

Entrepreneurship

BBA/BS & MBA

Feasibility Analysis

Module 3

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Chapter Objectives

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1. Explain what a feasibility analysis is and why it's important.
2. Describe a product/service feasibility analysis, explain its purpose, and discuss the two primary issues that a proposed business should consider in this area.
3. Describe an industry/market feasibility analysis, explain its purpose, and discuss the two primary issues to consider when completing this analysis.

Chapter Objectives

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4. Explain what an organizational feasibility analysis is and its purpose and discuss the two primary issues to consider when completing this analysis.
5. Describe what a financial feasibility analysis is, explain its importance, and discuss the most critical issues to consider when completing this analysis.
6. Describe a feasibility analysis template and explain when it is important for entrepreneurs to use this template.

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.

Examples of the feasibility study can be observed in our day to day life.

- When a housewife inspects the quality of the product she is purchasing from a grocery store, she is actually doing a material quality feasibility test.
- The farmer in order to eliminate the use of pesticides studies the operational and economic feasibility of organic methods of farming and its consequences on the output and quality of the crop.
- Due to increasing fuel rates and air pollution, a team of young entrepreneurs in order to launch an electric vehicle performs technical, resource and economic feasibility tests.

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.

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11.3 Conducting a Feasibility Analysis

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11.1 Avoiding the “Field of Dreams” Approach

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Suggested Resources

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LEARNING OBJECTIVES

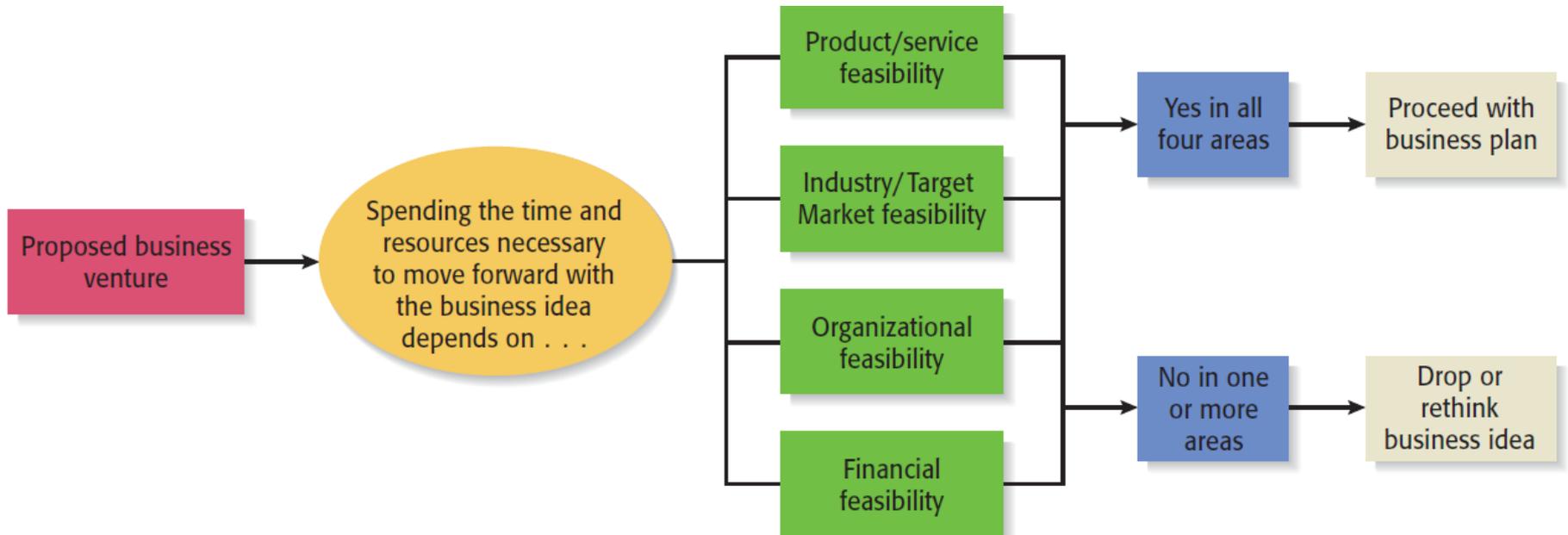
By the end of this section, you will be able to:

- Describe the purpose of a feasibility analysis
- Describe and develop the parts of a feasibility analysis
- Understand how to apply feasibility outcomes to a new venture

As the name suggests, a **feasibility analysis** is designed to assess whether your entrepreneurial endeavor is, in fact, feasible or possible. By evaluating your management team, assessing the market for your concept, estimating financial viability, and identifying potential pitfalls, you can make an informed choice about the achievability of your entrepreneurial endeavor. A feasibility analysis is largely numbers driven and can be far more in depth than a business plan (discussed in [The Business Plan](#)). It ultimately tests the viability of an idea, a project, or a new business. A feasibility study may become the basis for the business plan, which outlines the action steps necessary to take a proposal from ideation to realization. A feasibility study allows a business to address where and how it will

Feasibility Analysis

Role of feasibility analysis in developing business ideas.



Forms of Feasibility Analysis

Product/Service Feasibility

Industry/Target Market
Feasibility

Organizational Feasibility

Financial Feasibility

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

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.

Product/Service Feasibility Analysis

Components of product/service
feasibility analysis

Product/Service
Desirability

Product/Service
Demand

Product/Service Desirability

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?

Product/Service Desirability

- 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.

Product/Service Desirability

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 thirsty sports enthusiasts. The drinks will be sold through small storefronts (600 sq. ft.) that will be the same size as popular smoothie restaurants. The drinks were formulated by Dr. William Peters, 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 softball 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 priced between \$1.50 and \$2.50 per 16-ounce 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 Wills. Jack has 16 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.

Product/Service Demand

- Product/Service Demand
 - There are two steps to assessing product/service demand.
 - Step 1: Talking Face-to-Face with Potential Customers.
 - Step 2: Using Online Tools, Such as Google AdWords and Landing Pages, To Assess Demand.

Product/Service Demand

- 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.



Product/Service Demand

- Talking Face-to-Face with Potential Customers
 - The only way to know if your product or service is what people want is by talking to them.
 - The idea is to gauge customer reaction to the general concept of what you want to sell, and tweak, revise, and improve on the idea based on the feedback.
 - In some cases, talking with potential customers will cause an entrepreneur to abandon an idea.
 - Entrepreneurs are often surprised to find that a product idea they think solves a problem gets lukewarm reception when they talk to actual customers.

Product/Service Demand

- Utilizing Online Tools, Such as Google AdWords and Landing Pages, to Assess Demand
 - The second way to assess demand is to utilize online tools to gauge reaction from potential customers.
 - Some entrepreneurs purchase text ads on search engines that show up when a user is searching for a product that is close to their idea. If the searcher clicks on the text ad, they are directed to a landing page that describes the idea. There may be a link on the landing page that says “For future updates please enter your e-mail address.” Demand for the idea can be assessed by how many people click on the text ad and enter their e-mail address.

Product/Service Demand

- Utilizing Online Tools, Such as Google AdWords and Landing Pages, to Assess Demand (continued)
 - A variety of additional online tools are available to help assess the demand for a new product or service.
 - Examples include:
 - Sites that provide feedback on business ideas (Foundersuite, Quirky).
 - Market Research (CrowdPicker, Google Trends).
 - Online Surveys (Survey Monkey, Google Consumer Surveys).
 - Q&A Sites (Quora, Stack Overflow).

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

Industry Attractiveness

- 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.

Industry Attractiveness

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.

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

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

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

- 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

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

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

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.

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.

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 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.

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.