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Strategy and Business Glossary 2021

Building a common understanding with clients

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Version

This is version 3.0

This version will be periodically updated to keep up with the ever-evolving schools of thought and need of my clients.

Author

Kris Foye is the strategy consultant that compiled, edited and/or created the various definitions in this glossary. His background in accounting, strategy consulting and entrepreneurship, have allowed him to build a glossary that aims to be more user-friendly, reliable and coherent than many of the alternative options.

Introduction

This glossary is provided to make it easier for clients to understand some of the key terms that may be used when developing their company.

Contents

Glossary

Balance sheet

A balance sheet is a financial statement that provides a snapshot of what a company owns and owes, as well as its net worth. It has three sections: Assets, Liabilities and Shareholders' Equity.

Break-even analysis

A break-even analysis is a calculation of the point at which revenues equal expenses. This point at which the two are equal is known as the break-even point.

Business

The activity of buying and selling commodities, products or services, while respectively providing or receiving remuneration.

Business model

This is a plan for how a company creates and delivers added value for its target market, while ensuring in exchange it generates a profit. As such, the three elements of a business model are expressed as per the equation below:

Business Model = Value Proposition + Operating Model + Profit Model

While various business model frameworks may subdivide each area to an even further level, the above formula still governs them. Each element of the above formula is explained in its respective part of the glossary.

Burn rate

Burn rate is a measure of the speed with which a business is spending its cash reserves. This is the equivalent of the average net cash outflow per month.

Capital expenditures

Capital expenditures, commonly known as CapEx, in the broadest sense are expenses that are incurred as a long-term investment in the company and its future. These investments are often funds that are used by a company to acquire, upgrade, and maintain physical assets such as property, buildings, software or equipment.

Cash inflow

This is the cash received into the company over the specified period of time. This term is used when discussing the cash flow statement and cash flow forecasts. Never is this term used in relation to the Profit and Loss Statement.

See also Net Cash Flow

Cash outflow

This is the cash paid out by the company over the specified period of time. This term is used when discussing the cash flow statement and cash flow forecasts. Never is this term used in relation to the Profit and Loss Statement.

See also Net Cash Flow

Cash flow forecast

This is an estimation of the timing and amounts of cash inflows and outflows over a specific period. A cash flow forecast shows if a company needs to borrow, how much, when, and how it will repay any loans. It differs from a Cash flow Statement which looks at what actually happened in the past, because a forecast presents an estimation of the future.

Cash flow statement

A cash flow statement is a financial statement that measures the cash that was generated or used by a company over a historic period.

See also Cash flow Forecast

Client

Is the individual or organisation that receives services from a sole trader or company.

Client base

See customer base

Competitors

These are those organisations that can provide an alternative solution to your target market's needs, irrespective of the industry they are in.

Direct competitors - They provide the same type of solution that you provide e.g. if your restaurant sells hamburgers then so are they.

Indirect competitors – They provide a similar solution to yours e.g. If your restaurant sells hamburgers then they might sell pizzas.

Substitute competitors – They provide a solution that is very different than that which you provide, *but that still* meets the needs that you aim to satisfy for your target customers. For example, if you are a restaurant that sells hamburgers then the substitute competitor may be a supermarket that sells ingredients for a home-cooked meal.

Core competencies

The unique abilities or strengths that a company has developed, that give it a competitive advantage over its competitors and contributes to its long-term success.

Cost of sales

The cost of sales, (also known as the cost of goods sold), refers to the direct costs of producing the goods and services sold by a company. This amount includes the cost of the materials and labour directly used to create a good or service. It excludes indirect expenses, such as distribution costs, overheads and indirect sales force costs.

Customer

Is the individual or organisation that receives physical or digital goods from your business. In *general use*, it can also refer to clients when speaking about <u>both</u> customers and clients.

Customer base (and client base)

A customer or client base is a company's primary source of business transactions and revenue. This consist of the paying customers and/or clients for the specified period.

If a company has a mixed base of customers and clients, they can be referred to regarding their individual segments or collectively as a customer base *(general use)*.

Early adopters

An early adopter or lighthouse customer is someone that purchases products or services, before these offerings have been perfected. This is usually because they have a special desire or need, that warrants them buying now instead of later (e.g. bragging rights of being the first, supporting the company's cause, etc.).

Fixed costs

Fixed costs are expenses that have to be paid by a company, irrespective of if it produces or sells anything or not. Fixed costs usually do not change unless to produce or sell more, the company needs to increase its capacity (e.g. buy a larger office). For example, rent is a fixed cost but will increase if an additional 20,000 customers cannot be serviced unless the company increases the size of its factory.

Financial statements

These are summary reports that show how a firm has used the funds entrusted to it by its shareholders and lenders, and what is its current financial position. The three basic financial statements are the (1) balance sheet, (2) profit and loss statement (also called income statement), and (3) cash flow statement.

Free cash flow

Free cash flow is a way to measure how much money is left over for discretionary spending by a company, after it has paid for its running costs and made any reinvestments. A common method of calculating it is as per below:

Free cash flow = Cash from operations - capital expenditures

Note: *Cash from operations* is also called *operating cash flows* and can be found in the cash flow statement.

Note: Discretionary spending can include, but is not limited to, paying:

- Dividends
- Investors
- Long term liabilities

Gross profit

This is the difference between revenue and the cost of sales.

Growth

Growth is adding resources or infrastructure to handle your company's increased demand, at a cost which is approximately equivalent to the level of increased revenue that it will generate.

Income statement

See Profit and Loss Statement.

Mainstream customers

Are those customers that are unwilling to buy into the company, product or technology before it has an established track record and recognition for delivering on its value propositions.

Market

This represents your target customers and clients. Therefore, market segments will be the equivalent of customer and client segments respectively.

Metrics

Also known as indicators, are agreed measures of performance towards a specified goal.

Lead metrics help determine progress, success or failure in advance of achieving the final result.

Lag metrics determine progress, success or failure retrospectively.

Minimum viable product

The most modest no-frills version of a new product which allows a company to test the viability of that product, while spending the least amount of effort and money in the process.

Mission

The type of organisation that your company wants to be on its journey to achieving its vision. This can be expressed as the characteristics, actions and markets your company will partake in to reach its vision.

Net cash flow

Net cash flow is the amount of cash generated or lost over a specific period (e.g. a month, quarter or year). This will be described as a **net** cash inflow or **net** cash outflow depending on the company's performance. This is calculated as:

Cash inflow for the period – Cash outflow for the period = Net cash inflow/net cash outflow for the period

This amount is calculated on the cash flow forecast and cash flow statement.

Net profit

Net profit is the result after all expenses have been subtracted from revenues. Net Profit can be found on the Profit and Loss statement (P&L).

Organisational chart

An organisational chart is a diagram that visually conveys a company's internal structure by detailing the functions, roles, and relationships between individuals within that entity. Organisational charts either broadly depict an enterprise company-wide or drill down to a specific department or unit.

Operating expenses

Operating expenses are those expenditures that a business incurs to engage in activities not directly associated with the production of goods or services. Overheads and general business costs such as stationery and postage are good examples of this.

See also Overheads

Operating model

This establishes what are the resources and processes that a company uses to deliver its value proposition to clients.

Resources include:

People, technology, products, equipment, information, channels, partnerships, assets and brand

Processes include:

Processes, systems, metrics, culture and rules

See also Business Model

Overheads

Overheads refer to those costs that cannot be directly assigned to a cost object (such as a product, product line, or customer), but would still need to be paid if business activities stopped. Office rent and general staff wages are good examples of this.

See also Operating Expenses

Profit after tax

Profit after-tax is the earnings of a business after all income taxes have been deducted.

Profit and loss statement

A profit and loss statement details the revenues, expenses, and profits or losses of a business. It is also known as an Income Statement.

Profit before tax

This is a calculation of the company's profit after deducting its total expenses from its total revenue, but before deducting its tax payments.

Profit margin

The difference between the sales price of something and the cost to produce and sell it. This can be expressed as a fixed percentage or amount.

Profit model

This explains how the company will make a profit whilst delivering on its value proposition. It considers the following:

Revenue streams, cost structure (fixed and variable costs), mark-ups, margins and break-even point.

See also Business Model

Revenue

Also known as Turnover, is the total financial returns that are produced by a given business, product or service in a specified period, before any expenses are deducted.

Scaling

Scaling is about increasing revenue at an exponential rate while the cost of the resources or infrastructure required to generate it, only increases at a comparatively incremental rate.

Strategy

Also known as Strategic Management (field) and when applied to single business companies it is known as Business Strategy. The business strategy is the method of getting the company from where it is to where it wants to be, whilst navigating all of the obstacles and opportunities along the way. Strategies, (and anything considered strategic), focus on the long term and will normally operate over 12 months to 5 years.

See also Tactics

Strategy horizon
This is the time over which a strategy is designed to last e.g. 18 months.

Strategic planning
A systematic process of envisioning a desired future, and developing a set of goals and actions that facilitates the organisation's efforts to make that vision a reality.

Strategic thinking
This is the act of thinking conceptually, imaginatively, systematically, and opportunistically about the attainment of success in the future.

Success
The progressive realisation of a worthy goal.

Tactics
These are short-term ad hoc actions that are implemented to prevent unexpected short-term situations, from hindering the company from achieving its strategic objectives.

For example, in response to a competitor suddenly advertising the launch date of a new product on the same date that you would have launched your product, you might increase your advertising as a tactic to make sure that your launch date is successful. This may be to protect your strategy's projected sales figures.

Unique Selling Proposition (USP)
This is a statement of why your target customers want to buy from you instead of using an alternative solution to achieve their desired end goal. Please note that different USPs are likely to exist for different customer segments, and some USPs can conflict with each other.

See also Value Proposition

Value
A principle that guides how an organisation and its members behave in all matters, great and small, irrespective of if anyone is looking or not.

Value proposition
This is a statement of why target customers want to buy from you to achieve their desired end goal. This is a broader definition than a Unique Selling Point as a unique offering may not be appropriate for all companies and strategies. Please note that different value propositions are likely to exist for different customer segments, and some can undermine each other.

See also Business Model

Variable costs
A variable cost is a cost that varies with production and/or sales volume.

Vision
A vision describes the future day to day reality that a company wants to create in 5 to 10 years for its customers. It therefore solely focuses on the impact that the company wants to have.