



OneWave AI

FIELD GUIDE

THE SMB AI VOCABULARY · 2026 EDITION

50 AI terms every **small business** should actually understand.

No PhD required. A plain-English glossary of the concepts behind modern AI — from the foundations to 2026's agentic frontier — with a note on why each one matters for your business.

50 terms

6 categories

2026 edition

What's inside

01	AI Foundations	The building blocks. What people actually mean when they say "AI."	8
02	Generative AI & LLMs	The wave that put AI in every employee's hands.	9
03	Working With AI	How you actually steer these tools to get good results.	7
04	Agents & Automation	The 2026 frontier: AI that doesn't just answer — it does.	8
05	Connecting AI to Your Data	How to make generic AI actually know your business.	8
06	Applications, Risk & Governance	Where AI creates value — and what to watch out for.	10

The building blocks. What people actually mean when they say "AI."

01

Artificial Intelligence AI

Computer systems that perform tasks normally requiring human intelligence — understanding language, recognizing patterns, making decisions, and generating content.

WHY IT MATTERS

The umbrella term for everything in this glossary. For an SMB, "adopting AI" usually means using tools built on the more specific ideas below.

02

Machine Learning ML

A branch of AI where software learns patterns from data and improves with experience, instead of following hand-written rules.

WHY IT MATTERS

Powers things like demand forecasting, spam filtering, and product recommendations — anything where the system gets smarter as you feed it more of your data.

03

Deep Learning

A type of machine learning that uses many-layered neural networks to learn complex patterns from large amounts of data.

WHY IT MATTERS

The engine behind today's most capable tools (chatbots, image generators, voice transcription). You won't build it, but it's why modern AI suddenly works so well.

04

Neural Network

A model loosely inspired by the brain, made of interconnected "nodes" that pass signals to recognize patterns.

WHY IT MATTERS

The underlying structure of most modern AI. Worth knowing as the thing vendors mean when they say their product is "neural" or "deep-learning powered."

05

Algorithm

A set of step-by-step instructions a computer follows to solve a problem or complete a task.

WHY IT MATTERS

When a vendor touts their "proprietary algorithm," they mean their specific recipe for turning your data into a useful result.

06

Model

The trained product of a machine-learning process — a file that takes an input and produces an output (text, a prediction, an image).

WHY IT MATTERS

"Which model are you using?" is a practical question: different models vary widely in cost, speed, and quality for your use case.

07

Training Data

The examples used to teach a model. Quality and relevance of this data largely determine how well the model performs.

WHY IT MATTERS

"Garbage in, garbage out" applies. Clean, representative data about your business is one of your most valuable AI assets.

08

Inference

The act of running a trained model to get an answer — i.e., actually using the AI, as opposed to training it.

WHY IT MATTERS

Most SMBs only pay for inference (usage), not training. It's the cost line that scales with how much you use a tool.

The wave that put AI in every employee's hands.

09

Generative AI GenAI

AI that creates new content — text, images, audio, video, or code — rather than just classifying or predicting.

WHY IT MATTERS

The category behind ChatGPT, Claude, and Gemini. For SMBs it's the fastest path to value: drafting, summarizing, designing, and coding assistance.

10

Large Language Model LLM

A model trained on vast amounts of text that can understand and generate human-like language.

WHY IT MATTERS

The brain inside most AI assistants. Picking the right LLM is a trade-off between capability, speed, and per-use cost.

11

Foundation Model

A large, general-purpose model trained on broad data that can be adapted to many tasks.

WHY IT MATTERS

You rent these from providers (OpenAI, Anthropic, Google) rather than build your own — a huge cost saver versus training from scratch.

12

Multimodal AI

AI that works across more than one type of input or output — text, images, audio, and video together.

WHY IT MATTERS

Lets you do things like upload a photo of a receipt and get structured data back, or describe an image and have it generated.

13

Token

The small chunks of text (roughly $\frac{3}{4}$ of a word) that language models read and write. Usage and pricing are measured in tokens.

WHY IT MATTERS

Your AI bill is essentially a token meter. Understanding tokens helps you estimate and control costs.

14

Context Window

The maximum amount of text (in tokens) a model can consider at once — its short-term memory for a single conversation or document.

WHY IT MATTERS

Determines whether you can paste a whole contract or report in one go. Bigger windows mean fewer workarounds.

15

Embedding

A numerical representation of text (or images) that captures meaning, so a computer can measure how similar two things are.

WHY IT MATTERS

The hidden tech behind smart search and recommendations — e.g., finding the most relevant support article for a customer's question.

16

Natural Language Processing NLP

The field focused on helping computers understand and work with human language.

WHY IT MATTERS

Underpins chatbots, voice assistants, and tools that read and route incoming emails or reviews automatically.

17

Open-Source vs. Proprietary Model

Proprietary models are owned and hosted by a vendor (you pay per use); open-source models are freely available to run or modify yourself.

WHY IT MATTERS

A core build-vs-buy choice. Proprietary is easiest to start; open-source can mean more control and data privacy if you have technical help.

How you actually steer these tools to get good results.

18

Prompt

The instruction or question you give an AI to get a response.

WHY IT MATTERS

The single biggest lever on output quality. Clear, specific prompts beat vague ones every time.

19

Prompt Engineering

The practice of crafting and refining prompts to reliably get high-quality, useful outputs.

WHY IT MATTERS

A cheap, high-leverage skill for your team — better prompts often replace the need for expensive custom tooling.

20

System Prompt

Behind-the-scenes instructions that set an AI's role, tone, and rules for an entire conversation.

WHY IT MATTERS

How you make an assistant consistently "on-brand" — e.g., always polite, always citing your policies, never promising refunds.

21

Temperature

A setting that controls how creative vs. predictable a model's output is. Low = focused and consistent; high = varied and creative.

WHY IT MATTERS

Turn it down for invoices and policy answers; turn it up for brainstorming marketing copy.

22

Chain-of-Thought CoT

Prompting a model to reason step by step before giving its final answer.

WHY IT MATTERS

Improves accuracy on anything involving logic or math — useful when you need the AI to show its work, not just guess.

23

Reasoning Model

A newer class of model that spends extra time “thinking” through a problem before answering, trading speed for accuracy.

WHY IT MATTERS

Worth the slower response and higher cost for complex tasks like analysis, planning, or debugging — overkill for simple drafting.

24

Few-Shot / In-Context Learning

Giving a model a handful of examples inside the prompt so it follows the pattern you want — no retraining required.

WHY IT MATTERS

The easiest way to customize output: show 2–3 examples of a great reply and the AI will match your style.

The 2026 frontier: AI that doesn't just answer — it does.

25

AI Agent

An AI system that can take actions to accomplish a goal — browsing the web, running code, calling other software, and completing multi-step tasks.

WHY IT MATTERS

Moves AI from “tell me how” to “just do it.” Examples: triaging your inbox, researching and drafting a report, or updating records.

26

Agentic AI

AI systems that work autonomously toward goals, making decisions and chaining steps together rather than waiting for each instruction.

WHY IT MATTERS

The biggest shift of 2025–2026. For SMBs it promises to automate whole workflows, not just single tasks — but needs oversight.

27

Tool Calling / Function Calling

An AI's ability to use external tools — search, a calculator, your CRM, a calendar — by calling them as functions.

WHY IT MATTERS

What lets an assistant actually book the meeting or pull a real number, instead of just talking about it.

28

Model Context Protocol MCP

An open standard that lets AI assistants securely connect to your apps and data sources through a common “plug.”

WHY IT MATTERS

Increasingly how AI tools hook into systems like Slack, Google Drive, or your database without custom integration work for each one.

29

Orchestration

Coordinating multiple AI steps, models, or agents so they work together in a reliable sequence.

WHY IT MATTERS

The plumbing behind a dependable automation — e.g., read email → classify → draft reply → wait for human approval → send.

30

Human-in-the-Loop HITL

A setup where AI does the work but pauses for a person to review or approve before key actions happen.

WHY IT MATTERS

Your safety net. Keep a human checkpoint on anything customer-facing, financial, or legal until you trust the system.

31

Copilot / AI Assistant

An AI that works alongside a person inside their existing tools, suggesting and helping rather than acting fully on its own.

WHY IT MATTERS

The lowest-risk entry point — boosts an employee's output (writing, coding, spreadsheets) while they stay in control.

32

Workflow Automation

Using software (increasingly AI-driven) to run repetitive, multi-step business processes with little manual effort.

WHY IT MATTERS

Where AI pays off fastest for SMBs: invoice processing, lead follow-up, scheduling, and data entry.

How to make generic AI actually know your business.

33

Retrieval-Augmented Generation RAG

A technique that lets an AI look up relevant information from your own documents before answering, instead of relying only on its training.

WHY IT MATTERS

The practical way to build a chatbot that answers from your handbook, product docs, or policies — accurately and with sources.

34

Fine-Tuning

Further training an existing model on your specific examples so it specializes in your tasks, tone, or domain.

WHY IT MATTERS

Useful when prompting and RAG aren't enough. More effort and cost than RAG, so most SMBs should try the simpler options first.

35

Vector Database

A database that stores embeddings so AI can find information by meaning, not just exact keywords.

WHY IT MATTERS

The storage layer behind RAG and smart search — it's what makes "find me something like this" possible.

36

Knowledge Base

The curated collection of documents and facts an AI draws on to answer questions about your business.

WHY IT MATTERS

Your AI is only as good as this. Keeping it current and well-organized is an ongoing, high-value task.

37

Grounding

Tying an AI's answers to verified, real sources so responses are accurate and traceable.

WHY IT MATTERS

What separates a trustworthy assistant from one that confidently makes things up. Ask vendors how they ground answers.

38

Application Programming Interface API

A standard way for software systems to talk to each other and exchange data or services.

WHY IT MATTERS

How AI features get wired into the tools you already use. "Is there an API?" is a key question when evaluating any software.

39

Chatbot

A program that converses with users in natural language, today usually powered by an LLM.

WHY IT MATTERS

Common first deployment for SMBs — customer support, FAQs, lead capture — available 24/7 at low marginal cost.

40

Structured vs. Unstructured Data

Structured data is neatly organized (spreadsheets, databases); unstructured data is free-form (emails, PDFs, images, calls).

WHY IT MATTERS

Modern AI's superpower is finally making unstructured data — the 80% you couldn't easily analyze — useful.

Where AI creates value — and what to watch out for.

41

Predictive AI

AI that analyzes historical data to forecast future outcomes.

WHY IT MATTERS

Practical SMB uses: predicting which customers might churn, demand for inventory, or which leads are worth chasing.

42

Sentiment Analysis

Using AI to detect the emotional tone behind text — positive, negative, or neutral.

WHY IT MATTERS

Monitor reviews, support tickets, and social mentions at scale to catch unhappy customers and protect your reputation.

43

Computer Vision

AI that interprets images and video — recognizing objects, reading text, or detecting defects.

WHY IT MATTERS

Powers receipt scanning, inventory counting, quality inspection, and security monitoring without manual review.

44

Hallucination

When an AI states false information confidently as if it were fact.

WHY IT MATTERS

The #1 risk of using AI unchecked. Always verify AI output in customer-facing, financial, or legal contexts.

45

Bias

Systematic unfairness in AI outputs, usually inherited from skewed or unrepresentative training data.

WHY IT MATTERS

Can create legal and reputational risk in hiring, lending, or pricing. Review AI-assisted decisions that affect people.

46

Guardrails

Rules and filters that keep an AI's behavior within safe, approved boundaries.

WHY IT MATTERS

Stop your assistant from giving disallowed advice, leaking data, or going off-brand. Essential before customer-facing deployment.

47

AI Governance

The policies and oversight that ensure AI is used responsibly, legally, and in line with company values.

WHY IT MATTERS

Even a small team benefits from a simple written policy: approved tools, what data can be shared, and who's accountable.

49

Prompt Injection

An attack where hidden malicious instructions trick an AI into ignoring its rules or leaking information.

WHY IT MATTERS

A real security concern for any AI connected to your data or the web — ask vendors how they defend against it.

48

Data Privacy

Protecting personal and confidential information, including how it's handled when sent to AI tools.

WHY IT MATTERS

Know whether a vendor trains on your inputs. Sharing customer or proprietary data with the wrong tool can breach regulations like GDPR.

50

Shadow AI

Employees using unapproved AI tools at work without oversight.

WHY IT MATTERS

Common and risky — staff may paste sensitive data into free tools. A clear, sanctioned tool list reduces the temptation.