

# Chapter 6

## Common Business Terminologies

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# Finance , Stock & Commodity Market Terminology

- **Amortize** – Charge regular portion of expenditure over fixed period of time for intangible assets
- **Arbitrage** – Simultaneous purchase & sale of 2 identical commodities or instruments in different markets to get advantage of price
- **Ask / offer** – Lowest price at which owner is willing to sell his securities
- **Bid** – Highest price buyer is willing to pay
- **Breakeven Point** – No of units that should be sold to produce revenues exactly equal to expenses

# Stock Market Basics

- **Base Price** – Price of security at beginning of the trading day
- **Close Price** – Price of security at day closing
- **Business Day** - Days on which stock markets are open
- **Pre-open Session** – It is for 15 mins in which we can make order entry , modification & cancellation.
- **Trading Session** – Period for which market is open for buyers & sellers , i.e 9.15 to 3.30 pm

# Stock Market Next Level

- **Basket Trading** – In this investors are in position to buy/ sell 30 scripts to sensex in 1 go
- **Badla** – Carrying forward of transaction from 1 settlement period to another without effecting delivery or payment by paying “margin money” & “badla charges” on basis of demand & supply
- **Beta** –Relationship between stock price of stock and movement of whole market
- **Business Risk** – Risk in firm’s operation if it uses no debt

# Types of Stocks

- **Blue Chips** – Shares of well established & financially sound companies with excellent records of earnings & dividend
- **Defensive Stock** – Provides constant dividend & stable earnings even in period of economic downturns
- **Listed Stocks** – Companies that are traded on stock exchange
- **Income Stock** – A security which has solid record of dividend payments & offers dividend higher than common stocks

- **Capital Budgeting** – Process of planning expenditure on assets whose cash flows are expected beyond one year
- **Capital Gains Yield** – Capital gain during year divided by beginning price
- **Capital Markets** – Financial markets for stock
- **Convertible Securities** – A security that can be converted into other securities at option of holder
- **Derivative** – A security whose price is derived from one or more underlying assets . Most common is market indexes , interest rates
- **Diversification** – Reducing risk by purchasing shares of different companies in different sectors

# Other Business Terms

- **Consolidation** – Business combination of 2 or more entities that occurs when entity transfer all their assets to new entity
- **Merger** – In this 2 or more companies come together to expand their operations
- **Joint Venture** – A third party commercial operation established by 2 or more firms to undertake particular business opportunity
- **Acquisition** – When one organisation takes over another & controls all it's business operations , it is acquisition

- **Government Bonds** – Any security that is held with government and has highest rate of interest
  - **Bonds** – Promissory note issued by companies or government and tells about amount held for specified period of time by buyer
  - **Zero Coupon Bonds** – It has no annual interest but is sold at discount below par , thus providing compensation to investors in form of capital appreciation
- Yield to Call** – Rate of return earned on a bond if it is called before its maturity date



- **Hedge** – It is strategy used to minimize the risk of particular investment and maximise the returns of an investment
- **Index** – Statistical measurement of change in the economy or security market
- **Initial Public Offer** – A company's first issue of shares to general public
- **Limit Order** – An order to buy or sell specified price
- **Liquidation** – Occurs when Assets of a division are sold off piecemeal rather than as an operating entity
- **Market Capitalisation** – Total no of shares multiply with current market price of share , it is wealth of company

- **Portfolio** – It includes various types of securities of different companies in different sectors
- **Price Earnings ratio** = It is Market price of share divided by Earning per share
- **Stock Split** – Attempt to increase no of shares by splitting existing shares
- **Thin Market** – A market in which there are comparatively low no of bids to buy & sell , since transactions are low , prices are very volatile
- **Yield** – It is measure of return on investment .  
Dividend divided by current market price of share
- **One Sided Markets** – Markets that has only potential buyers or sellers and not both

- **Call option** - Right given to investor but not obligation to buy particular stock at specified price within specified time period . Taken by those who feel price will increase than stated price
- **Put Option** – Right given to sell particular stock at stated price within specified price . Taken by those who feel price will reduce than stated price
- **Strike Price** – Price at which holder can buy call or sell put
- **Out of the Money** – For call , it means stock price is below strike price and for put it means stock price is above strike price

# Call option – option to buy 1000 shares of Praj at 60 Rs after 1 month

## SITUATION 1 ACTUAL PRICE 70

- Bought at 60
- Sold at 70
- Gain 10 Rs per share
- Total Gain (1000\*10) 10000
- Less : call charges (1000)
- Total Gain 9000

## SITUATION 2 ACTUAL PRICE 50

- In this as price is less , we will not exercise call , we took because we felt price will increase
- Still we have to pay call charges

# Put Option– option to Sell 1000 shares of Praj at 60 Rs after 1 month

## OPTION 1 ACTUAL PRICE 70

- We will not do anything , because we felt price will decrease actually it increased, still we have to pay charges to put writer which is loss

## OPTION 2 ACTUAL PRICE 50

- Bought at 50
- Sell at 60
- Gain 10
- Total Gain(1000\*10) 10,000
- Less: put charges (1000)
- Net Gain 9000

# Marketing Terminology

- **Barriers to Trade** – Something that makes trade between 2 countries difficult . Eg – tax on imports
- **Benchmarking** – Process of comparing our products & services against those of competitors to find ways of improvement
- **Brand Equity** – Value of Brand and included Brand loyalty , name , awareness , quality , trademarks , patent etc
- **Brand Loyalty** – Decision of customer to buy particular brand
- **Brand Recognition** – Customer's awareness brand exists and is an alternative to purchase

- **Business Model** – Business model is storyline of how strategy will be money maker
- **Consortium** – It is combination of several companies working together for particular purpose
- **Corporate Culture** – It is company's values, beliefs, principles, traditions, ways of operating and internal work environment
- **Cross Selling** – Using customer's buying history to select them for related offers

- **Conglomerate Diversification** – Strategy of growing firm by acquiring other firms with little or no anticipated strategy
- **Market Development** – Process of growing sales by offering existing products to new customer groups
- **Differentiation** – Marketing strategy aimed at ensuring products & services have unique element



- **Fast Moving Consumer Goods** – That sell in high volume and have low unit value and fast consumer purchase
- **Internal Marketing** – Process of eliciting support for a company among its own employees
- **Market Positioning** – A strategy that will position business's product and services against those of competitors in minds of customer
- **Market Targeting** – Process of evaluating market segment and select most attractive segments to enter with particular product / service

- **Marketing Mix** – It is 4P's of marketing – Product , Price , Place , Promotion . Service it includes 3 Additional P's – People , Process & Physical Evidence
- **Marketing Plan** – How company's marketing mix will be used to achieve market objectives
- **Niche Marketing** – Exploitation of comparatively small market segments by deciding to concentrate efforts in that direction
- **Sales Promotion** – Any activity to boost sales of product
- **Test marketing** – Occurs when new product is test with sample of customers to see their reactions
- **Unique Selling Proposition** – It is a customer benefit that no other product can claim

- **Pre-Emptive Pricing** – It is a strategy of setting low prices to discourage or stop new entrants to market
- **Price Skimming** – Charging relatively higher price for a short time where a new , innovative product is launched in market
- **Price Discrimination** – Charging different prices to different customers
- **Price elasticity of demand** – Responsiveness of a change in demand has following change in price
- **Price Sensitivity** – Effect change in price will have on customers

- **Vision** – Road map of company's future .  
Providing specifics about product , market , customer , technology management is trying to create
- **Mission** – It is who we are and what we do . It describes present capabilities , customer focus , activities and business make up.
- **Short Term Objectives** – Usually one year objectives that can be measured
- **Long Term Objectives / Goals** – A firm's position over multi year period of time . Eg – Employee relations , technology etc

# Banking Terminology

- **Acceptance** – Banker's acceptance is signed instrument of acknowledgement that indicates approval of all terms and conditions of any agreement on behalf of banker. Used in agreements and contracts
- **Accepting House** – Bank or finance organisation that specializes in service of acceptance and guarantee of bills of exchange
- **Administered Rates**- Rates of interest which can be contractually changed by lender and also sometimes by depositor or payee
- **Cap** – It regulates increase or decrease in rate of interest and instalments of an adjustable rate mortgage

- **Automated Clearing house** – It is clearing houses that monitors & administers process of check and fund clearance between banks. Minimises human work and distributes debit and credit balance automatically
- **Clearing House** - Place where representatives of different bank meet for clearing cheques . It is managed by Central Bank , if officials of RBI are not there , then it is done by SBI
- **American Depository Receipts** – These are receipts equal to specified no of shares of company that have been issued in foreign country . ADR are traded only in USA , if traded in other countries it is GDR

- **Bridge Financing** – It is a loan where time & cashflow between short term and long term loan is filled up. It begins at end of period of first loan and ends with start of time of second loan
- **Bounced Cheque** – Bank refuse to encash cheque , because there are no sufficient balances
- **Cashier's Cheque** - It is drawn by bank on it's own name to make other organisations , corporations or even individuals
- **Cash Reserve** – Amount of cash present in bank account and can be withdrawn immediately

- **Certificate of Deposit** – It promises depositor sum of money along with interest
- **Early Withdrawal Penalty** – Penalty levied by bank because of early withdrawal of fixed investment by an investor
- **Letter of Credit** – Document issued by bank on behalf of buyer stating its commitment to pay to seller . Used in international trade
- **E-Cash**- Electronic cash and digital cash , in which we use electronic , computer & internet to execute transactions and transfer funds



- **Debt Settlement** – Person negotiates with bank to reduce the instalments and rate of repayment by fast & guaranteed repayment
- **Debt Repayment** – Process of payment of debt along with interest
- **Debt Recovery** – It is process done by banks & lending institutions by various procedures like debt settlement or selling of collaterals
- **Earnest Money Deposit** – Deposit made by buyer to seller in real estate in initial stages of negotiation of purchase
- **Installment Contract** – Contract in which purchaser pays series of instalment including interest
- **Lock in Period** – A guarantee given by lender there will be no change in quoted mortgage rates for specified period

- Value at Risk – Sum or portion of value that is at loss from change in interest rates
- Wholesale Banking – It is term used for banks which offer services to corporate entities , large institutions & other financial institutions
- Zero Balance Account – No minimum balance is required
- Zero Down Payment Mortgage – Buyer borrows entire amount , no down payment is needed . Eg – Jan Dhan Account

# Other Business Terminology

- **Bankruptcy** – In this persons assets are liquidated to pay off liabilities with help of bankruptcy trustee or court of law
- **Bottom Line** – Most important factor , In BCK it is net profits because that matter the most
- **Triple Bottom Line** – Today's Performance is evaluated on 3 P's People , Profit , Planet which is triple bottom line for companies
- **Sustainable Development** – It is broader measure of development of country such as income and non economic parameters. It is macro context of TBL

- **E-Filing** – It is filing of information required by regulator , government and other electronically
- **Joint Product & By Product** – 2 or more products separated in course of same processing operation , usually requiring further processing . Eg – Butter , Cheese , Paneer from Milk
- **By Products** are products recovered from material discarded in main process . They are produced from scrap or waste of material in process . Eg – Molasses in sugar factory used to produce wine , Fruit oil from peeling fruit etc
- **Term Insurance** – It is insurance for certain time period which provides no defrayal to insured and becomes null upon expiration
- **Whole Life Insurance** – It is contract between insurer and policy owner that insurer will pay sum of money on occurrence of event mentioned in policy



