

FEASIBILITY STUDIES

LEARNING OBJECTIVES

1. To explain what is feasibility study
2. To describe the purpose of conducting the feasibility study
3. To identify and explain the components of feasibility study

INTRODUCTION

- Preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is viable or worth pursuing.
- Takes the guesswork out of the business launch and provides an entrepreneur with a more secure notion that a business idea is feasible or viable.
- Conducted to determine the viability of an idea before proceeding with the development of the business.

Feasibility Study

- Involves gathering, analyzing and evaluating information with the purpose of answering the question: "Should I go into this business?"
- Conducting a feasibility study before you write your blueprint can help you determine whether or not your idea has true potential to develop into a profitable business. Taking this simple step could save you a lot of time, money and frustration.
- Is the outcome of the evaluation of opportunity to identify whether the business idea is feasible or not.

Feasible / Viable Business??

- ☐ Generate adequate cash flow and profits
- ☐ Withstand the risks it will encounter
- ☐ Remain viable in the long term
- ☐ Meet the goals of the founders

PURPOSE

- Examination of all issues and assessment of probability of business success
- Give focus to the project and outline alternatives
- Narrow business alternatives
- Surface new opportunities through the investigative process
- Identify reasons NOT to proceed
- Provide quality information for decision making
- Enhancing probabilities of success
- To secure funding

Composition Feasibility Study

Market (product)

Organisational (manpower)

Technical (technology use)

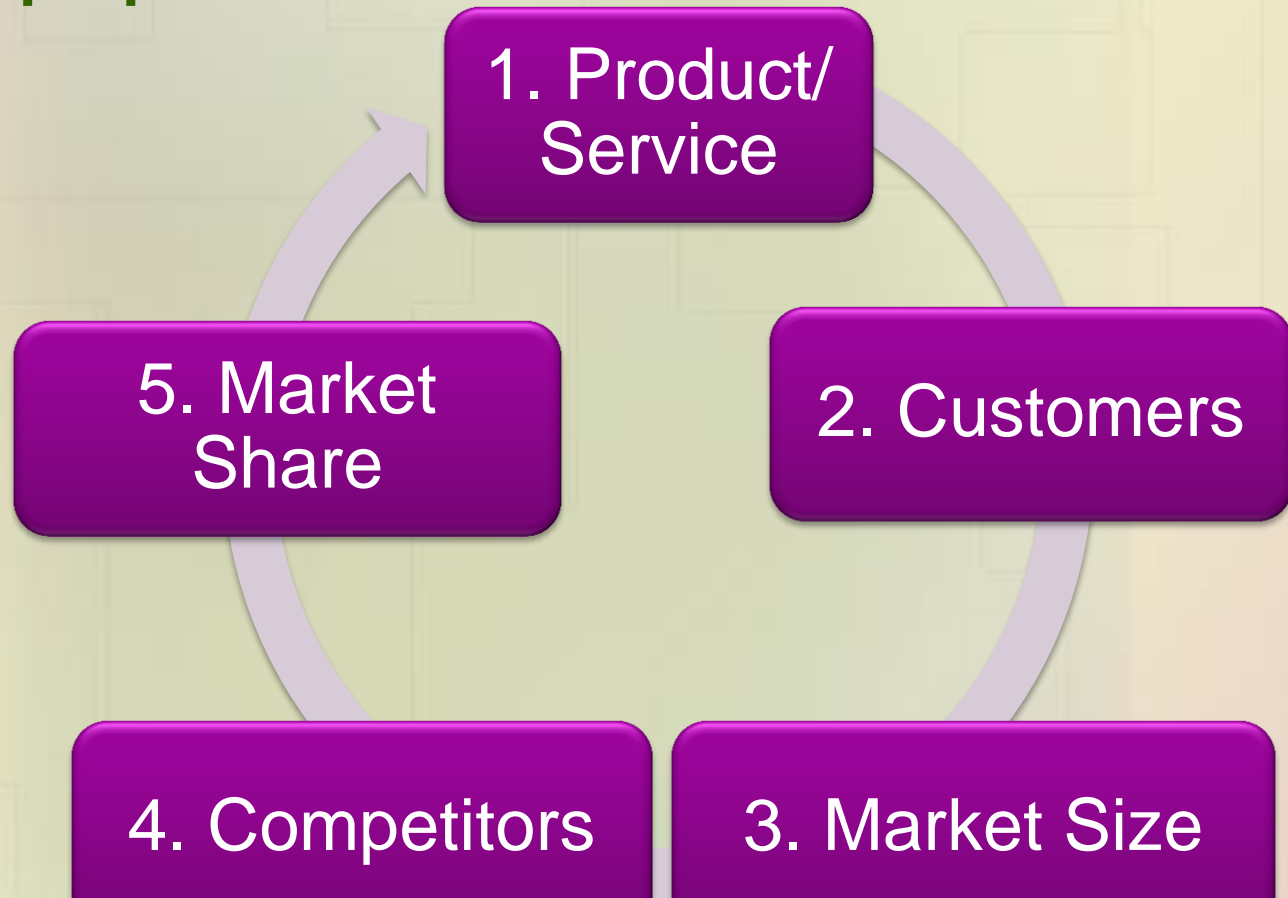
Financial (cost)

Information Provided

<ul style="list-style-type: none">• Is there a demand for the product?• Who else are producing similar products?	<p>Determination of market opportunities and risks</p> <p>MARKET FEASIBILITY</p>
<ul style="list-style-type: none">• What is needed to make the product?• What are the equipment and technology needs for the proposed venture?	<p>Analysis of the technical feasibility of the product</p> <p>TECHNICAL FEASIBILITY</p>
<ul style="list-style-type: none">• Who will manage the business?• What managerial requirements are needed?	<p>Analysis of organizational capabilities and personnel requirements</p> <p>ORGANISATIONAL FEASIBILITY</p>
<ul style="list-style-type: none">• What is the cost of producing the product?• What is the likely profit?	<p>Analysis of financial feasibility and resources</p>

Market Feasibility

Assessment of the overall appeal of the market for the product or service being proposed.



a. Product/Service

- Product = Anything offered to a market for attention, acquisition, use, or consumption that might satisfy a need or want.
- Service = Any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.
- Before any product/service enter the market it should meet the prospective customers needs and wants.
- Done by study customers – feedback, comments, survey, observation.



b. Customer

- Individuals and households, business organizations local as well as international and government organizations that buy product and services for consumption.
- Target market defined as group of customers with needs and wants that can be satisfied by the business through the supply of product/service.
- Segmented/ broken down based on different criteria or factors such as age, marital status, geographical areas, lifestyle, hobby, and interest.
- The purpose of market segmentation is to enable the business to satisfy the needs and wants of the consumers it has selected with the limited resources the business has.

c. Market Demand

- Total potential purchase expected from the target market expressed in units or Ringgit.
- Is critical in determining the viability of a proposed product or service.
- Calculated based on the following factors:
 - Population of the target market
 - Number of houses in the target market
 - Competitors' sales

d. Competitors

- Other businesses that provide similar, substitute or alternative product/service to the same market segment.
- Businesses need to identify competitors as affect immensely on the success of the business product/service that enter the market.
- Who are their competitors are as well as their strengths and weaknesses.

e. Market Share

- Market share refers to the portion of the market that the business can control after taking into consideration market demand and the competitors' position in the same market.
- Normally market share is stated in the form of a percentage of total market demand

Technical Feasibility

Concerned with determining whether business has necessary technology & equipment to produce the intended product/service



a. Technology & Equipment

- Business should identify the type of technology & equipment to be used for the proposed business venture.
- Need to know whether the technology & is accessible for their business ventures/ transferable.
- Also determine the costs of technology and equipment in determining the feasibility of the venture.
- The ability to obtain the technology and equipment will affect the start-up timeline.

b. Materials

- The business should identify the types, quantity, and quality of raw materials required.
- A list of suppliers for the raw materials needs to be identified and contractual arrangements with the suppliers need to be made to ensure the organization has uninterrupted supply.
- The cost of the raw materials should also be satisfactory and within the budget

c. Manpower

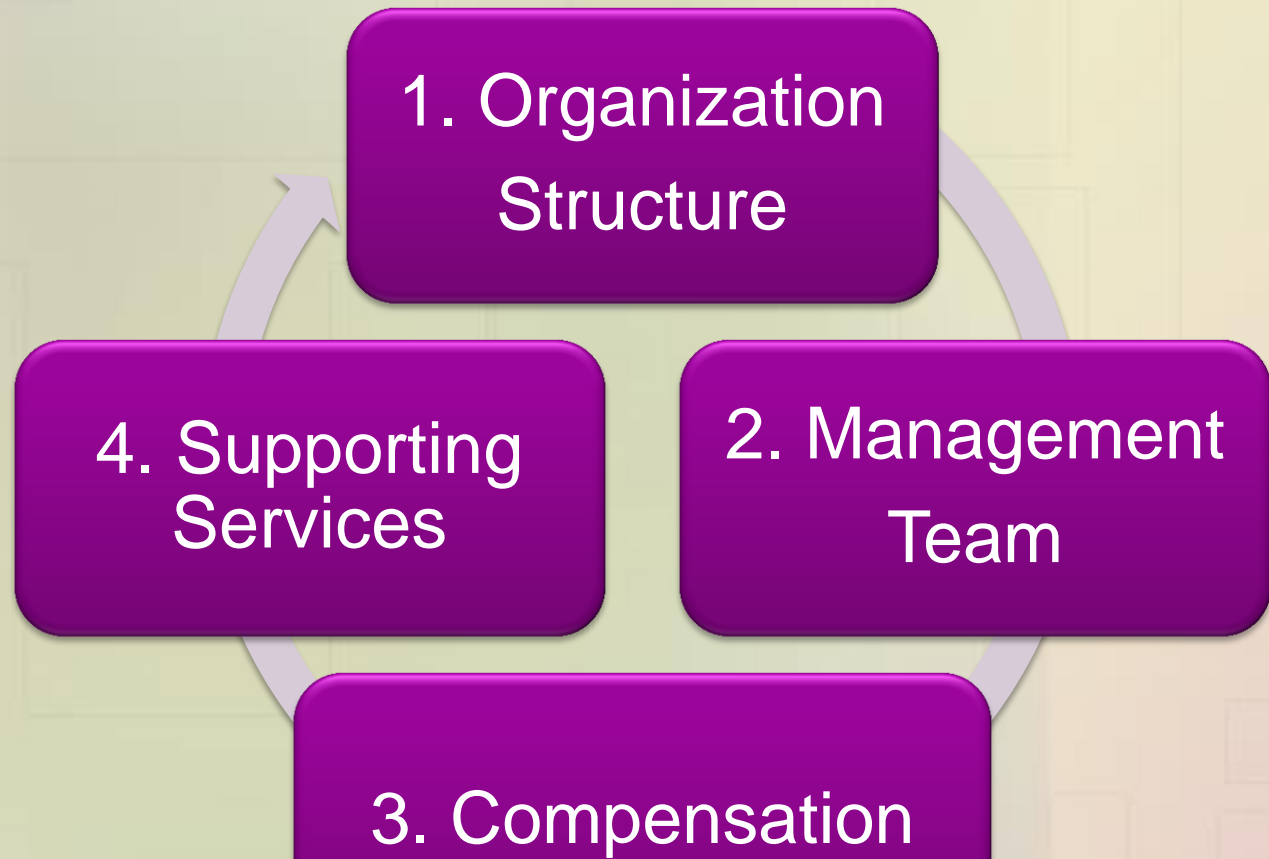
- The organization has to identify the technical workers required in producing the product/service.
- These technical workers need to have the appropriate skills and qualifications in line with the requirement of the venture.
- The organization should also determine the number of technical workers (full and part time) needed to support the production level.

d. Location

- Location refers to the place where the proposed business or project is likely to be set up.
- There are various factors the business needs to consider in selecting the appropriate location such as the location should be such as being
 - near to the intended market or customers
 - near to the suppliers of raw materials
 - near to the major infrastructure

Organizational Feasibility

Determining whether business has necessary and sufficient human resource to bring a product/service idea to market successfully



a. Organization Structure

- Organization structure identifies responsibilities for each job position and the relationship among those positions.
- Must form the right organizational structure in order to facilitate the accomplishment of the organization goals and missions

b. Management Team

- A group of individuals responsible to bring a product/service idea to market successfully
- The organization should evaluate the prowess or ability of its management team to satisfy itself that management has the requisite passion and expertise to launch the venture.
- Thus it is necessary to identify the types of positions needed as well as the qualifications and experiences required to fill those positions.

c. Compensation

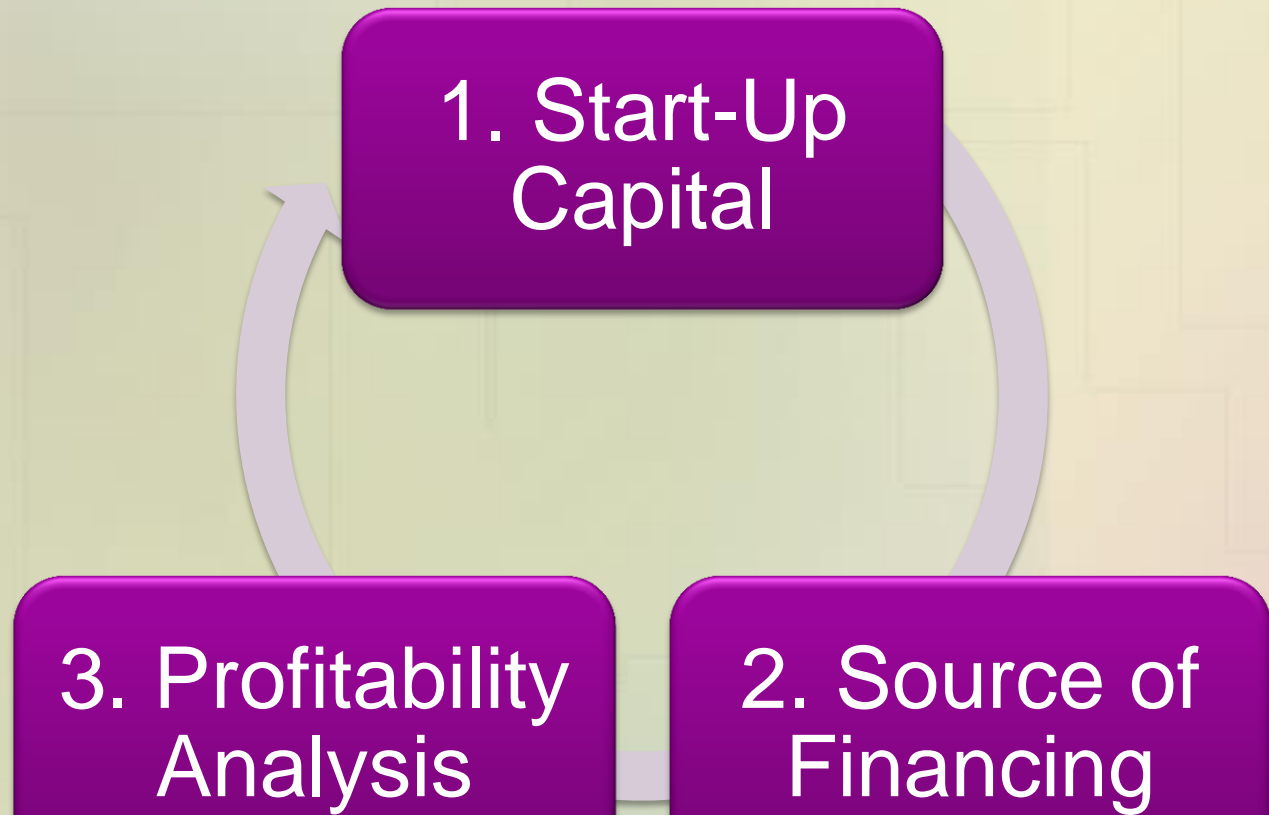
- Monetary and non-monetary rewards in various form of pay which include salary, wages, sales commission, allowances, bonus, EPF and SOCSO contributions.
- The organization should determine the types of compensation and amount that should be rewarded to their potential staffs.
- Any types of incentive such as ownership plan should also be considered to entice potential employees.

d. Supporting Services

- Assistance and services given by private agencies and government.
- The organization should identify the appropriate types of supporting services to launch the intended product/service.
- Such as advertisement, legal/ attorney or professional public accountant will definitely assist in bringing the product/service successfully to the market.

Assessment on the financial aspect of the business

Financial Feasibility



a. Start-up Capital

- The first stage in financial feasibility study is to determine the amount of start up capital required to run the venture.
- Start-up capital refers to the total cash (cost) required to start the business.
- Cost here refers to the total costs (short & long-term costs) needed to implement the proposed business/project.
- Include the cost for the purchase of non current assets, working capital, development costs and other expenses.
- **Non current assets** are assets that are purchased and used as long as the business is in existence. Their life span are more than one year such as furniture and fittings, machineries, equipment, renovation, etc.



- **Working capital** also known as current assets refer to business assets which have life span less than a year. Example of current assets are cash, stocks or inventories which include raw materials, finished goods.
- **Other expenses** will include costs or expenses that are non recurring or one time cost. Example of other expenses will include registration fees, business licenses, insurance.
- It is advisable for the business to estimate the start up cost capital required until revenue are realized at full capacity.
- It is also suggested that it is better to overestimate rather than underestimate the cost involved

b. Financing Sources

- Identify the sources of fund to finance the start up capital.
- Sources of finance refer to the source where long-term fund to finance the project cost is secured.
- The availability as well as accessibility to the funds will be crucial in bringing the product/service to the market.
- The business has two options: internal or external.
- ❖ **Internal** financing refers to the funds provided by family, friends, partners or shareholders.
- ❖ **External** financing refers to funds that are available from external sources such as loans from financial institutions, venture capital, business angel, government grants, etc.

c. Profitability Analysis

- Determining whether the proposed venture is generating enough profit to make the proposed venture feasible.
- A great interest to the business owners & third parties who are involve in financing the venture. As they require a certain rate of return on their investment before deciding to invest in a particular business venture.
- Financial projection needed to calculate profitability and need:
 - ❖ Cash flow statement
 - ❖ Income Statement and
 - ❖ Balance Sheet Statement

i.Cash-flow

- ❖ It is projected statements of cash inflows and outflows throughout the planned period.
- ❖ It shows the following:
 - Cash inflows
 - Cash outflows
 - Deficit or surplus
 - Cash position (beginning & ending balances)

ii. Income Statements

- It is a projected statement which shows the expected profit or loss throughout the planned period (3 consecutive years).
- For manufacturing companies, they should first prepare the manufacturing account.
- For trading companies, they should first prepare the trading account.
- For service companies, they can straight away prepare the profit and loss account.

Example: Profit & Loss Account

Sales		240,000
Less: Expenses		
Administrative	96,000	
Marketing	18,000	
Operational	96,000	
Financial:		
Interest on term loan	4,500	
Interest on hire-purchase	1,600	
Depreciation charges	11,800	
Pre-operational expenditure	2,700	
Total Expenditure	<hr/>	<hr/> 230,600
Net Profit		<hr/> 9,400 <hr/>

iii. Balance Sheet

- ❖ It is a projected statement which shows the financial position of the company a specific point in time in terms of assets owned and how those assets are financed.

- ❖ Elements :
 - Fixed Assets
 - Current Assets
 - Equity
 - Long-term Liabilities

Example: Balance Sheet

Fixed Assets

Machinery & Equipment	18,400	
Furniture and Fixtures	5,600	
Renovation	3,200	
Van	20,000	47,200

Current Assets

Cash	40,900	
Closing stock for raw materials	3,000	
Closing stock for finished goods	3,000	
Deposits	800	47,700

Total Assets

94,900

Equity

Capital	27,500	
Net profit	15,400	42,900

Long-term Liabilities

Term-loan	36,000	
Hire-purchase	16,000	52,000

Total Equity & Liabilities

94,900

Conclusion

The feasibility study should give us a clear idea whether the proposed business is a sound business idea. If so, we can proceed with the preparation of the business blueprint.