absolute advantage: Occurs when a country uses the same level of resources to produce more goods than another country.

accounting: The recording, analysis and reporting of financial transactions of a business.

accounts payable: Money owed by a company for goods and services purchased on credit from vendors.

accounts receivable: Money owed by customers for goods or services purchased on an open account.

accrued interest: Interest that has accumulated and is added to the principal balance of a loan.

adjustable rate mortgage ( ARM): A mortgage in which the interest rate is adjusted periodically based on a preselected index.

advertising: Placement of announcements and persuasive messages (in time or space) communicated through media or nonmedia forms; used to inform or persuade members of a target market or audience about a good, service, organization, or idea.

advertising campaign: Series of coordinated advertising vehicles in various media, scheduled for a certain time period, and related by verbal and/or visual themes or common objectives.

advertising strategy: An overview of the competitive frame, target market and message to be used in an advertising campaign.

affiliate marketing: An on-line marketing strategy that shares revenue between online advertisers/merchants and online publishers/salespeople; compensation is usually based on performance (sales, clicks, registrations).

agents: Intermediaries who negotiate the purchase or sale of goods for their clients, but who do not take title to the goods.

amortization: Payment of a debt that allows the borrower to reduce debt through regular payments over a certain period of time.

annual percentage rate ( APR): An interest rate that reflects the cost of a loan as a yearly rate.

appreciate: To increase in value or price.

asset: Everything owned that has value, including tangible items like cash, accounts receivable, inventory, land, buildings, equipment.

audit: An examination and verification of a business’s accounting records and procedures by a trained accountant or CPA (certified public accountant).

awareness: First stage in the process of learning about a new good or service that the consumer has gotten information about but not yet formed an opinion on.

behavioral analysis: An evaluation and control method used to monitor sales force performance; involves evaluating the behavior of salespeople and sales performance.

benchmark: Something that serves as the standard to which all other like items can be measured or compared.

beneficiary: A person who is designated to receive benefits, profits or advantages.

beta: A measure of an asset’s risk in relation to the market.

bill of lading: A contract between shipper and carrier detailing what is being shipped, how it is being shipped, and terms of delivery.

bill of materials: Document used by a company to authorize a set of purchases to be made or to be taken from inventory to fulfill an order.

blended payment: A loan payment, consisting of principal and interest, that is the same amount every month.

blog: An Internet communication that combines a diary, column and directory; short articles on various subjects with links to other resources; updated often.

blue-chip stocks: Common stock of well-known companies with a history of growth and dividend payments.

board of directors: Individuals elected by shareholders; responsible for managing the president and high-level managers.

body copy: The section of a print ad that contains text and more detailed information than the headlines and subheads.

bond: A government- or corporation-issued certificate of debt guaranteeing payment of the original investment plus interest by a certain future date.

bond mutual fund: Investment company that invests its shareholders’ monies in bonds.

book value: Total assets minus intangible assets and liabilities; can be more or less than market value.

bottom line: An accounting term for the net profit or loss.

brand: A mark, symbol, word or combination that separates one company’s product from another’s.

brand awareness: Having knowledge that a brand exists; considered first step in the sale process.

brand category: Generic classification of goods or services; like goods or services are in the same brand category.

brand extension: Addition of a new product to an already established line of products under the same brand name; new product benefits from the older products’ established reputation.

brand loyalty: Loyalty a consumer has to a specific brand over a period of time.

branding: A method of identifying products and differentiating them from competing products.

break-even point: The level of sales where revenue equals total costs; can also be expressed in terms of units of product.

budget deficit: Point at which spending exceeds revenues.

business cycle: Period of time composed of a business upswing or expansion, peak, downturn and recovery.

business plan: A document fully describing and analyzing a particular business; provides complete, detailed information about short-term and long-term plans.

bylaws: A set of regulations used by an organization to conduct its business.
Cannibalization: Reduction in the sales volume, sales revenue or market share of one product as a result of the introduction of a new product by the same producer

Chapter in the U.S. Bankruptcy Code that allows a financial institution that raises funds by collecting deposits from businesses and consumers; makes loans to businesses and consumers; purchases corporate and government bonds

Call feature: A feature that gives the right to the issuer to repurchase a bond before maturity

Call to action: Statement normally found at the end of a commercial message that encourages the consumer to act

Capital budget: Allocated amount of funds to be used on purchasing assets such as machinery, building, equipment, computers, etc., that are needed for longer than one year

Capital gain: Profit from the sale of an investment; the price received from the sale of an investment minus the price paid

Capitalism: Economic system based on private ownership of businesses

Carrying cost: Expense of keeping inventory on hand

Cash cow: Good or service that generates a steady and predictable income

Cash flow statement: Financial statement that shows when cash flows are received and disbursed by a business

Category killer: A destination store, normally large, that concentrates on one category, enabling them to carry a broad assortment and deep selection at a low price

Certificate of deposit (CD): A document written by a financial institution that shows a deposit with the issuer’s promise to return the deposit plus earnings at a certain interest rate within a period of time

Channel of distribution: Route a product follows to link producer to end consumer

Chapter 7: Part of U.S. Bankruptcy Code that deals with liquidations of a company’s assets

Chapter 11: Chapter in the U.S. Bankruptcy Code that allows a business, an individual or a partnership to declare bankruptcy and postpone debt payments while the reorganization takes place

Charter: Document issued to incorporate a business; details important aspects of the corporation

Circulation: Number of copies distributed of a print advertisement

Click-through rate (CTR): Number of clicks-through per ad impression (refers to on-line ads)

Co-branding: Pairing of two or more brands on a single good or service

Cold call: Unscheduled contact by phone or in person between seller and prospective customer

Commercial bank: Financial institution that raises funds by collecting deposits from businesses and consumers; makes loans to businesses and consumers; purchases corporate and government bonds

Commercial paper: Short-term unsecured note (2 to 270 days) issued by companies with good credit standings

Commissions: Compensation for meeting specific sales objectives

Commodity: Bulk goods, such as wheat or metal, that investors buy or sell usually via futures contracts

Common stock: Type of security that gives partial ownership in a company; has a vote in electing board of directors; entitles the holder to share in company’s success through dividends and/or capital appreciation

Communism: Economic system in which government owns and operates all businesses

Comparative advertising: Persuading an audience to purchase a specific product by showing a brand’s superiority in comparison with competing brands

Competitive advantage: Advantage gained that makes a product more desirable than the competition; persuading customers to buy it instead; can include lower prices and superiority of goods or services

Conglomerate: A company engaged in two or more unrelated industries

Conglomerate merger: When two companies in unrelated industries join together

Consumer: Person who uses a product but does not necessarily buy it

Consumer markets: Individuals or households that purchase goods or services for consumption or use

Consumer price index (CPI): Monthly government statistical measure that shows the trend of prices of goods and services purchased by consumers; measures inflation

Consumer product: Product intended for and purchased by households for their use

Contribution margin: Difference between variable revenue and variable cost

Conventional mortgage: Mortgage not insured or guaranteed by the federal government

Corporation: State-chartered entity that pays taxes and is legally distinct from its owners

Cost of goods sold (COGS): Cost of materials used in producing a product or service

Cost per click (CPC): Cost that advertisers pay each time a user clicks an ad or link

Creditors: Financial institutions (or individuals) that provide loans

Critical path: Sequence of events in a project listed in order according to completion time

Current assets: Represents cash, accounts receivable, inventory, prepaid expenses and other assets that can be converted to cash within one year

Current liabilities: Operating loans, accounts payable and accrued charges (including outstanding checks, wages, long-term debt payments and taxes) due within a year

Current ratio: Indication of a company’s ability to meet short-term debt obligations; the greater the ratio, the more liquid the company

Current assets divided by current liabilities

Customer: Person who buys a product but doesn’t necessarily use it

Customer profile: Characteristics of the typical customer (based on demographics)

Customer relationship management (CRM): Integrated information system designed to build customer loyalty by having customer information in a central database

Cyclical unemployment: Unemployment due to a recession; happens when the demand for labor declines

Debt-to-equity ratio: Measures the amount of long-term financing provided by debt relative to equity; long-term debt divided by owner’s equity

Debt-to-Equity Ratio = Long-Term Debt / Owner’s Equity

Demand-pull inflation: Increase in prices that occurs when demand exceeds supply

Demand schedule: Table or schedule indicating quantity of a product that would be demanded at a certain price point

Demographics: Characteristics of the human population or specific segments of the population

Depreciate: To decrease in value or price

Depreciation: Decrease in the value of fixed assets because of deterioration of assets over a period of time

Direct marketing channel: Goods and services sold directly from the producer to end user without involvement of an intermediary
discount rate: Interest rate attached to loans issued by the Federal Reserve to commercial banks
disinflation: Falling inflation rate (prices are still rising)
disposable income: Income left after expenses
distributor: Company or individual distributing a manufacturer's goods to retailers
dividend: Portion of company's profit paid to common and preferred shareholders
dividend policy: Decision by which a company determines how much money it will pay as dividends
Dow Jones Industrial Average (DJIA): Best-known U.S. index of stocks (blue-chip); contains 30 stocks that trade on the New York Stock Exchange (NYSE); the Dow is a barometer of how shares of the largest U.S. companies are performing
downsizing: Elimination of job positions within a company to improve the bottom line

earnings per share (EPS): Company's income for a period divided by the number of shares outstanding at the end of the period
e-commerce: Use of electronic media (i.e., the Internet) to produce or sell goods and services
economic growth: Change in the general level of economic activity
economies of scale: As the quantity produced increases, the cost per unit decreases in the long run
electronic data interchange (EDI): Exchange of standardized document forms between computers for business use
embargo: Government action stopping the import or export of a certain commodity or commodities
entrepreneur: One who assumes all financial risk of the initiation, operation and management of a given business undertaking
environmental analysis: Gathering and examining data about a company, including political, cultural, social, demographic, economic, legal, international and ecological factors
equal employment opportunity (EEO): Federal legislation prohibiting employment discrimination based on race, sex, religion or ethnic background
equilibrium price: Price at which the quantity of a good supplied by firms equals the quantity of the product demanded by customers
equity: Difference between the fair market value of property and the amount still owed; ownership interest in a business
equity contribution: Cash that the owner(s) or investor(s) has (have) invested in the business in return for a share of ownership
esteem needs: Self-esteem, attention and recognition from others
exclusive distribution: Product distributed through one specific wholesaler or retailer in a market area
exporting: Selling products or services to other countries
exposure: Any opportunity for consumer to see and/or hear an advertising message in a certain media vehicle

G

Gantt chart: Bar graph that measures how long each task in production process will take
generic brand: Product named by its generic class
goodwill: Amount representing the excess paid for a company, its shares, or other assets over and above its net asset value
going public: Company's initial stock issue to the public [also see IPO]
gross domestic product (GDP): Total value of all goods and services produced in a country during a given period of time
gross income: Income before expenses
gross margin: Price of goods and services minus manufacturing cost
gross national product (GNP): Total value of goods and services produced by U.S. nationals in the U.S. and abroad in a given period of time
gross profit: Net sales minus cost of goods and services sold
gross sales: Total value of sales prior to deducting returns, allowances or discounts

H

hierarchy of needs model: Human behavior theory proposed by Abraham H. Maslow [see Maslow's hierarchy of needs]
horizontal merger: Merger of two or more companies in same industry that produce the same type of good(s) or service(s)
income statement: Financial statement that reports revenue, cost and profits over a period of time [also see Profit and Loss Statement (P & L)]

incorporation: Process that makes a business a separate legal entity from its owner

incremental cost: Additional business expense incurred by taking a certain action

inflation: Rise in general level of prices of goods and services over a specific period of time; can be estimated by measuring percentage change in consumer price index (CPI)

infomercial: Program-length televised commercial advertising goods and/or services; often includes a direct response offer

initial public offering (IPO): Company’s first sale of stock to the public [also see Going Public]

insertion order: Instructions to publisher detailing the placement of material for a print ad

inside board members: Board members who are also managers in the company

inside sales: Sales done via phone

integrated marketing: Coordination of all promotion vehicles to ensure consistent marketing message

intensive distribution: Product is distributed through all or most wholesalers or retailers selling that product in the marketplace

interest: Fee charged for using an institution’s or individual’s money or credit; expressed as percentage rate over a time period

international licensing agreement: Agreement that allows a foreign entity to produce another company’s product according to the exact standard of that company

inventory control: Process of maintaining sufficient inventory at a level that minimizes costs

job analysis: Determining the skills and attributes needed for a specific employment position

joint venture: Agreement between two or more companies to take on same business strategy and plan of action

just-in-time (JIT): Strategy that reduces inventory levels by working closely with suppliers to coordinate delivery of materials just before use in manufacturing or supply process

last in, first out (LIFO): Inventory system in which the last item purchased is the first item used

law of demand: Increase in price causes decrease in quantity demanded

law of supply: Increase in price causes increase in quantity supplied

lease: Written agreement renting assets for specified period of time in exchange for payment, normally in the form of rent

leasehold improvement: Improvement(s) made on leased property

liability: Anything that a company owes

limit order: Order to buy or sell a security at a specified price or better

limited liability company (LLC): Type of business ownership combining features of a corporation and partnership; has limited liability; avoids double taxation

limited partnership: Partnership with one general partner and any number of limited partners; they can purchase interest and be held liable only to the extent of their interest and not risk personal liability

line of credit: Agreement with bank or financial institution that extends credit up to a certain amount and period of time to a specified borrower

liquid: Asset that can be converted into cash quickly and without any price discount

loan-to-value ratio (LTV): Relationship between the amount of mortgage loan and appraised value of property (expressed as a percentage)

macroeconomics: Study of economic aggregates such as national production and price level

macroenvironment: Factors that influence an organization but are outside that organization’s control

management: Administration and policymakers of company or organization; utilizing employees and other resources in the way that best achieves company’s plans and objectives

managers: Employees responsible for managing work tasks of other employees, as well as for making key business decisions

market: Actual and potential buyers of a good or service

market coverage: Degree of product distribution among outlets

market research: Gathering, recording and analysis of data in regard to a specific customer group; used to make marketing decisions

market share: Company’s total sales as proportion of the total market

marketing: Operations needed to get goods or services developed, priced, distributed and promoted to customers

marketing channel: Set of companies necessary to transfer title to goods and move goods from point of production to point of consumption

marketing concept: Philosophy that guides the attitude of everyone in a company to stimulate and satisfy needs and wants of every customer

marketing environment: Environments within and outside an organization’s control that can directly or indirectly affect the activities of that organization (includes macroenvironment, microenvironment and internal environment)

marketing intermediaries: Independent firms that help the flow of goods and services from producers to end users (includes agents, wholesalers, retailers, marketing service agencies and financial institutions)

marketing mix: Variables (4 Ps: product, place, price, promotion) used to achieve sales in target market

Maslow’s hierarchy of needs: Human behavioral theory that ranks needs in five categories (physiology, safety, social, self-esteem, self-actualization); as each need is surmounted, motivation sets in to achieve next category

merchant: Marketing intermediary that takes title to and resells merchandise

merger: Two or more companies combining to become one; assets and liabilities of the selling firm(s) are absorbed by the purchasing company

microeconomics: Study of the behavior of consumers and producers operating in the individual markets of the economy

mission statement: Statement that communicates an organization’s purpose, goals, values and functions

money supply: Amount of money in circulation

monoply: Market for a good or service that only has one seller/supplier

mutual fund: Company that invests shareholders’ monies in securities
National Association of Securities Dealers
Automatic Quotation System (NASDAQ): Computerized system that provides price quotations for securities traded over-the-counter (OTC)

net present value (NPV): Used in a capital budget when the present value (PV) of cash flow is subtracted from the initial investment (I)

\[ NPV = PV - I \]

net profit margin: Measures how effective a company is at cost control; usually expressed as a percentage, net profits divided by net revenue

\[ \text{Net Profit Margin} = \frac{\text{Net Profits}}{\text{Net Revenue}} \]

net sales: Gross sales minus returns, allowances and discounts

New York Stock Exchange (NYSE): Located on Wall Street in New York City; also called the “Big Board”; 2,000 common and preferred stocks traded

operating expenses: Expenses incurred in normal day-to-day business

organizational chart: Graphic showing positions within a company (by name and title) and the reporting relationship

organizational structure: Way company is organized; identifies functions for each position within a company and reporting relationships between those positions

outside board member: Board members who are not managers within the company

outside sales: Sales made by individuals visiting others in person

outsourcing: Purchasing service(s) from outside vendor(s) to replace having the task(s) done within an organization’s internal operations

owner’s equity: Total assets minus total liabilities of a company or individual

par value: Amount an issuer of a bond agrees to pay at the bond’s maturity; also, the stated issue price of a security

partnership: Business ownership involving two or more people who are fully liable for all business debts

pay-per-click (PPC): On-line advertising pricing model where advertisers pay agencies based on the number of clicks on a promotion

personal selling: Sales presentation that involves face-to-face interaction with a customer

physiological needs: Basic needs for survival (food, water, air, health and sleep)

points: Prepaid interest charged by a lender to lower the interest rate of a loan; 1 point is equal to 1% of the loan amount

policies: Guidelines for how certain tasks should be completed

preferred stock: Capital stock that represents a partial ownership in a company; provides a specific dividend paid prior to any dividends paid to common stockholders

premium: Gift to consumers who purchase a specific product

price index: Average level of prices relative to average level in base time period

prime rate: Interest rate banks charge on loans to low-risk borrowers

private company: Company whose shares are not traded on the open market

private mortgage insurance (PMI): Required on almost every conventional loan with less than 20% down payment; protects lender in case borrower defaults on loan

privatization: Process of selling government-owned businesses to private companies

producer price index (PPI): Measure of average price of goods bought by producers

product: Goods or services that satisfy a need

product differentiation: Attributes that make one product different from another

product life cycle: Stages a product is thought to go through from creation to death: introductory, growth, maturity and decline

product line: Related goods or services offered by a single company

product mix: Variety of goods or services offered by a company

profit and loss statement (P&L): Summary of a company’s revenues, costs and expenses within an accounting period [also see Income Statement]

program evaluation and review technique (PERT): Method for analyzing tasks needed to complete a project and time estimates to complete each task

promotion budget: Money reserved to pay for all promotion methods over a given period of time

promotion mix: Communication techniques used to achieve specific goals; include advertising, personal selling, sales promotion and public relations

prospect: Company or individual in need of a particular good or service; to seek out (through personal contact) potential buyers of a good or service and try to sell to them

prospectus: Legal document that describes the securities offered for sale, including information on investment objective, policies, fees and services

proxy: Documents that provide shareholders with the necessary information to vote in an informed manner on matters to be brought up at a stockholders’ meeting; shareholders often give management their proxy (i.e., responsibility and right to vote their shares as outlined in the proxy statement)

public company: Company whose shares are traded on the open market, following a public offering

public offering: Selling of securities to the public; must be registered with the Securities and Exchange Commission (SEC)

public relations: Using publicity and other nonpaid forms of promotion and information to create positive public image

public sector: Government-owned businesses

pull strategy: Promotion specifically directed at the target market; used to build consumer demand for product

push strategy: Promotion of product directed at the wholesaler or retailers; they in turn promote to consumer

quality: Degree to which good or service meets the specifications of the customer

quality control: Process that determines if a good or service meets the desired level of excellence

quick ratio: Measures a company’s liquidity; used to evaluate creditworthiness; equals quick assets (cash, marketable securities, accounts receivable) divided by current liabilities

Quick Ratio = Cash + Marketable Securities + Accounts Receivable / Current Liabilities
| **R**atio analysis: | Evaluation and interpretation of the relationship between financial statement variables |
| **Recession:** | Two or more consecutive quarters of decline of the gross domestic product (GDP) |
| **Reminder advertising:** | Used to keep consumers thinking about a product |
| **Return on assets (ROA):** | Measures a company’s profitability; net profits divided by total assets |
| **Return on equity (ROE):** | Measures the return to the stockholder as a percentage of their investment; net profit divided by owner’s equity |
| **Return on investment (ROI):** | Monetary value created or expected to be achieved by an investment of money |

| **S**-corporation: | Corporation whose income is taxed to its shareholders; does not directly pay federal income tax on earnings |
| **Sales promotion:** | Marketing activities designed to encourage sale of product or service; rebates, coupons, sampling, displays and premiums |
| **Salvage value:** | Value of an asset at the end of the asset’s useful life, which a company can receive from selling it |
| **Sampling:** | Process that assesses quality by randomly selecting products and testing them to see if they meet the standard of excellence; a promotional technique that offers free goods to encourage consumers to purchase new brand or product |
| **Seasonal unemployment:** | Unemployment that occurs due to change of season that affects demand for certain kinds of labor |
| **Secondary market:** | Market where securities are traded among investors after they were initially offered in the primary market (e.g., NYSE, AMEX and NASDAQ) |
| **Secured bonds:** | Bonds issued by borrowers backed by collateral |
| **Selective distribution:** | Product is distributed through a limited number of wholesalers or retailers in a market area |
| **Self-actualization:** | When an individual has reached his/her full potential as a human being |
| **Shortage:** | Quantity supplied by company is less than quantity demanded by customers |
| **Social need:** | Need to be accepted in a group |
| **Social responsibility:** | Awareness of how business decisions can affect society |
| **Socialism:** | Economic system in which government owns and operates main industries, but individuals own and operate less crucial industries |
| **Sole proprietorship:** | Unincorporated business owned and operated by one individual |
| **Span control:** | Number of people managed by a manager or supervisor |
| **Sport exchange rate:** | Exchange rate quoted for immediate transactions |
| **Stakeholders:** | Individuals that have an interest in a business, including customers, owners, creditors, employees and suppliers |
| **Stock:** | Certificate representing share of ownership in company |
| **Stockholders:** | Investors who are partial owners of a company because they purchased stock |
| **Strategic business unit (SBU):** | Division or product line within parent company but with separate goals and objectives |

| **T**arget market: | Selected group of consumers (or potential consumers) at which to focus marketing efforts to sell a particular good or service |
| **Telemarketing:** | Using the telephone for promoting and selling goods and services |
| **Times interest earned ratio (TIER):** | Measures the ability of a company to cover its interest payments; earnings before interest and taxes (EBIT) divided by annual interest expense |
| **Total quality management (TQM):** | Philosophy based on idea that successful companies continuously improve the quality of their products; quality is defined by the customer |
| **Trade deficit:** | Amount of imports exceeds amount of exports |
| **Treasury bills (T-bills):** | Short-term debt security issued by the U.S. Treasury Department; has maturity of one year or less and low risk |
| **Treasury notes (T-notes):** | Debt obligations of the U.S. government; have maturities of 1 to 10 years |
| **Two-level channel:** | Two marketing intermediaries between producer and customer |

| **U**nderwriting: | Evaluating a loan application to determine risk for lender |
| **Unlimited liability:** | No limit on the debt for which the owner is liable |
| **Up-sell:** | Selling customer a good or service of higher value |
| **U.S. Department of Housing and Urban Development (HUD):** | Insures mortgage loans made by lenders and sets minimum standards for homes |

| **V**alue added reseller (VAR): | Company that sells another company’s product by adding features to it |
| **Variable costs:** | Operating expenses that vary directly with the number of products being produced |
| **Variable rate:** | Interest rate that changes periodically in relation to the index |
| **Venture capital firm:** | Investment firm that invests shareholders’ money in startup companies, companies that are expanding, and other risky but potentially profitable ventures |
| **Vertical merger:** | Merger of two companies in the same industry but at different stages in the production cycle |

---

**NOTE:** This QuickStudy® guide is an outline of the basic principles of Business Terminology. Due to its condensed nature, it cannot include every business term. We recommend you use it as a guide, but not as a replacement for expert, in-depth advice.