Module 5 - Technical Profile

Module 5 Social and Feasibility Profile (Hours 7)

- Social costs and benefits of business idea, Intangible benefits apart from Tangible benefits, Qualitative benefits apart from Quantitively benefits- Testing different profiles-Market feasibility, Technical Feasibility-Financial Feasibility-Social Feasibility.

Course Outcome

After finishing the course, the students will be able to:

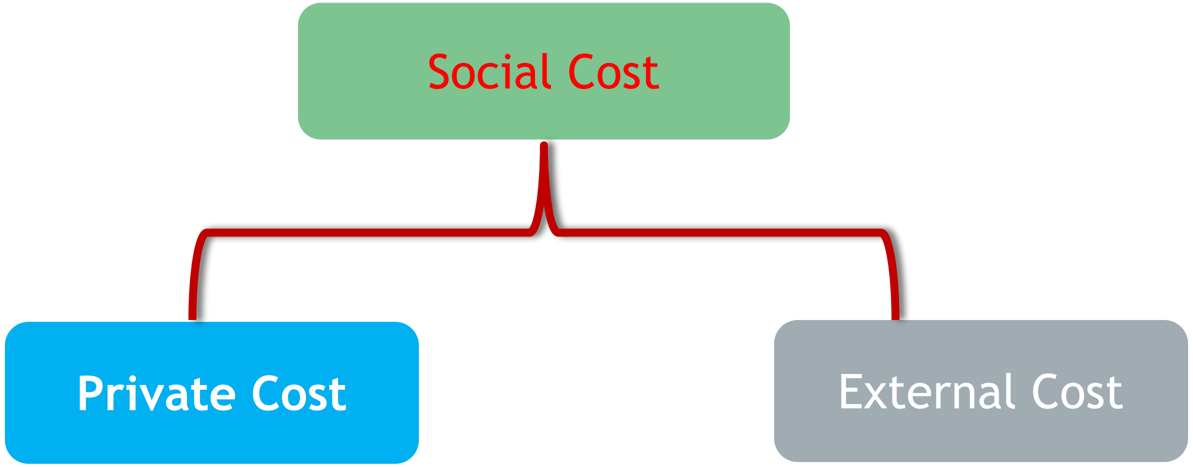
1. Understand the nuts and bolts of preparing a business plan.
2. Remember and implement the business/management skills.
3. Understand and evaluate the content of business plan in detail.
4. Identify the tools and techniques involved in Business plan process.
5. Analyse the competitive structure and strategy development.
6. Launch a new venture company or start one an established organization

The Concept of Cost

- Expenses incurred on the factors of production are known as the cost of production , or simply costs
- On the other hand, the producer receives payments from the sale of goods produced. Such sale proceeds are referred to as Revenue
- The aim of the producer is to maximize its profit. Since profit is the difference between revenue and cost, , profit maximization amounts to maximization of the difference between revenue and cost.
- Therefore, a profit maximizing firm needs to monitor revenue and cost continuously. Thus, the concepts of cost and revenue are very important in price theory

Social costs & benefits of business idea

- Social Cost is the sum of the Private Cost in addition to any external costs.
- Social Cost is the entire cost the society bears .
- **Social cost = Private cost + External cost**



Components of Social costs

Private Cost

Individual decision-makers (including both private companies and households) are influenced by various cost elements, such as the ***costs of input to a production process, labour and land costs, financial interest rates, equipment costs, fuel costs, consumer prices etc.,*** which are key private cost components.

However, the activities of individuals may also cause externalities, for example emissions that influence the utility of other individuals, but which are not taken into consideration by the individuals causing them.

A social cost perspective includes the value of these externalities.

Components of Social costs

External Cost

- An external cost occurs when producing or consuming a good or service imposes a cost (negative effect) upon a third party.
- If there are external costs in consuming a good (negative externalities), the social costs will be greater than the private cost.
- The existence of external costs can lead to market failure. This is because the free market generally ignores the existence of external costs.
- **External marginal cost (XMC)** the cost to a third party from the consumption/production of one extra unit.

The term “externality”

- An externality occurs if a person’s activity, such as consumption or production, affects the well-being of an uninvolved person.
- The term externality comes from the fact that someone external to the action or transaction is affected by the production of consumption of the good.
- There are two types of externality:
- Positive externality
- Negative externality

Positive externality	Negative externality
A positive externality occurs if an activity creates benefits for uninvolved people	A negative externality occurs if an activity creates costs (harm or discomfort) for uninvolved people.
Examples of positive externalities: People who get vaccinations against a communicable disease reduce other people's chances of getting the disease. People who improve their property may create benefits for their neighbors by creating a more pleasing neighborhood and increasing property values.	**Examples of negative externalities:** Cars and factories generate air pollution that affects people's health. Cars entering congested freeways impose time costs on other drivers, as all cars slow down as a result.
Private market transactions will lead to underproduction of goods with positive externalities.	Private market transactions will lead to overproduction of goods with negative externalities

Social Benefits

- **Social benefits** are business activities that have a beneficial or favorable impact on people or places.
- Social benefit includes all the private benefits plus any external benefits of production/consumption.
- If a good has significant external benefits, then the social benefit will be greater than the private benefit.

Social Benefits

Most businesses work to create value for not only their shareholders but also for their customers and employees. There is a shift in the way the people view business after the 2008 financial crisis .

The transformation of businesses will lie in creating economic value that creates value for society by addressing its needs and challenges

Companies are creating measurable business value by identifying and addressing social problems that intersect with their business

Example

- ✔ Novartis Arogya Parivar in India is bringing health education and access to medicines to more than 10 million villagers, opening a new and profitable market for the company and improving health outcomes for consumers.
- ✔ ICICI Bank Ltd’s rainfall-based crop insurance.

Arogya Parivar

a Novartis Social Venture

Tangible and Intangible benefits

- Businesses consist of tangibles like land, buildings, machinery and staff that have a physical presence
- They also include intangibles that have value but don’t have a physical presence you can see or feel
- But intangibles can transform the way a company operates, how employees are managed, how products and services are developed and sold, and how customers are treated.

Tangible and Intangible benefits

- **Tangible benefits** are benefits that can be easily quantified like increased sales, reduced expenses.
- **Intangible benefits** are benefits that are difficult or impossible to quantify like improved customer goodwill, better employee morale

Tangible Benefits – can be directly measured and there is objective evidence it exists

FINANCIAL

Business Value Type	Definition	Example KPIs	Target Metrics
Revenue Generation	Increases in revenue generated by organization	Increased new sales, Improved lead conversions, Reduced sales cycle time	% or $ increase in revenue
Cost Savings	Reductions in a cost already incurred or being paid	Reduced hardware costs, Reduced workforce needs through automation	% or $ reduction in costs
Cost Avoidance	Reductions in a cost not yet incurred	Retire old platfoms to avoid extended support, Avoid risk or regulatory penalties	% or $ avoided costs

NON-FINANCIAL

Business Value Type	Definition	Example KPIs	Target Metrics
Efficiency Gains	Improvement in the time to complete a task or process	Manual tasks eliminated, end-to-end process time, technology processing time	% decrease in time to task or number of steps
Customer/Employee Satisfaction	Improved experiences for customers and employees	Satisfaction survey scores, product return rates, turnover rates	% increase in Net Promoter Score (NPS) or eNPS
Service Quality	Better delivery of services (internal and external)	Mean time to resolution, Number of incidents	% increase in satisfaction or experience survey scores
Regulatory Compliance	Meeting regulatory or legal requirements	SOX, HIPAA, EU GDPR	Compliance certifications or Audit Findings Report

Examples of Tangible and Intangible benefits

Intangible	Tangible
Better communications	Direct cost savings
Staff morale	Quality improvements
Customer satisfaction	Avoiding cost increases
Reputation of company	Revenue increases
Knowledge management	Staying in business
Value chain management	
Flexibility of business	
Organisational learning	

Qualitative & quantitative benefits

- Qualitative benefits are **generally not measurable in monetary units or in some other objective way**.
- Quantitative benefits are measured in monetary units or rates of change. Benefits must be defined in financial terms in order to perform cost-benefit analysis.

EXAMPLE

- When planning for a new project, all potential benefits within a new project can be divided into 2 forms .
  - **Quantitative Benefits**. Examples are cycle time to increase throughput, elimination of time-wasting tasks and inefficient processes, lowered level of material resources utilization to get same outputs, etc.
  - **Qualitative Benefits**, including quality management, improved project requirements compliance and regulation, secured access to corporate information, increased staff motivation,

Feasibility Study

A feasibility study assesses the viability of a business idea or proposed business plan

Feasibility study is done in terms of The feasibility

- Market
- Technical
- Financial
- Social & Environmental

https://alcorfund.com/insight/how-to-determine-the-feasibility-of-a-business-idea/

https://alcorfund.com/insight/how-to-determine-the-feasibility-of-a-business-idea/

Market Feasibility Study

- Market feasibility is a study that identifies the success of a product in a particular market.
- It helps to identify the target customers, market opportunity, market competition, potential development in the market, and unmet customer needs to evaluate the business idea.

https://www.econposts.com/business-management/market-feasibility-meaning-and-importance/

Market Feasibility Study

https://alcorfund.com/insight/how-to-determine-the-feasibility-of-a-business-idea/

Market Feasibility Study - Task

For the Business Plan that you are working on prepare a list of 5 to 8 questions that you would use for conducting a market feasibility study

Technical feasibility

Technical feasibility is the formal process of assessing whether it is technically possible to manufacture a product or service.

It helps determine the efficacy of the proposed plan by analyzing the -

- Process, including tools, technology, material, labor, and logistics
- Available technologies and infrastructure support
- Labor availability and technical capability
- Procurement plans for production lines and equipment

Classification of Technical Analysis

Input

- Identification, quantification and evaluation of project inputs - machinery and materials

Ensures that the right kind and quality of inputs would be available at the right time and cost throughout the life of the project Eg. When Macdonald entered India, they developed sustainable sources of supply of potatoes, lettuce and other ingredients for their burgers.

Throughputs

- Refers to the production/operations that you would perform on the inputs to add value. Inputs received undergoes a process of transformation in several stages of manufacture

Where to locate the facility, what would be the sequence, what would be the layout, what would be the quality control measures, etc

Outputs

- Product specification in terms of physical features- color, weight, length, breadth, height; functional features

https://www.saxena.feasibility%20analysis%20.pdf

Technical feasibility

A technical feasibility study helps find the answers to the following questions:

- Is it possible to develop the product with the available technology in the company?
- Is the organization equipped with the necessary technology for the business plan?
- Are there technically strong employees who can deliver the product on time and within budget using the available technology?
- Is there scope to add more technical resources?

Financial Feasibility study

- A financial feasibility study, or FFS, should assess the viability of a project
- Seeks answers to the questions - will the project or business have enough cash to run /business the project. Can the company sustain itself, pay its employees, and make a profit.
- Components to consider include:

1. Company Expenses
2. Revenues
3. Assets
4. Liabilities
5. Cash flow (money in, and money out)

Financial feasibility

- Financial feasibility assesses the economical viability of a proposed venture by evaluating the startup costs, operating expenses, cash flow, and making a forecast of future performance.

The preparation of a financial feasibility study has three parts:

Determining the startup costs

Preparing a profit plan and making cash flow projections

Assessing the return on invested capital

Identify the Startup Costs

- The first step in the preparation of financial feasibility analysis is to identify the costs needed to start the project. Typical startup costs are as follows:
  - Purchases for land and buildings, equipment. Licenses and permits, Deposits required for office space leases
  - Initial purchases for materials, Office furniture, and supplies
  - Legal and accounting fees for incorporation.
  - Marketing research, Employee salary, Advertising.
  - Insurance premiums, etc
- Many of these costs are one-time expenses, but they'll need funding upfront before the business begins operations.

Prepare Profit and Cash Flow Projections

- These projections include the projected sales, costs of production or services, and operating expenses separated into fixed and variable categories.
- The cash flow projections include the funds needed for startup and identify where this money will come from. The amount of equity capital is determined along with the amount and source of all borrowed funds and leases.

Determine the Return on Invested Capital

- This part of the financial study assesses the attractiveness of the project to equity investors and the overall financial return on the project.

Source-https://bizfluent.com/how-8048004-prepare-financial-feasibility-study.html

Social feasibility

- Social feasibility study examines the probability of the project or the product to be launched being accepted by the group directly affected by the proposed system change
- It takes into account the key relevant social issues and incorporates a participation strategy for involving a wide range of stakeholders
- At the micro-level, SIA impacts on individuals, at the meso-level it impacts on collectives (eg, groups of people, institutions, and organizations) and at the macro-level it impacts on social macro-systems (eg, national and international political and legal systems).

Example-

Social feasibility

Should consider-

The working opportunities which are created and offered to society

- It describes the effect on users from the introduction of the new system considering whether there will be a need for retraining the workforce.
- It describes how you propose to ensure user co-operation before changes are introduced

Example

- Are employees willing to accept changes in work conditions? *Is the attendant charged with taking regular stock counts ready to sit in front of the computer all day running reports?*
- Are employees willing to accept changes in power structure? *Are stakeholders willing to accept that they will no longer be in charge of all or part of a process?*
- Are employees and customers willing to accept changes in relations? *Are suppliers ready and willing to receive orders over an EDI platform?*