and at a predetermined price.

Organic growth: Growth enabled by internally generated funds.

Organic organizations: Organizations that are flexible and effectively adapt to change.

Organizational culture: The bundle of values, norms, and rituals that are shared by people in an organization that govern the way they interact with each other and with other stakeholders.

Organizational design: The design of an organization in terms of its leadership and management arrangements, its selection, training, and compensation of its talent (people), its shared values and culture, and its structure and style.

Organizational norms: The guidelines and expectations that impose appropriate kinds of behavior for members of the organization.

Organizational rituals: The rites, ceremonies, and observances that serve to bind together members of the organization.

Organizational values: The beliefs and ideas about what goals should be pursued and what behavior standards should be used to achieve these goals. Values include entrepreneurship, creativity, honesty and openness.

Outsourcing: A firm's purchase of services or goods from suppliers rather than doing them within the firm.

Partnership: Business association of two or more people or firms who agree to cooperate with one another to achieve mutually compatible goals that would be difficult for each to accomplish alone. There are two types of partnerships: the general partnership and the limited partnership.

Patent: Federal governmental grant to an inventor giving exclusive rights to an invention or process for 18 years. A U.S. patent does not always grant rights in foreign countries.

PE Ratio: The ratio of the price of a stock to the company's earnings.

Personalization: Is the providing of content specific to a user's preferences and interests.

Pessimistic case: When the outcome of a situation of the calculation of cash flows, based on a set of assumptions, is less than expected.

Place: Selecting the channels for distribution of the product, and when appropriate the physical location of the stores.

Plant patents: Are issued for certain new varieties of plants that have been asexually reproduced, for a term of 17 years.

Portal: A place or gate of access to a company's offerings.

Positioning: The act of designing the product offering and image to occupy a distinctive place in the target customer's mind.

Post-Money valuation: This is the valuation accorded a company after investment by venture capitalists or angels.

Pre-Money valuation: This is the value accorded a company prior to investment from venture capitalists or angels.

Private placements: A private placement involves the sale of stocks or bonds to wealthy individuals, pension funds, insurance companies, or other investors. It is done without a public offering or any oversight from the SEC.

Pro forma: Means provided in advance of actual data. Pro forma statements are forecasts of financial outcomes.

Process: Any activity or set of activities that takes one or more inputs, transforms and adds value to them and provides one or more outputs.

Product: The item or service that serves the needs of the customer.

Product distribution: A license to sell specific products under a manufactures trademark and brand.

Product offering: Communicates the key values of the product and describes the benefits to the customer.

Product platform: A set of modules and interfaces that form a common architecture from which a stream of derivative products can be efficiently developed and produced.

Productivity: The quantity of goods and services produced from the sum of all inputs such as hours worked and fuels used.

Profit: The net return after subtracting the costs from the revenues.

Profit model: The mechanism a firm uses to reap profits from its revenues.

Promotion: The communication of an initial product message using public relations, advertising, and sales methods, to attract customers.

Proprietary: That which is owned, such as a patent, formula, brand name, or trademark associated with the product/service and not useable by another without permission.

Prototype: A model that has the essential features of the proposed product or service, but remains open to modification.

Public offering: The sale of a company's shares of stock to the public by the company or its major stockholders.

Quality: A measure of a product that usually includes performance and reliability.

Radical innovation: An important new innovation that leads to a new industry or way of operating.

Real option: The right to invest in (or purchase) a real asset (the new start-up firm) at a future date.

Relational coordination: Describes how people act as well as how they see themselves in relationship to one another.

Reliability: A measure of how long a product performs before it fails.

Rapid prototyping: The fast development of a useful prototype that can be used for collaborative review and modification.

Regret: The amount of loss that a person can tolerate.

Restricted stock: Stock issued in an employee's name and reserved for his purchase at a specified price after a period of time.

Resilience: The ability to recover quickly from setbacks. It is a skill that can be learned and increased.

Return on equity: The ratio of net income divided by owner's equity.

Return on investment: The ratio of net income divided by invested capital.

Revenues: A firm's revenues are its sales in dollars expressed after deducting for all returns, rebates, and discounts.

Revenue model: Describes how the firm will generate revenue.

Risk: The chance or possibility of loss, which could be pertaining to finance, physicality, or reputation. Risk is a measure of the potential variability that will be experienced in the future.

S-Corporation: A firm that has elected to be taxed as a partnership under the sub-chapter S provision of the Internal Revenue Code.

Sales forecast: An estimate of the amount of sales to be achieved under a set of assumed conditions within a specified period of time.

Scalability: Refers to how big a firm can grow in various dimensions to provide more service.

Scenario: An imagined sequence of possible events or outcomes, sometimes called a mental model.

Secrecy: The state of concealment or the state of being concealed or maintained as a secret.

Seed capital: The first funds used to launch the new firm.

Self-organizing organization: Teams of individuals that benefit from the diversity of the individuals and the robustness of their network of interactions.

Selling: The transfer of products from one person or entity to another through an exchange mechanism.

Small business: A firm with less than 50 employees operating as a sole-proprietorship, a partnership, or a corporation owned by a few people.

Social capital: Consists of the accumulation of active connections among people in a network. Social capital refers to the resources available in and through personal and organizational networks.

Social entrepreneur: A person or team that acts to form a new venture in response to an opportunity to deliver social benefits while satisfying environmental and economic values.

Sole proprietorship: A business firm owned by only one person and operated for his or her profit.

Sources of innovation: For new ventures include universities, research laboratories, and independent inventors.

Spin-off: When an organization is first established within an existing company and then is sent off on its own.

Staging: The provision of capital to entrepreneurs in multiple installments, with each financing conditional on meeting particular business targets. This helps ensure that the money is not squandered on unprofitable projects.

Stock: The owner's shares of the corporation.

Stock options: An offer in a plan under which employees can purchase shares of the company at a fixed price. Stock options take on value once the market price of a company's stock exceeds the exercise price. It gives employees the right to buy the company's stock in the future at a preset price.

Story: A narrative of factual or imagined events. The story tells the goal of the venture, the challenge, and the response of the new firm.

Strategic control: The process used by firms to monitor their activities and evaluate the efficiency and performance of these activities and to take corrective action to improve performance if necessary.

Strategic learning: A cyclical process of adaptive learning using 4 steps: learn, focus, align, and execute.

Strategy: A plan or road map of the actions that a firm or organization will take to achieve its mission and goals.

Subscription revenue model: A business offers content or a membership to its customers or members, and charges a fee permitting access the information or participation for a certain period of time.

Sunk costs: A cost that has already incurred cannot be affected by any present or future decisions. In other words, funds and time invested on a new venture are already spent regardless of any action you take today or later.

Supply-chain: A firm's processes and those of its suppliers that enables the flow of materials, resources, and information to meet customer demand.

Sustainable competitive advantage: A competitive advantage that can be maintained over a period of time.

Synergy: The increased effectiveness and achievement produced as a result of the combined action of two or more united firms.

Team: A small number of people with complementary capabilities and skills who are committed to a common objective, goals, and tasks for which they hold themselves mutually accountable.

Technology: Devices, artifacts, processes, tools, methods, and materials applied to industrial and commercial purposes.

Telework: Refers to all kinds of remote work from home, satellite offices, and on the road.

Term sheet: A summary of the principal conditions for a proposed investment by a venture capital firm in a company.

Tipping point: The moment of critical mass or threshold that results in a jump in adoption of a product or service.

Trademark: Any distinctive word, name, symbol, slogan, shape, sound, or logo a firm uses to designate its product.

Trade-name: A franchise name that primarily involves a brand name such as Western Auto or ACE Hardware.

Trade secret: A firm uses confidentially, non-disclosure, and assignment of inventions agreements as well as physical barriers such as safes and limited access to maintain protection of its intellectual assets.

Transaction fee revenue model: based on a providing a transaction source or activity for a fee.

Transnational: Strategy rests on a flow of product offerings created in any one of the countries of operation and transferred between countries.

Uncertain: An outcome resulting from an action in that the outcome is not known or is likely to be variable.

Unique selling proposition: A short version of a firm's value proposition is often used as a slogan or summary phrase to explain the key benefits of the firms offering versus that of a key competitor.

Usability: A measure of the quality of a user's experience when interacting with a product.

Utility patents: Utility patents are issued for the protection of new, useful, non-obvious, and adequately specified processes, machines and manufacturing processes for a period of 17 years from the date the patent is issued.

Valuation rule: The algorithm by which an investor, such as an angel or venture capitalist, assigns a monetary value to a new venture.

Value: The worth, importance, or usefulness to the customer. In business terms, value is the worth in monetary terms of the social and economic benefits a customer pays for a product or service.

Value added: The value of a process output minus the value of its inputs.

Value chain: The sequence of steps or sub-processes that a firm uses to produce its product or service.

Value proposition: Summarizes the values offered to the customer.

Value web: The value web consists of the extended enterprise within a network of interrelated stakeholders that create, sustain, and enhance its value-creating capacity. It is usually based on an Internet infrastructure to manage operations dispersed in many firms.

Venture capital: Venture capital is a source of funds for new ventures that is managed by investment professionals on behalf of the investors in the venture capital fund.

Venture capitalists: Professional managers of investment funds.

Versioning: The creation of multiple versions of a products and selling their modified versions to different market segments at different prices.

Vertical merger: The merger of two firms at different places on the value chain.

Vertical integration: The extension of a firm's activities into adjacent stages of productions (i.e., those providing the firm's inputs or those that purchase the firm's outputs).

Virual marketing: Building knowledge of a product through word of month.

Vision: A vision is an informed and forward-looking statement of purpose in response to an opportunity.

Virtual organization: Manages a set of partners and suppliers linked by the Internet, fax and telephone in order to provide a source or product.

Working capital: The amount of funds available to support a firm's normal operations, such as unexpected or out-of-the-ordinary, one-time-only expenses. Working capital is determined by a firm's current assets subtracting its current liabilities.