

## STUDY GUIDE FOR MODULE NO. 3

### CONDUCTING A FEASIBILITY ANALYSIS



#### MODULE OVERVIEW

This module emphasizes the importance of feasibility analysis. It discusses the proper time to complete a feasibility analysis. Moreover, it also discusses the forms of feasibility analysis which include product/service feasibility, industry/target market feasibility, organizational feasibility and financial feasibility. Lastly, it presents the outline for a comprehensive feasibility analysis.



#### MODULE LEARNING OBJECTIVES

At the end of this module, you will:

- Explain what a feasibility analysis is and why it's important;
- Discuss the proper time to complete a feasibility analysis when developing an entrepreneurial venture;
- Describe the purpose of a product/service feasibility analysis and the two primary issues that a proposed business should consider in this area;
- Explain a concept statement and its components;
- Describe the purpose of a buying intentions survey and how it's administered;
- Explain the importance of library, Internet, and gumshoe research;
- Describe the purpose of industry/market feasibility analysis and the two primary issues to consider in this area;
- Discuss the characteristics of an attractive industry;
- Describe the purpose of organizational feasibility analysis and list the two primary issues to consider in this area;
- Explain the importance of financial feasibility analysis and list the most critical issues to consider in this area.



#### LEARNING CONTENTS (Conducting a Feasibility Analysis)

##### What is 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.

##### 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:
    - ✓ Product/Service Feasibility
    - ✓ Industry/Target Market Feasibility
    - ✓ Organizational Feasibility
    - ✓ Financial Feasibility

Figure 3.1 shows the role of feasibility analysis in developing business ideas.

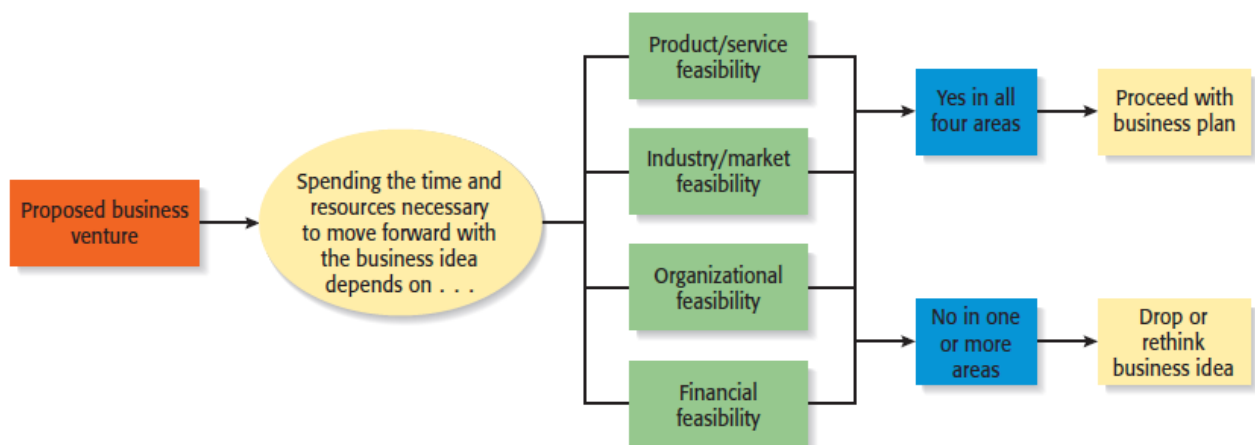


Figure 3.1: Feasibility Analysis

### Outline for a Comprehensive 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

### Forms of Feasibility Analysis

- **Product/Service Feasibility**
  - *Purpose*

- ✓ 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.
- *Components of product/service feasibility analysis*
  - ✓ Product/Service Desirability
    - First, ask the following questions to determine the basic appeal of the product or service:
      1. Does it make sense? Is it reasonable? Is it something consumers will get excited about?
      2. Does it take advantage of an environmental trend, solve a problem, or take advantage of a gap in the marketplace?
      3. Is this a good time to introduce the product or service to the market?
      4. Are there any fatal flaws in the product or service's basic design or concept?
    - Second, Administer a Concept Test
      1. A concept statement should be developed.
      2. 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.
      3. The feedback will hopefully provide the entrepreneur a sense of the viability or the product or service idea and suggestions for how the idea can be strengthened or "tweaked" before proceeding further.
  - ✓ Product/Service Demand
    - There are two steps to assessing product/service demand.
    - Step 1: Administer a Buying Intentions Survey
      - 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.
    - Step 2: Conduct 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 towards resources to help you investigate a business idea, such as industry-specific trade journal and industry reports.
      - Internet searches can often yield important information about the potentially viability of a product or service idea.

- 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.
- 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. This potential entrepreneur is administering a survey about a new product idea.
- **Industry/Target Market Feasibility**
  - *Purpose*
    - ✓ 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.
  - *Components of industry/target market feasibility analysis*
    - ✓ Industry Attractiveness
      - Industries vary in terms of their overall attractiveness.
      - In general, the most attractive industries have these characteristics:
        1. Are young rather than old
        2. Are early rather than late in their life cycle
        3. Are fragmented rather than concentrated
        4. Are growing rather than shrinking
        5. Sell products or services that customers "must have" rather than "want to have"
        6. Are not crowded
        7. Have high rather than low operating margins
        8. Are not highly depended on the historically low price of a key raw material, like gasoline or flour to remain profitable
    - ✓ 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, considerably ingenuity must be employed to finding information to assess the attractiveness of a specific target market.

- **Organizational Feasibility**

- *Purpose*

- ✓ 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.

- *Components of organizational feasibility analysis*

- ✓ 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: 1) The passion that the solo entrepreneur or the founding team has for the business idea. 2) The extent to which sole entrepreneur or the founding team understands the markets in which the firm will participate.

- ✓ 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.
- Examples of nonfinancial resources that may be critical to the successful launch of a new business:
  1. Availability of affordable office or lab space.
  2. Likelihood of local and state government support of the business.
  3. Quality of the labor pool available.
  4. Proximity to key suppliers and customers.
  5. Willingness of high quality employees to join the firm.
  6. Likelihood of establishing favorable strategic partnerships.
  7. Proximity to similar firms for the purpose of sharing knowledge.
  8. Possibility of obtaining intellectual property protection in key areas.

- **Financial Feasibility**

- *Purpose*

- ✓ The final component of a comprehensive feasibility analysis.
- ✓ A preliminary financial assessment is sufficient.

- *Components of financial feasibility analysis*



- ✓ Total Start-Up Cash Needed
  - The first issue refers to the the total cash needed to prepare the business to make its first sale.
  - 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
  - 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.
- ✓ Overall Financial Attractiveness of the Proposed Venture
  - 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.
  - Financial Factors Associated with Promising Business Opportunities:
    1. Steady and rapid growth in sales during the first 5 to 7 years in a clearly defined market niche.
    2. High percentage of recurring revenue—meaning that once a firm wins a client, the client will provide recurring sources of revenue.
    3. Ability to forecast income and expenses with a reasonable degree of certainty.
    4. Internally generated funds to finance and sustain growth.
    5. Availability of an exit opportunity for investors to convert equity to cash.

**SUMMARY**

- ❖ Feasibility analysis is the process of determining whether a business idea is viable. A properly conducted feasibility analysis includes four separate components, these include product/service feasibility, industry/target market feasibility, organizational feasibility and financial feasibility.
- ❖ The proper time to conduct a feasibility analysis is early in thinking through the prospects for a new business idea. It follows opportunity recognition but comes before the development of a business plan.
- ❖ A concept statement is a preliminary description of a product idea.
- ❖ A target market is a place within a larger market segment that represents a narrower group of customers with similar needs. Most start-ups simply don't have the resources needed to participate in a broad market, at least initially. Instead, by focusing on a smaller target market a firm can usually avoid head-to-head competition with industry leaders and can focus on serving a specialized market very well.

**REFERENCES**

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