



Chapter 3

Feasibility Analysis

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Chapter Objectives

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1. Explain what a feasibility analysis is and why it's important.
2. Discuss the proper time to complete a feasibility analysis when developing an entrepreneurial venture.
3. Describe the purpose of a product/service feasibility analysis and the two primary issues that a proposed business should consider in this area.
4. Explain a concept statement and its components.
5. Describe the purpose of a buying intentions survey and how it's administered.

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Chapter Objectives

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6. Explain the importance of library, Internet, and gumshoe research.
7. Describe the purpose of industry/market feasibility analysis and the two primary issues to consider in this area.
8. Discuss the characteristics of an attractive industry.
9. Describe the purpose of organizational feasibility analysis and list the two primary issues to consider in this area.

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Chapter Objectives

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10. Explain the importance of financial feasibility analysis and list the most critical issues to consider in this area.

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What Is Feasibility Analysis?

Feasibility Analysis

- Feasibility analysis is the process of determining whether a business idea is viable.
- It is the preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing.

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When To Conduct a Feasibility Analysis

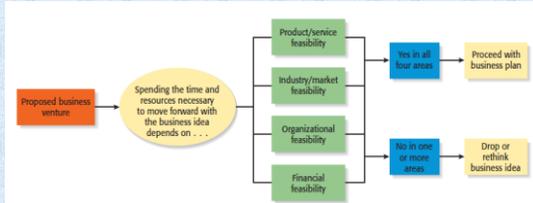
- **Timing of Feasibility Analysis**
 - The proper time to conduct a feasibility analysis is early in thinking through the prospects for a new business.
 - The thought is to screen ideas before a lot of resources are spent on them.
- **Components of a Properly Conducted Feasibility Analysis**
 - A properly conducted feasibility analysis includes four separate components, as discussed in the following slides.

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Feasibility Analysis

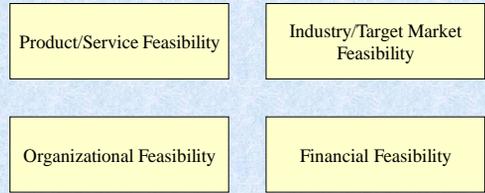
Role of feasibility analysis in developing business ideas.



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Forms of Feasibility Analysis



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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

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Product/Service Feasibility Analysis

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Product/Service Feasibility Analysis

Purpose

- Is an assessment of the overall appeal of the product or service being proposed.
- Before a prospective firm rushes a new product or service into development, it should be sure that the product or service is what prospective customers want.

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Product/Service Feasibility Analysis

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Components of product/service feasibility analysis



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Product/Service Desirability

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

- Does it make sense? Is it reasonable? 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?

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Product/Service Desirability

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- Second, 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 of the product or service idea.
 - Suggestions for how the idea can be strengthened or “tweaked” before proceeding further.

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Product/Service Desirability

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New Venture Fitness Drink's Concept Statement

New Business Concept New Venture Fitness Drinks Inc.

Product
New Venture Fitness Drinks will sell delicious, nutrition-filled, all-natural fitness drinks to fitness sports enthusiasts. The drinks will be sold through small supermarkets (500-sq-ft) that will be the same size as popular smoother restaurants. The drinks were formulated by Dr. William Fritzen, a world-renowned nutritionist, and Dr. Michelle Smith, a sports medicine specialist, on behalf of New Venture Fitness Drinks and its customers.

Target Market
In the first three years of operation, New Venture Fitness Drinks plans to open three or four restaurants. They will all be located near large sports complexes that contain soccer fields and artificial diamonds. The target market is sports enthusiasts.

Why New Venture Fitness Drinks?
The industry for sports drinks continues to grow. New Venture Fitness Drinks will introduce exciting new sports drinks that will be great between 11:00 and 12:00 pm. It's a nice serving. Energy bars and other over-the-counter sports snacks will also be sold. Each restaurant will contain comfortable tables and chairs (both inside and outside) where sports enthusiasts can congregate after a game. The atmosphere will be fun, cheerful, and uplifting.

Special Feature—No Other Restaurant Does This
As a special feature, New Venture Fitness Drinks will videotape select sporting events that take place in the sports complexes nearest its restaurants and will replay highlights of the games on video monitors in their restaurants. The “highlight” film will be a 30-minute film that will play continuously from the previous day's sporting events. This special feature will allow sports enthusiasts, from kids playing soccer to adults in softball leagues, to drop in and see themselves and their teammates on television.

Management Team
New Venture Fitness Drink is led by its cofounders, Jack Petty and Peggy Mills. Jack has 15 years of experience with a national restaurant chain, and Peggy is a certified public accountant with seven years of experience at a Big 4 accounting firm.

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Product/Service Demand

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- Product/Service Demand
 - There are two steps to assessing product/service demand.
 - Step 1: Administer a Buying Intentions Survey
 - Step 2: Conduct Library, Internet, and Gumshoe research

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Product/Service Demand

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- Buying Intentions Survey
 - Is an instrument that is used to gauge customer interest in a product or service.
 - It consists of a concept statement or a similar description of a product or survey with a short survey attached to gauge customer interest.
 - Internet sites like SurveyMonkey make administering a buying intentions survey easy and affordable.

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Product/Service Demand

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Table 3.3 BUYING INTENTIONS SURVEY

Distributed to a different group of people than those who completed the initial concept statement test

How likely would you be to buy the product or service described above, if we make it?

- ___ Definitely would buy
- ___ Probably would buy
- ___ Might or might not buy
- ___ Probably would not buy
- ___ Definitely would not buy

Additional questions that are sometimes included in the survey:

How much would you be willing to pay for the product or service?

Where would you expect to find this product or service for sale?

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Product/Service Demand

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- Library, Internet, and Gumshoe Research
 - The second way to assess the demand for a product or service is by conducting library, Internet, and gumshoe research.
 - Reference librarians can often point you toward resources to help you investigate a business idea, such as industry-specific trade journals and industry reports.
 - Internet searches can often yield important information about the potential viability of a product or service idea.

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Product/Service Demand

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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.

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Product/Service Demand

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- One of the most effective things an entrepreneur can do to conduct a thorough product/service feasibility analysis is to hit the streets and talk to potential customers.



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Industry/Target Market Feasibility Analysis

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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.

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Industry/Target Market Feasibility Analysis

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Components of industry/target market feasibility analysis

Industry Attractiveness

Target Market Attractiveness

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Industry Attractiveness

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- Industry Attractiveness
 - Industries vary in terms of their overall attractiveness.
 - In general, the most attractive industries have the characteristics depicted on the next slide.
 - Particularly important—the degree to which environmental and business trends are moving in favor rather than against the industry.

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Industry Attractiveness

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Characteristics of Attractive Industries

- Are young rather than old
- Are early rather than late in their life cycle
- Are fragmented rather than concentrated
- Are growing rather than shrinking
- Are selling products and services that customers “must have” rather than “want to have”
- Are not crowded
- Have high rather than low operating margins
- Are not highly dependent on the historically low price of key raw materials

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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.
 - Often, considerable ingenuity must be employed to find information to assess the attractiveness of a specific target market.

Organizational Feasibility Analysis

1 of 2

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

2 of 2

Components of organizational feasibility analysis

Management Prowess

Resource Sufficiency

Management Prowess

- Management Prowess
 - A proposed business 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 sole entrepreneur or the founding team has for the business idea.
 - The extent to which the sole entrepreneur or the founding team understands the markets in which the firm will participate.

Resource Sufficiency

1 of 2

- Resource Sufficiency
 - This topic pertains to an assessment of whether an entrepreneur has sufficient resources to launch the proposed venture.
 - To test resource sufficiency, a firm should list the 6 to 12 most critical nonfinancial resources that will be needed to move the business idea forward successfully.
 - If critical resources are not available in certain areas, it may be impractical to proceed with the business idea.

Resource Sufficiency

2 of 2

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

- Affordable office space
- Lab space, manufacturing space, or space to launch a service business
- Availability of contract manufacturers or service providers
- Key management employees (now and in the future)
- Key support personnel (now and in the future)
- Ability to obtain intellectual property protection
- Ability to form favorable business partnerships

Financial Feasibility Analysis

1 of 2

Financial Feasibility Analysis

Purpose

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

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Financial Feasibility Analysis

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Components of financial feasibility analysis

Total Start-Up Cash Needed

Financial Performance of Similar Businesses

Overall Financial Attractiveness of the Proposed Venture

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Total Start-Up Cash Needed

- Total Start-Up Cash Needed
 - The first issue refers to 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.

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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.

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Overall Financial Attractiveness of the Proposed Venture

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- Overall Financial Attractiveness of the Proposed Investment
 - A number of other financial factors are associated with promising business start-ups.
 - 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.

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Overall Financial Attractiveness of the Proposed Venture

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Financial Factors Associated With Promising Business Opportunities

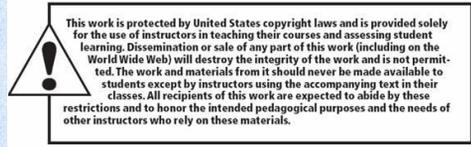
- Steady and rapid growth in sales during the first 5 to 7 years in a clearly defined market niche
- High percentage of recurring revenue—meaning that once a firm wins a client, the client will provide recurring sources of revenue
- Ability to forecast income and expenses with a reasonable degree of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

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First Screen

- First Screen
 - Shown in Appendix 3.1 is a template for completing a feasibility analysis.
 - It's called "First Screen" because it's a tool that can be used in the initial pass at determining the feasibility of a business idea.
 - If a business idea cuts muster at this stage, the next step is to complete a business plan.



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