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Top Startup Terms to Know

What is an Accelerator?
If you're launching a startup, accelerators can help you move your idea quickly by providing you with mentorship and fundraising opportunities during a few months program.

What is Incubators?
Unlike accelerators, incubators tend to offer longer-term advisement programs that help you with mentorship, connections, and resources like a coworking space. Accelerators are focused on speed and fundraising while incubators usually take earlier-stage startups and help them overcome early-stage challenges.

What is a Unicorn?
Startups that reach and exceed a **billion-dollar valuation**. Those startups are called unicorns.

What is a Dragon?
There's an even smaller number of startups that raise over one billion dollars in one single round of funding. Those are called Dragons. Uber is one of those companies.

What is a Beta release?
Having conducted internal alpha tests, beta tests involve customers or potential users who provide feedback and help the team make changes before launch.

What is Bootstrapping?

Over 90% of startups are self-funded. I would argue that close to 100% of startups start with their funds especially nowadays that the funding bar is getting higher. Bootstrappers are entrepreneurs who combine human capital (knowledge, experience, and skills) with savings to launch and grow a startup without raising capital. An entrepreneur can also bootstrap the early stages and then raise funds for growth. A path taken by most founders.

What is Disruption?

If you ask what investors look for in a startup, it’s founders who aim to create products and business models that introduce an innovation that makes a significant difference in the market and the world. Take the example of Uber which completely changed how people commute.

What is SaaS?

Nowadays, one of the most common startup business models is software as a service. This is when you create a product with features that customers can use under a subscription. Exactly like paying a monthly fee for hosting or using an email marketing platform.

What is MVP?

To test ideas quickly without spending a lot of resources in building a product that may or may not work, entrepreneurs are encouraged to create a minimum viable product. It's the first versions of the product that only include the core features that aim to test the riskiest assumptions before building the next versions with more advanced features.

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What is a Pitch deck?

Before investing, most of the time, investors expect a quick presentation that highlights the key areas of a startup like team, product, market, traction, and plan. Entrepreneurs create and use a pitch deck for investor's presentations.

What is Freemium?

A common customer acquisition strategy for SaaS startups is offering a free plan that includes a few product features while enticing subscribers to upgrade to paid plans for more features and advantages.

What is Product-market fit?

There are various definitions for PM fit. Essentially, you reach PM fit when your customer acquisition cost is lower than the lifetime value of your customers and existing customers are referring buyers like them therefore lowering your acquisition cost and increasing your net promoter score. After hitting P/M fit, you would start feeling a pull from the market, rather than having to push the product yourself.

What is Traction?

The evaluation of your key metrics. Investors will look at your traction over time to evaluate the investment opportunity. As a startup founder, you can build traction even before building a product. Companies like Buffer and Robinhood built a list of tens of thousands of potential users before they released the first version of their products. One common and effective way to build traction is through inbound marketing.

What is CAC?

One of the most important metrics in business is the customer acquisition cost. In other words, how much does it cost you to acquire a customer? Without knowing this number, it is hard to budget marketing campaigns or make any projections.

What is Outbound marketing?

Outbound marketing captures any startup marketing tactic that requires you to go to the customer rather than the other way around. You can do sales outreach, or you can invest in paid marketing campaigns on platforms like Facebook, Google, and LinkedIn to push your product to the customer. Outbound marketing is inferior, however it is the only kind you have access to right out of the gate.

What is Inbound marketing?

Time-consuming but very effective over the long run. This is when you create valuable content for your ideal customers that obtains a high search engine ranking and pulls the lead to your site. Writing guides, producing educational videos and training, releasing podcast episodes, and creating infographics are some channels through which you can deliver your content. Inbound marketing could be achieved also through a good reputation – you could get recommended by happy customers, which would generate new inbound leads.

What is the Retention rate?

Keep churn low and retention high. A high retention rate signals a healthy business especially if it is significantly higher than churn.

What is the Churn rate?

One of the most asked investor questions is, what is your churn rate? That is, what percentage of your paying users cancel the service? Your goal is to make churn as low as possible.

What is a Seed round?

Right after an angel round comes a seed round, although there is no required sequence to follow. Companies that receive a seed round tend to have found a viable business model with customers.

Who are Angel Investors?

If you're seeking funding for an idea, angel investors are the best groups to look for. They tend to be individual investors, family, and friends looking to support and fund a promising venture at an early stage for a potentially high return.

What is Post-money valuation?

The value of a startup after it receives capital. The formula would be "Pre-money Valuation + Capital received".

What is Pre-money valuation?

It is important for founders, investors and other stockholders to know the valuation of a startup before it receives capital. In other words, pre-money valuation is the valuation before a start-up gets the capital.

What are Series A, B, and C?

Companies that receive a series A round tend to have reached product/market fit and the funds will help them scale faster. Series B and C are for startups that continue to grow towards an acquisition or IPO.

What is Burn Rare?

One of the most asked investor questions is, what is your burn rate or how much do you project you will burn over the next 18 months? It's usually expressed as the amount of cash spent per month. The burn rate is calculated by subtracting incoming cash from outgoing cash

What is the Run rate?

It projects the performance of the startup in the future based on current data. For instance, if a startup generates $100,000 in the first quarter, its 12-month run rate is $400,000 ($100,000 x 4).

Who are VCs?

Unlike angels, most venture capitalists invest for a living. Usually, they are interested in startups with traction and proof that an investment will help accelerate their path to goals.

What is a Term sheet?

Upon interest between investors and founders, a term sheet is used to outline the terms of the investment. Term sheets don’t guarantee an investment. They’re also used as a starting point for negotiations.

What is Sweat equity?

Self-funded entrepreneurs turn human capital (time, skills, and knowledge) into financial capital (money). Human capital is equivalent to sweat equity since it doesn’t require a monetary commitment but can lead to future financial returns.

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