Glossary

One thing that I have learnt is that there is a lot of jargon in the modern world of business which incorporates all things entrepreneurship, management, and leadership as well as finance and accounting. In a nutshell, it is everything that you need to be aware of to scale or exit your business. These are not necessarily terms we refer to in this book, however, they are stated here as a resource for you to review, reflect and explore further when necessary.

Key Terms

Bootstrapping - a familiar term among entrepreneurs. Essentially it means making do with what you have got. It's derived from the expression 'pulling yourself up by your own bootstraps', implying that you succeed by your own means, without any outside help. Taking no salary, eating a lot of lentils, using a bicycle rather than taking public transport - these are just a few of the sacrifices entrepreneurs make to get their businesses off the ground without going to external funders.

Business Accelerators and Incubators - business accelerators and incubators are organisations that provide support and help to early-stage and start-up companies. Incubator programmes are typically run by universities and academic organisations, as well as non-profit organisations, though some are also run by commercial companies. They tend to focus on early-stage ventures and the main services provided are office spaces, networking, access to investors, and mentoring.

Fair Market Value - the most common standard of value that's based on a hypothetical buyer and seller, who are under no duress and are engaged in a full exchange of all information. It's the estimated price at which a fully informed buyer and a fully informed seller are free and willing to conduct the sale or transaction and is typically the basis for valuations for tax purposes, whereas business acquisitions are often valued from the perspective of investment values.

Scale – the influential 2014 Scale-Up Report, authored by Sherry Coutu, used the same definition of scale-up as the OECD, Nesta and other governmental and non-governmental organisations:

> *A 'scale-up' is an enterprise with average annual growth in employees or a turnover greater than 20 percent per annum over a three-year period, and with more than ten employees at the beginning of the observation period.*

As the report states,

> *The definition aims to identify companies which have experienced sustained company revenue growth from customer orders, because this is the most reliable measure of whether customers are buying the company's products and services, and in turn, this is a proxy for how innovative the company is.*

Copyright Safaraz Ali 2022

Other Terms

Asset Sale (Asset Value) - includes only inventory or supplies, fixed assets, and all intangible assets. It excludes all liquid financial assets and all liabilities, and the buyer operates from a newly formed legal entity. In an asset sale, the seller keeps the cash and receivables, but delivers the business free and clear of all debt.

Audit – a legal requirement of companies who meet financial criteria. This allows for an independent party to declare if all financial statements show a 'true and fair view' of the company's situation.

BHAG (Big, Hairy, Audacious Goal) – the ten-year plus goal which allows the business to set short term goals in order to achieve the long-term goal.

Business Angels - high net worth individuals and private investors in start-ups and early-stage companies who are looking to invest smaller amount of capital. They are often experienced business people who have had success either running their own company or as senior executives in the corporate world.

Business Consistency - making sure that everyone is on the same page. That a customer has the same experience with every and any member of staff. Making sure that employees are consistent and confident as well as the business itself. A consistent business will make sure that they are improving, and good management is present.

Business Development – making sure that clients are the right fit for the company, and the right people are attracted to the roles within the business. Essentially satisfying customers by targeting the people who are the best match for the business.

Business Stability – creating a stable business through different factors such as team morale, high team retention and a culture of equal respect.

Business Strategy – the processes in which business is carried out, formed by its goals and the plan. Goals are where the business wants to go, and the plan is the strategy for how to get there.

Business Sustainability – predicting the market and the growth of the business to get results. Results are calculated by using past growth to predict future growth.

Capital Allowance - variable allowances set by HM Revenue & Customs periodically for taxation purposes, to cover depreciation in the value of a company's assets.

Capital Gains Tax - a tax on the gain made from the sale of an asset. It can be short-term or long-term and must be declared in income taxes.

Cash Flow Statement - this shows the movement and availability of cash within the company over a given period, and how changes in balance sheets and accounts affect cash and cash equivalents. It breaks the analysis down to operating, investing, and financing activities.

Chair - usually appointed by the directors and often non-executives, they often chair meetings as well as the board and may have a casting vote.

Compete Clause - any business, individual, partnership, firm, corporation, or any other entity which as a whole or in part is the same or substantially the same.

Competitive Advantage - a term often used loosely, but Poter's definition is precise. You have a competitive advantage if your profitability is sustainably higher than that of your rivals. That means you operate at a lower cost, command a premium price, or both. It is simple maths and the only way to generate superior profit. It comes from doing unique things or doing similar things in unique ways.

Competitive Strategy – the set of integrated choices that define how you will outperform your industry in the face of competition.

Copyright Safaraz Ali 2022

Complement - the opposite of a substitute where an increase in demand for one product (or service) results in an increase in the demand for another.

Core Competence - an integrated bundle of skills and technologies; the sum of learning across individual skill sets and individual organisational units.

Crowdfunding - a way of raising finance to fund a project or venture by asking many people for a small amount of money. It enables entrepreneurs to raise funding by harnessing the power of the internet to reach a wide-ranging group of investors.

Current Assets - anything that is expected to be sold, consumed, or exhausted through normal operations of a business within the current fiscal year.

Current Liabilities - funds owed by the business that need to be settled in cash within the current year or the operating cycle of a firm.

Current Ratio - the relationship between current assets and current liabilities, describing the liquidity of the business. A 2:1 ratio for current assets/current liabilities is credible.

Customer Service – making sure the customers' needs are those of the individual. Being grateful for the customers' business and adopting an appreciative mindset for business to be conducted with ease.

Data Room - an electronic place in which potential purchasers can get access to specific confidential data concerning the company or business.

Deadlock - happens when a company with two directors and/or shareholders, each owning 50 percent cannot agree at board or shareholder level. No decisions can be made in the legal sense.

Debenture - a legal document or charge which creates a right, likely to be a financial one, owed by the company to the holder of the charge.

Debtors - monies owed by third parties to an organisation for materials or services, which have not yet been paid.

Depreciation - the apportionment of cost of capital item over an agreed period based on its life expectancy. This reduces the value of the assets and the company's profit over the agreed period. It does not affect cash or taxable profit.

Discipline of Business Development – using what has happened in the past to make credible predictions instead of blind guesses.

Discipline of Execution – having benchmarks in place for your business, sales, customers, people, operations, and finance. It also means having the team members required to support the organisation's strategic goals and doing what they need to achieve them.

Disruption - a term overused to refer to any and every competitive threat. Real disruptions are game changers that invalidate traditional assets and advantages. Many feared "disruptions" turn out to be new best practices incumbents must embrace. Real disruptions can be identified rigorously by applying the strategy fundamentals.

Diversification - a business that has multiple unrelated businesses that require unique management expertise, different end customers, and produce different products to provide different service from those of the core business.

Dividend - the distribution of a portion of an organisation's after-tax profit to a class of its shareholders as a reward of investment determined by the organisation's board of directors.

Drag Along - an obligation included in the shareholder agreement to sell the shares if the other party also sells its package of shares.

Copyright Safaraz Ali 2022

Due Diligence - a comprehensive appraisal of a business undertaken by a prospective buyer, especially to establish its assets and liabilities and evaluate its commercial potential. In other words, it is an investigation into a company to review its value and to run sensitivities on various commercial, financial, and environmental points.

Earn Out - period post completion where the sellers can receive further consideration, typically linked to performance.

Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA) - the profit before interest, taxes, depreciation, and amortisation. This is a gauge of the operating cash flow of a company. Typically used to give an investor an indication as to how much a company is earning. EBITDA helps an investor to assess what the return on investment can be if he or she buys a company.

EBIT / EBIAT / EBITD - Earnings Before Tax; EBIT – Earnings Before Interest and Tax; EBIAT- Earnings Before Interest after Tax; EBITD- Earnings Before Interest, Tax and Depreciation.

Enterprise Management Incentive (EMI) - an approved team member share scheme that is available to trading companies allowing employers to grant share options to key team members' tax as a reward for their work within the company.

Entrepreneurs Relief - a UK tax relief for entrepreneurs that lets them sell all or part of their business and only pay ten percent capital gains tax on the profits they make, up to £10 million in total.

Employee Ownership Trust (EOT) - an indirect form of a team member's ownership in which a trust holds a controlling stake in an organisation's behalf of all its team members and allows owners to sell a controlling stake in their organisation.

Equity - the amount of share ownership an individual or group has in a business. It represents the value that would be returned to an organisation's shareholders if the assets were liquidated and all of the organisation's debts were paid.

Equity Sale (Equity Value) - includes all fixed assets, intangible assets, and inventory or supplies, as well as liquid financial assets, but with all liabilities deducted. An equity sale involves a full transfer of the legal entity including all account balances and current tax attributes.

Extraordinary General Meeting - any meeting of the shareholders that is not the annual general meeting is known as an extraordinary general meeting.

Factoring - the specialist provision by one firm to another by buying its unpaid invoices. The factor will usually provide immediate cash, up to the value of 85 percent or more of the client's invoices, which accelerates the availability of working capital.

Family Offices (FO) - private wealth management service companies that look after the one, Single Family Office (SFO) or a small number of ultra-high net worth families. They manage the financial investment side for the ultra-affluent and there has been an increasing trend in recent years to invest in high growth, high risk businesses.

Fixed Costs - also known as indirect costs or overhead costs, are business expenses that are not dependent on the level of goods or services, such as rent, or utilities produced by the business.

Floating Charge - a form of security documentation that creates a charge over a particular asset for security for borrowings and so on.

Gearing - the relationship between debt and equity and usually the relationship between long-term borrowing and shareholders' funds. Anything over 50 per cent is considered highly geared.

Goals - what a business anticipates accomplishing in a set period. Goals represent a company's larger purpose and work to establish an end for team members to work towards.

Copyright Safaraz Ali 2022

Goodwill - the difference between the price paid for a business and the value of its assets. Goodwill represents intangible assets that are not separately identifiable, for example the business name or trademarks, the quality of the customer base, or its position in the industry.
It is also any excess money paid to acquire a company that exceeds its net tangible assets value that is associated with the purchase of one company by another.

Gross Margin - the difference between the selling price of a product and its cost. The higher the gross margin, the more capital a company retains on each pound of sales, which it can then use to pay other costs such as pending debts.

Implied Terms - when goods or services are sold, there are certain terms implied. For goods, these are satisfactory quality or fitness.

Indemnity - an agreement by one party to compensate another for the loss suffered because of a specific event that is anything defined by the parties, which could be a breach of contract.

Intellectual Property (IP) - the value held in copyright, patents, designs, and so forth. It describes a range of legal rights that attach to certain types of information and ideas, and to their forms of expression.

Investment Value - also known as the value to a specific or known purchaser would pay for a property. It refers to an asset's specific value based on certain numerical factors.
Key Success Factors (KSFs) - what firms need to do to meet customer purchasing criteria and run a sound business.

KPI (Key Performance Indicator) – using numbers to identify actions to create results. KPIs measure progress and create new targets based on the results of previous targets.

Leverage – the use of debt or borrowed capital to commence an investment or project. When an organisation is highly levered, it means that they have more debt than equity.

Liquidation Value - the net amount that would be realised if the business is terminated and the assets sold piecemeal.

Letter of Intent (LOI) - the offer letter for your business that is a legal offer. It declares the preliminary commitment of one party to do business with another. Usually, it outlines the chief terms of a prospective deal.

Mergers and Acquisitions (M&A) - transactions in which the ownership of companies, other business organisations or their operating units are transferred to other entities.

Management Buy-In – this is when a group of entrepreneurs organise a take-over of a company and from a new management team to acquire an existing business.

Management Buy-Out - this is when the existing management team organises a purchase of a firm from the shareholders of a company.

Market Approach - a valuation approach based on the strategic market value the market is willing to tolerate, a perceived projected value, and revenue. It seeks to transform measures of profits or cash flow into estimates of value through multiples, capitalisation rates and discount rates.

Marketability – is a measure of whether a product will appeal to buyers and sell at a certain price range to generate a profit.

Memorandum of Association - a constitutional document of a company containing such things as its name, its objects and powers and its original share capital details.

Minority Shareholder - a shareholder holding less than 50 percent of the voting rights therefore, they do not exert any control over a company.

Copyright Safaraz Ali 2022

Minutes - a written summary of the proceeding of directors' or shareholders' meetings. Usually prepared by the secretary and approved at the next meeting and signed by the chairman or managing director in his absence.

Mission - defines a company's culture, values, ethics, fundamental goals, and agenda. It reveals what the company does, how it does it, and why it does it.

Net Assets - the sum of a company's fixed and current assets less its liabilities. It is calculated by the sum of the total fixed assets and the total current assets subtracted by the sum of the total current liabilities and total long term.

Net Book Value - the value reflected in the company's books of the worth of an asset, basically purchase price less depreciation to date.

Net Debt - is a liquidity metric used to determine or calculate how well an organisation can pay its debts if they were to be due immediately.

Net Profit - is the amount of profit earned by the business after deducting all operating, interest, and tax expenses over a given period.

Non-Binding Proposals - explains the terms and conditions of a buyer. Compulsory content is listed in the process letter. The transaction is not legally binding and any of the parties can voluntarily withdraw from the contract before the signing of the binding offer.

Non-Compete Clause - a term in an agreement which does not allow one or more both contracting parties from competing with the other party in certain specified forms. It is either inserted as a term on contracts or from a stand-alone agreement.

Non-Disclosure Agreement (NDA) – is a legal contract between you and another party not to disclose or reveal information that you have shared for a specific purpose.

Normalisation Adjustments - exceptional P&L items that would not be present along with earnings that are adjusted to remove the effects of seasonality, revenue, and expenses that are unusual or one-time influences.

Normalised Working Capital - the level of working capital required for the business to continue operations.

Net Promoter Score (NPS) – rating loyalty by looking at the status of customers categorised by promoters, detractors, or passives. Promoters will recommend the company. Detractors will not be likely to recommend. Passives are a neutral party.

Objective and Key Results (OKR) - is a goal-setting framework used by individuals, teams, and organisations to define measurable goals and track their outcomes.

Objectives - the specific measurable results that companies hope to maintain as the organisation grows. This means you need to analyse, assess, and understand where you are and where you want to be in the future.

Operating Profit - is the net income derived from a company's primary or core business operations but excluding interest, tax, and dividends.

Ordinary Resolution - a resolution passed by a simple majority - that is 51 percent of shareholders at a general meeting.

Ordinary Shares - a share attracting a dividend if available, after payment of any preferential dividend, pro rata, to the percentage shareholding in the company.

Partnership - two or more individuals who run a business and whose liability for debts incurred is personal and unlimited.

Copyright Safaraz Ali 2022

PE Ratio - Price Per Earnings or PE Ratio is an indicator as to how the market views performance prospects and risk of a company, reached by dividing the share price by the earnings per share (profit after tax and interest divided by the number of ordinary shares in issue). As earnings per share are a yearly total, the PE Ratio is also an expression of how many years it will take for earnings to cover the share.

Personal Guarantee - an individual's promise to repay finance if their business cannot repay the debt. If it happens the business owner will be held liable.

Purpose - the reason a company was initially founded. It describes what makes a business unique, as well as what the business plans to do.

Predictability – using marketing techniques to predict the future of business sales and to create exemplary customer service. It can be done by analysing data over a certain time and looking at past goals and targets achieved. It is understanding the actions which produce results and working on the things which have worked before.

Register of Members – a register must be kept which shows the name and address of the stakeholder, the number of shares held, the amount paid up, the number of relevant transfers and any transfers or acquisition of shares.

Resilience – how businesses or individuals put up with setbacks, failures, and disappointment by keeping plugging away and not giving up when things become problematic. Carry on towards goals with relentless determination. When we fail, we learn, and we also develop resilience to cope with the mental side of the ups and downs of running a business. It is important to have the capacity to be able to bounce back when we fall short.

Restrictive Covenants - a period where the sellers are restricted from competing/working on clients or poaching staff from the buyer (including business sold).

Return on Equity (RoE) Over Time - the amount of net income generated as a percentage of shareholder's equity. RoE measures a company's profitability by depicting how much profit a company generates with the money that the shareholders have. It is also an indication of the strength of the business model.

ROI (Return on Investment) – profit and results as a by-product from the business' investment, also used as a performance indicator to show how efficient investments are.

Scalability – describes a company's ability to grow without affecting its structure or available resources when faced with increased production.

Scarcity Mentality – Thinking more about what is lacking e.g., time and money and thinking that resources are always inadequate.

Segment - a slice of the business where the firm sells one product (or product groups) to a customer group (strictly a 'product/market segment')

Seller Protections - a list of protections that the seller is entitled to under the SPA e.g., retention of brand for a period/right to continue to run the business.

Service Contract - a legal agreement between a company and its directors or senior managers, setting out their terms of service. It tends to be more detailed than an employment contract.

Shareholder Value - the value a shareholder gains from investing in a firm through dividends, other pay-outs, and capital appreciation/gains upon exit.

Short-List - the process of identifying the candidates from an applicant pool who best meet the required and desired criteria, agreed on between the advisor and the client.

Copyright Safaraz Ali 2022

SMART Objectives - Developed by George Doran, Arthur Miller, and James Cunningham in 1961. It stands for specific, measurable, attainable, relevant, and time limited. They are goals that are strategically designed to give any business project structure and support and to set out more clearly what businesses want to achieve and by what time.

SPA - in a transaction, it represents the outcome of key commercial and pricing negotiations. It is also the final documentation of the deal.

Stakeholders - persons and organisations with a non-shareholding stake in the success of the firm, for example employees, customers, suppliers, national and local government, and the local community.

Strategic Positioning – the choice of a value proposition made against a specific and relevant set of industry rivals. Discovering a good strategy means finding a unique positioning, the "place" you want to be in your industry.

Synergy - where the whole is greater than the sum of the parts and, specifically in mergers, acquisitions, and alliances, where the value of the merged entity is greater than the pre-bid stand-alone value of the acquirer plus that of the target/partner.

Talent Development – helping all employees within the business to develop and improve on the skills that they already have.

Time Value of Money - a concept wherein an amount of money available today is worth more than the same amount of money expected further in the future, because of the earning capacity it holds.

Unicorn Status - a new business that is privately owned and valued at more than one billion pounds, and is not listed on stock exchanges.

Value Chain – a map of the operational activities a company performs to design, produce, sell, deliver, and support its products. This is the basic tool for understanding the source of competitive advantages and the specific activities that result in premium prices or lower costs.

Value System - the full set of end-to-end activities involved in creating value for the end user, regardless of who performs them. A company's value chain is typically just a part of a larger value system that includes companies either upstream (suppliers) or downstream (distribution channels), or both.

Venture Capital (VC) - a form of investment for early-stage, innovative businesses with strong growth potential. It provides finance and operational expertise for entrepreneurs and start-up companies, typically in technology, sciences or fintech sectors but not limited to.

Venture Capitalists - provide financing to start-ups and small businesses with the potential to scale (and to become much larger companies). The source of funding is usually from financial institutions, investment banks and wealthy investors.

Vision - a vivid mental image of what you want your business to be at some point in the future based on your goals and aspirations, it will prevent you from heading in the wrong direction.

Warranties and Indemnities - a list of matters that the buyer and seller promise each other or take responsibility for.

Warranty - a written statement provided to the purchaser to support claims made referring to the business during the sales process. When the buyer signs the sales agreement, they may not be able to verify your claims and statements. The warranty provides some protection.

Winding Up – settling accounts as part of the liquidation process. Under the Insolvency Act, there are three procedures: a members' voluntary winding up, a creditor's voluntary winding up and a compulsory winding up by the court. The administration of the process is conducted by a liquidator who at the end of it will distribute any reverses to shareholders and creditors.

Copyright Safaraz Ali 2022