Adoption Risk: When evaluating a venture, the risk that customers will not adopt a new solution/product.

Barrier to Entry: Something that inhibits competitors from getting into a market space (like very high development costs, exclusive contracts, etc.) This can be a competitive advantage.

Benchmarking: Comparing one venture to others. Could be product attributes, growth strategy, or really any aspect of the venture planning process.

Board of Directors (always an odd number): The governing body of a venture; the CEO's boss, though often the CEO is also on the board and is sometimes chairman. Unlike an advisory board, this board has a fiduciary duty to the shareholders. With new ventures it is best to keep the board pretty small and an odd number. **Key: If your VC firm makes an investment, you will usually ask for 1-2 seats on their board.**

Board of Advisors: A group of individuals recruited by the entrepreneur for advice. They have no fiduciary duties and may meet as formally or informally as the entrepreneur desires.

Business Model (sometimes interchanged with Revenue Model): Can refer to a whole host of issues about how a business is designed to capture the value that is creates. It answers the question: how should we set up the venture to achieve our goals? Such elements involve the venture’s scalability (how big can it grow?), revenue model (how does the venture transact with its customers), length of sales cycle, etc.

Comps: These are ventures or products that are comparable to our own. Comps can be great sources of information about market size, return potential, and business model, in particular.

Customer Pain: Potential customer demand- is this something that people really want/need? Customer pain is validated by paying customers (does the venture have people lined up waiting for the new product/service?)

Competitive Advantage: Something that will give the venture a leg up on competitors, often related to IP. It usually requires a significant competitive advantage to attract VC funding (i.e. license, patent, proprietary technology, etc.).

Early Stage, Later Stage: This refers to the maturity of a new venture, generally associated with rounds of VC funding. The latest stage can be an IPO (company goes public- initial public offering) or an acquisition (venture gets bought by another firm).

Equity: For new ventures, equity means ownership in the form of shares (stock) in the venture. For example, VCs purchase shares of equity for their money. The only way they get their money back is to sell those shares in the future (to the public at an IPO or to another company in an acquisition).

Exit: An event that allows founders and private investors the opportunity to cash out by selling their shares in the venture, either through an acquisition or much rarer, an IPO.

Exit Strategy: Venture planning specifically designed to get acquired, or much rarer, go public. Strategies include modeling the venture to be a good acquisition target, nurturing relationships with potential acquirers or targeting specific milestones desired by acquirers.
General Partners (GPs): As a VC investing in a new venture, this is you. This is generally the individuals who help manage a business, as opposed to the limited partners, who commit capital but are not active in management.

IP (Intellectual Property): Non-tangible assets that have value. Includes patents, trademarks, copyrights, and trade secrets. Often used in the context of a sustainable competitive advantage.

Limited Partners (LPs): Generally, the folks who put up the money but don’t take an active role in management. In a venture fund, the general partners (GPs) are the VCs who do the investing. The GPs have a fiduciary duty to return capital to the LPs.

Milestones: Specific goals, often tied to rounds of investing. For example, developing a working prototype or achieving a level of sales or hiring a CEO. Hitting a milestone generally implies you have significantly decreased risk and hence have increased value.

Opportunity Cost: When choosing between two options, the opportunity cost is the value of option you do not choose. It can be added to startup cost to determine true cost. Starting a new venture also implies an opportunity cost (on the part of founders) of lost income.

Option Pool: A percentage of ownership in the venture that is set aside (i.e. not given to an entrepreneur or investors) to be given as salaries/incentives to future employees.

Return on Investment (ROI): This is a number more used by investors than entrepreneurs. Generally given in an annual percentage. Some VC/angel funds set a specific ROI that they are trying to achieve, generally between 25-40% annually, which is much higher than the public stock markets, which historically average closer to 10% returns.

Round (of Investing): The total amount of money given to a new venture in exchange for equity at a given time. Rounds often have names, such as “Series A”, “Series B”. Often VCs will raise a Series A round and reserve future capital for Series B funding (2nd round), provide the venture they are investing in reaches certain milestones in revenue or customers.

Scalability: The ability of a firm to grow (often quickly) to realize its growth potential. As an investor, you want a lean business model that is easily scalable, rather than a massive infrastructure that is expensive and slow to replicate.

Term Sheet: A non-binding agreement setting forth the basic terms and conditions under which an investment will be made. The term sheet is a template that is used to develop more detailed legal documents.

Valuation: The value of a venture; generally a negotiated number between founders and investors. Pre-money (valuation before investment) + investment = Post-money (value after investment).

Value Proposition: Generally refers to a brief statement that quickly sums up a venture’s opportunity. Is it an integral part of the elevator pitch. Value Proposition is an articulation in words describing how the venture makes the world a better place- what is it about this product/service that is “better, faster, cheaper?”

Venture: a.k.a. - business, firm, enterprise
Venture Capitalists (VCs): “Professional money managers”. The professionals who invest in startups using other people’s money. They have a fiduciary duty to return capital to their limited partners.

Venture Firm: A group of venture capitalists organized into (usually) an LLC. Venture firms manage one or more venture funds, or pools of money invested by the fund’s limited partners. General partners manage the funds.

Venture Fund: A legal structure, usually an LP, for a pool of money managed by a venture firm. Funds generally have 10-year lives. Firms may have multiple funds. For example, Intersouth Partners is a venture firm that has raised seven different funds, starting with Intersouth I, a $6.5M fund raised in 1986, and ending most recently with a $275M fund that was raised in 2008.

TECHNICAL VC TERMS:

Board-Number of Seats: Number of people on the Board of Directors. Should always be an odd number to avoid ties, and is usually a small number for new ventures (3 or 5 people).

Board Representation: Refers to exactly who chooses who sits on the board of directors. For example, the investors may insist on having members on the board. Often the number of board seats representing a party is correlated to their percent ownership (e.g. 20% ownership on 5 person board = 1 board seat).

Future Rounds: Anticipating the future funding needs of a venture.

Key Hires: Important future employees who are critical to the success of the venture. Often key hires are a contingency of a deal, or may be a milestone. Common examples include: new CEO, CTO, CIO VP Marketing, etc. **Key: As a potential investor you may recommend a specific key hire(s) to feel comfortable investing.**

Preferred Shares: As opposed to common shares, preferred shares are the type of equity demanded by VCs that comes with special rights.

Syndicate: A group of investment firms who are all participating in the same round of investing in a venture. Sometimes VCs will invest alongside another VC firm as a way of hedging their overall investment risk.

Terms that are basically a way for VCs to hedge their bets in case things go poorly:

- Liquidation Preference: The liquidation preference is the amount that must be paid to the preferred stock holders before distributions may be made to common stock holders. The liquidation preference is payable on either a liquidation of the company, asset sale, merger, consolidation or any other reorganization resulting in the change of control of the startup.

- Dividend: A distribution of a portion of a company’s earnings, decided by the board of directors, to a class of its shareholders. The dividend is most often quoted in terms of the dollar amount each share receives (dividends per share).

- Anti-Dilution: The right of current shareholders to maintain their fractional ownership of a company by buying a proportional number of shares of any future issue of common stock.