

Feasibility report; Planning, resource mobilisation and implementation



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Feasibility Analysis

- Feasibility analysis is the process of determining whether a business idea is viable.

Benefits of Feasibility Analysis

A feasibility analysis helps you

- To assess the merit of your business idea,
- Determine whether there is a market for your idea,
- Whether the idea is financially viable,
- and ultimately, whether or not it is worth investing your time and money into the venture,
- Overall demand for new products, services, or ideas
- Characteristics of likely customers (such as demographics and buying behavior)
- Characteristics of likely competitors

When To Conduct a Feasibility Analysis

Timing of Feasibility Analysis

- The proper time to conduct a feasibility analysis is early in thinking through the prospects for a new business.
- The thought is to screen ideas before a lot of resources are spent on them

Conti....

It is estimated that only one in fifty business ideas are actually commercially viable. Therefore a business feasibility study is an effective way to safeguard against wastage of further investment

The research and information uncovered in the feasibility study will support the business planning stage and reduce the research time. Hence the cost of the business plan will also be reduced

Components of a Feasibility Analysis

Product/Service Feasibility

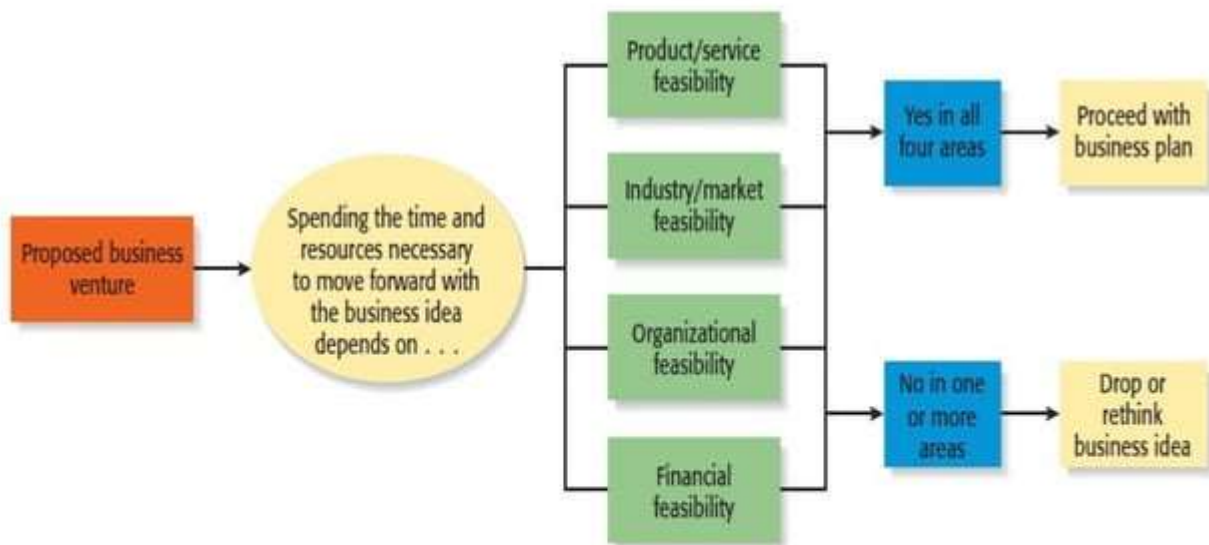
Industry/Target Market
Feasibility

Organizational Feasibility

Financial Feasibility

Feasibility Analysis

Role of feasibility analysis in developing business ideas.



Outline for a Comprehensive Feasibility Analysis

Table 3.1 FEASIBILITY ANALYSIS

Part 1: Product/Service Feasibility

- A. Product/service desirability
- B. Product/service demand

Part 2: Industry/Target Market Feasibility

- A. Industry attractiveness
- B. Target market attractiveness

Part 3: Organizational Feasibility

- A. Management prowess
- B. Resource sufficiency

Part 4: Financial Feasibility

- A. Total start-up cash needed
 - B. Financial performance of similar businesses
 - C. Overall financial attractiveness of the proposed venture
- Overall Assessment

Product/Service Feasibility Analysis

Components of product/service feasibility analysis

Product/Service
Desirability

Product/Service
Demand

1.1- Product/Service Desirability

First, ask the following questions to determine the basic appeal of the product or service.

- Does it make sense? Is it something consumers will get excited about?
- Does it take advantage of an environmental trend, solve a problem, or take advantage of a gap in the marketplace?
- Is this a good time to introduce the product or service to the market?
- Are there any fatal flaws in the product or service's basic design or concept?

Second, Develop/Administer a Concept Test

- A concept statement should be developed.
- A concept statement is a one page description of a business, that is distributed to people who are asked to provide feedback on the potential of the business idea.
- The feedback will hopefully provide the entrepreneur
 - A sense of the viability or the product or service idea.
 - Suggestions for how the idea can be strengthened or “twisted” before proceeding further.

Primary Research Techniques

Customer survey and questionnaires

Focus group discussions

Product/Service Demand

Product/Service Demand

- Through primary and secondary research
- Step 1: Administer a Buying Intentions Survey, focus group etc
- Step 2: Conduct library, Internet research, used local data etc

PRIMARY RESEARCH TECHNIQUES

PROTOTYPE

-"AN ORIGINAL, FUNCTIONAL MODEL OF A NEW PRODUCT THAT ENTREPRENEURS CAN PUT INTO THE HANDS OF POTENTIAL CUSTOMERS SO THEY CAN SEE IT, TEST IT, & USE IT."



Gumshoe Research

Explanation

- A gumshoe is a detective or an investigator that scrounges around for information or clues wherever they can be found.
- Be a gumshoe. Ask people what they think about your product or service idea. If your idea is to sell educational toys, spend a week volunteering at a day care center and watch how children interact with toys.

SECONDARY RESEARCH SOURCES

- TRADE ASSOCIATIONS & BUSINESS DIRECTORIES
- DIRECT MAIL LISTS
- DEMOGRAPHIC DATA
- CENSUS DATA
- FORECASTS
- MARKET RESEARCH
- ARTICLES
- LOCAL DATA
- WORLD WIDE WEB

2.0 Industry/Target Market Feasibility Analysis

Industry/Target Market Feasibility Analysis

Purpose

- Is an assessment of the overall appeal of the industry and the target market for the proposed business.
- An industry is a group of firms producing a similar product or service.
- A firm's target market is the limited portion of the industry it plans to go after.

Industry/Target Market Feasibility Analysis

Components of industry/target market feasibility analysis

Industry Attractiveness

Target Market Attractiveness

2.1. Assessing Industry Attractiveness



2.2. Target Market Attractiveness

Target Market Attractiveness

- The challenge in identifying an attractive target market is to find a market that's large enough for the proposed business but is yet small enough to avoid attracting larger competitors.
- Assessing the attractiveness of a target market is tougher than an entire industry.

3.0. Organizational Feasibility Analysis

Organizational Feasibility Analysis

Purpose

- Is conducted to determine whether a proposed business has sufficient management expertise, organizational competence, and resources to successfully launch a business.
- Focuses on non-financial resources.

Organizational Feasibility Analysis

Components of organizational feasibility analysis

Management Prowess

Resource Sufficiency

3.1. Management Prowess

Management Prowess

- A firm should candidly evaluate the prowess, or ability, of its management team to satisfy itself that management has the requisite passion and expertise to launch the venture.
- Two of the most important factors in this area are:
 - The passion that the solo entrepreneur or the founding team has for the business idea.
 - The extent to which sole entrepreneur or the founding team understands the markets in which the firm will participate.

3.2. Resource Sufficiency

Resource Sufficiency

- An assessment of whether an entrepreneur has sufficient non financial resources to launch the proposed business.

Resource Sufficiency

—Examples of nonfinancial resources that may be critical—
to the successful launch of a new business

- Availability of factory/ lab space for business.
- Local and state government support of the business.
- Quality of the labor pool available.
- Closeness to key suppliers and customers.
- Willingness of high quality employees to join the firm.
- Proximity to similar firms for the purpose of sharing knowledge.
- Possibility of obtaining intellectual property protection in key areas.

4.0. Financial Feasibility Analysis

Financial Feasibility Analysis

Purpose

- Is the final component of a comprehensive feasibility analysis.
- A preliminary financial assessment is sufficient.

Financial Feasibility Analysis

Components of financial feasibility analysis

Total Start-Up Cash Needed

Financial Performance of Similar Businesses

Overall Financial Attractiveness of the Proposed Venture

4.1. Total Start-Up Cash Needed

Total Start-Up Cash Needed

- The first issues refers to the the total cash needed to prepare the business to make its first sale.
- An actual budget should be prepared that lists all the anticipated capital purchases and operating expenses needed to generate the first \$1 in revenues.
- The point of this exercise is to determine if the proposed venture is realistic given the total start-up cash needed.

4.2. Financial Performance of Similar Businesses

Financial Performance of Similar Businesses

- Estimate the proposed start-up's financial performance by comparing it to similar, already established businesses.
- There are several ways to doing this, all of which involve a little ethical detective work.
 - First, there are many reports available, some for free and some that require a fee, offering detailed industry trend analysis and reports on thousands of individual firms.
 - Second, simple observational research may be needed. For example, the owners of New Venture Fitness Drinks could estimate their sales by tracking the number of people who patronize similar restaurants and estimating the average amount each customer spends.

4.3. Overall Financial Attractiveness of the Proposed Venture

Overall Financial Attractiveness of the Proposed Investment

- A number of other financial factors are associated with promising business startups.
- In the feasibility analysis stage, the extent to which a business opportunity is positive relative to each factor is based on an estimate rather than actual performance.
- The table on the next slide lists the factors that pertain to the overall attractiveness of the financial feasibility of the business idea.

Overall Financial Attractiveness of the Proposed Venture

Financial Factors Associated With Promising Business Opportunities

- Steady and rapid growth in sales during the first 5 to 7 years in a clearly defined market niche.
- High percentage of recurring revenue—meaning that once a firm wins a client, the client will provide recurring sources of revenue.
- Ability to forecast income and expenses with a reasonable degree of certainty.
- Internally generated funds to finance and sustain growth.
- Availability of an exit opportunity for investors to convert equity to cash.