Terms and Definitions

Module 13

Book value - another term for the owner's equity or net value; total assets minus total liability

Compounding - when money acquires interest and grows in value and then acquires more interest and grows even more in value

Core business - the main focus of the business

Debt capital - taking out a loan

Diversification - investing a little bit of money in a lot of different places so that if one investment fails you don't lose too much

Diversification growth strategies - strategies that help a business grow outside of its core business; the two types of diversification growth strategies are synergistic diversification and horizontal diversification

Employee stock ownership plan (ESOP) - a retirement fund for a business's employees that a business owner can establish when selling their shares of the business; it can offer the business owner many tax benefits but may be expensive or tedious to set up

Equity capital - exchanging part ownership in a business for money from an investor

Future value of money - a term to describe how much a given amount will grow over a period of time through investment

Goodwill - a catch-all term for the non-tangible aspects of a business such as location, the skill of the employees, level of customer loyalty, reputation in the community and among business partners and customers, impact in popular culture, and other good aspects that cannot be assigned a value

Harvesting - the process of leaving a business and collecting your cash from the departure

Horizontal diversification - When a business expands by adding new products or services that are not related to their existing products and services, but apply to their target audience

Horizontal integration - When a business acquires another business within the market

Initial public offering (IPO) - The act of opening a private business to the public by selling shares to the public

Integrative growth - Strategies that focus on using acquisitions and mergers of businesses, the two types of integrative growth strategies are vertical integration and horizontal integration

Intensive growth strategy - Centers around creating new products or new markets; three types of intensive growth strategies are market penetration, market development, and product development

Liquidation - The process of liquifying a business's assets

Management buyout - When the owner sells their shares in the company to the business's managers so that they now have ownership

Market development - An intensive growth strategy that emphasizes reaching a new target audience

Market penetration - An intensive growth strategy focused on intensifying the marketing for a specific product the business already makes; the goal is to sell more product to existing customers and to increase the number of customers you are selling to

Market share - Determines the effectiveness of market penetration and market development by calculating the total sales of a product or business in the market as a percentage

Micromanagers - People who concern themselves with every particular detail and cannot trust others (such as employees) enough to remove themselves from a situation and focus instead on bigger tasks

Multiple of earnings method - Another method for valuing a business by calculating how much a business makes in a year (annual income) multiplied by a number (multiple) specific to the business

Organic growth - When a business adds new products or services to sell; also called internal growth

Perpetual life cycle - When products never reach the decline phase in the product life cycle

Product development - An intensive growth strategy centered around creating a new product to introduce to your customers

Product life cycle - A summary of the four stages a product on the market goes through- introduction, growth, maturity, and decline

Rule of 72 - A rule that states that if you divide 72 by your interest rate (or return rate), that number will equal the number of years until your money is doubled

Self-financing - Pouring revenue from business profits or personal funds into the business

Synergistic diversification - When a business expands by adding new products or services related to their existing products and services

Vertical integration - When a business acquires another part in its supply chain

Volatile investments - Investments that are affected by global events