

Chapter No. 9



The Assessment Function with Opportunities



You need to carry out very careful pre-feasibility and feasibility studies before you enter any crisis situation.

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Pitfalls in selecting new ventures

1. Lack of objective evaluation.
2. No real insight.
3. Inadequate understanding of technical requirements
4. Poor financial understanding.
5. Lack of venture uniqueness.
6. Ignorance of legal issues.

Answer the following (part of the project)

Table

9.1

A New-Venture Idea Checklist

Basic Feasibility of the Venture

1. Can the product or service work?
2. Is it legal?

Competitive Advantages of the Venture

1. What specific competitive advantages will the product or service offer?
2. What are the competitive advantages of the companies already in business?
3. How are the competitors likely to respond?
4. How will the initial competitive advantage be maintained?

Buyer Decisions in the Venture

1. Who are the customers likely to be?
2. How much will each customer buy, and how many customers are there?
3. Where are these customers located, and how will they be serviced?

Marketing of the Goods and Services

1. How much will be spent on advertising and selling?
2. What share of market will the company capture? By when?
3. Who will perform the selling functions?
4. How will prices be set? How will they compare with the competition's prices?
5. How important is location, and how will it be determined?
6. What distribution channels will be used—wholesale, retail, agents, direct mail?
7. What are the sales targets? By when should they be met?
8. Can any orders be obtained before starting the business? How many? For what total amount?

Production of the Goods and Services

1. Will the company make or buy what it sells? Or will it use a combination of these two strategies?
2. Are sources of supplies available at reasonable prices?
3. How long will delivery take?
4. Have adequate lease arrangements for premises been made?
5. Will the needed equipment be available on time?
6. Do any special problems with plant setup, clearances, or insurance exist? How will they be resolved?
7. How will quality be controlled?
8. How will returns and servicing be handled?
9. How will pilferage, waste, spoilage, and scrap be controlled?

Staffing Decisions in the Venture

1. How will competence in each area of the business be ensured?
2. Who will have to be hired? By when? How will they be found and recruited?
3. Will a banker, lawyer, accountant, or other advisers be needed?
4. How will replacements be obtained if key people leave?
5. Will special benefit plans have to be arranged?

Control of the Venture

1. What records will be needed? When?
2. Will any special controls be required? What are they? Who will be responsible for them?

Financing the Venture

1. How much will be needed for development of the product or service?
2. How much will be needed for setting up operations?
3. How much will be needed for working capital?
4. Where will the money come from? What if more is needed?
5. Which assumptions in the financial forecasts are most uncertain?
6. What will be the return on equity, or sales, and how does it compare with the rest of the industry?
7. When and how will investors get their money back?
8. What will be needed from the bank, and what is the bank's response?



Critical factors for new venture development

1. Uniqueness.
2. Investment.
3. Growth of sales.
4. Product availability.
5. Customer availability.

Why new ventures fail?

1. Poor timing.
2. Product design problems.
3. Inappropriate distribution strategy.
4. Unclear business definition (direct / indirect / commission etc)
5. Overreliance on one customer.

6. The financial difficulties

- a) Initial undercapitalization.
- b) Assuming debt too early.
- c) Venture capital relationship problems

7. Managerial problems

1. Concept of team approach.
2. Human resource problems.

What are you anticipating? (part of the project)

Table

9.2

Types and Classes of First-Year Problems

1. Obtaining external financing

- Obtaining financing for growth
- Other or general financing problems

2. Internal financial management

- Inadequate working capital
- Cash-flow problems
- Other or general financial management problems

3. Sales/marketing

- Low sales
- Dependence on one or few clients/customers
- Marketing or distribution channels
- Promotion/public relations/advertising
- Other or general marketing problems

4. Product development

- Developing products/services
- Other or general product development problems

5. Production/operations management

- Establishing or maintaining quality control
- Raw materials/resources/supplies
- Other or general production/operations management problems

6. General management

- Lack of management experience
- Only one person/no time
- Managing/controlling growth
- Administrative problems
- Other or general management problems

7. Human resource management

- Recruitment/selection
- Turnover/retention
- Satisfaction/morale
- Employee development
- Other or general human resource management problems

8. Economic environment

- Poor economy/recession
- Other or general economic environment problems

9. Regulatory environment

- Insurance

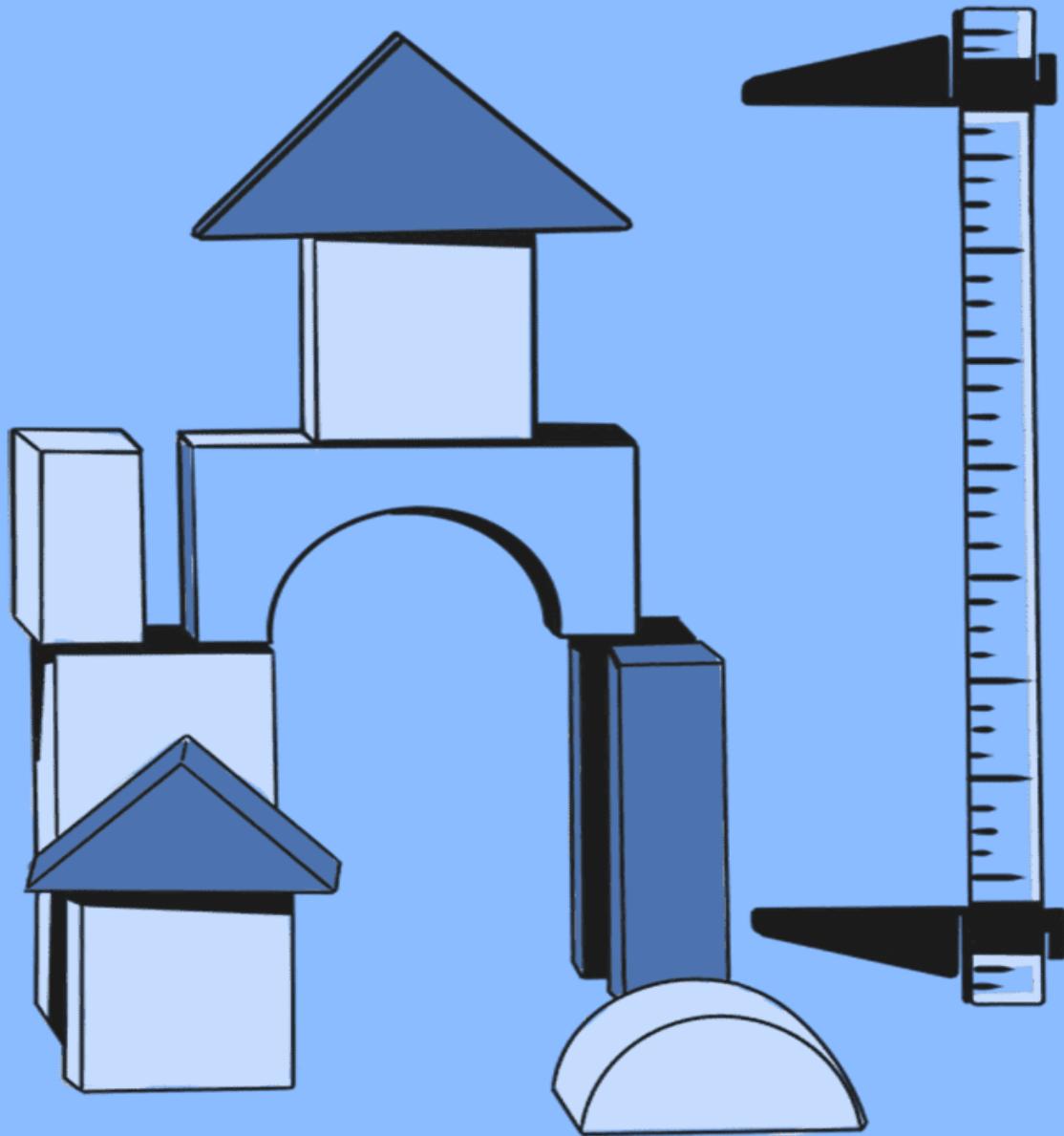
Entrepreneur	Rank	Venture Capitalist	Rank
I—Lack of management skill	1	I—Lack of management skill	1
I—Poor management strategy	2	I—Poor management strategy	2
I—Lack of capitalization	3	I—Lack of capitalization	3
I—Lack of vision	4	E—Poor external market conditions	4
I—Poor product design	5	I—Poor product design	5
I—Key personnel incompetent	6	I—Poor product timing	6

E = External factor


I = Internal factor

Source: Andrew L. Zacharakis, G. Dale Meyer, and Julio DeCastro, "Differing Perceptions of New Venture Failure: A Matched Exploratory Study of Venture Capitalists and Entrepreneurs," *Journal of Small Business Management* (July 1999): 8.

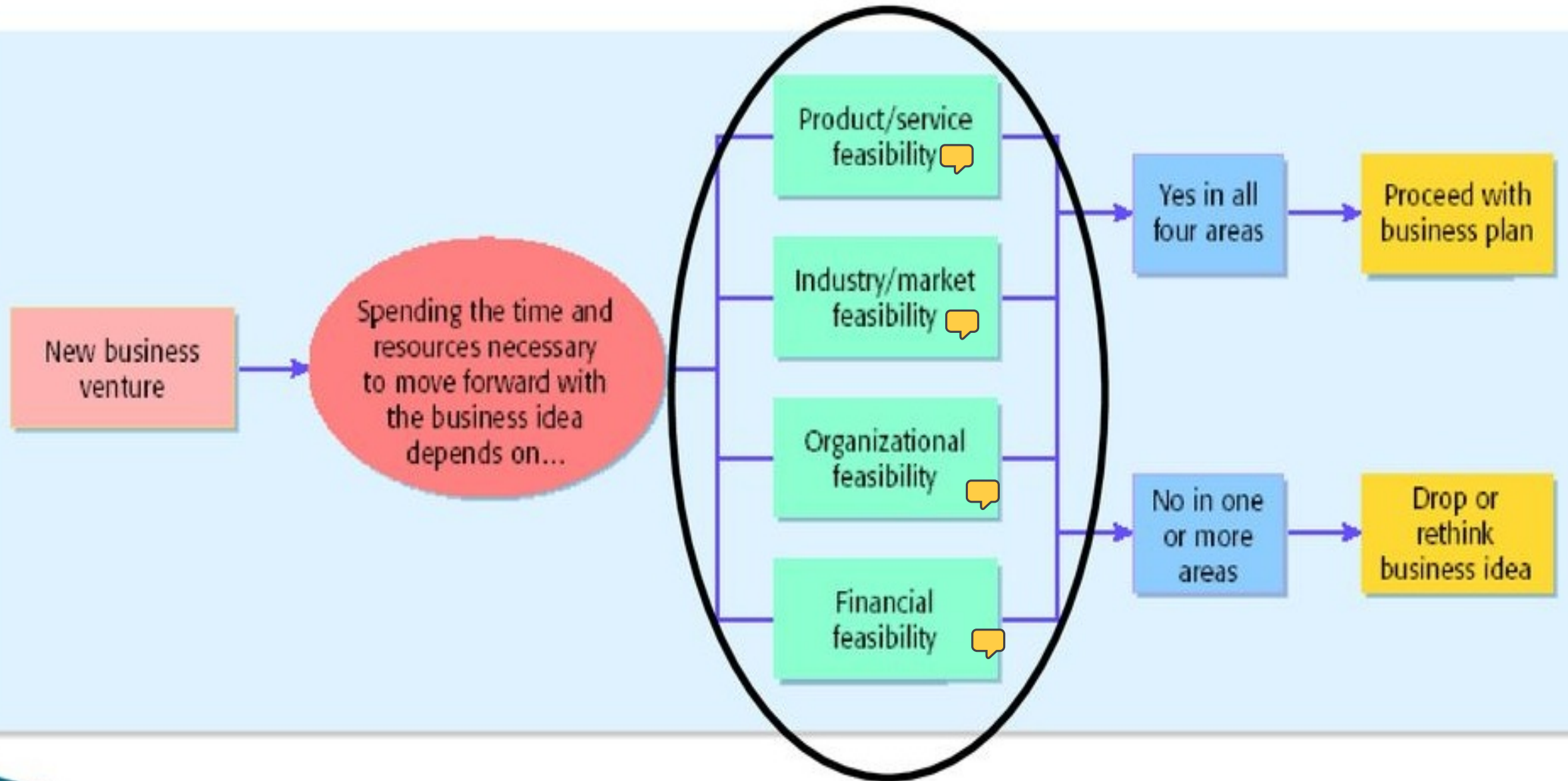
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Feasibility Study

['fē-zə-bəl-ih-tē 'stə-dē] 

A detailed analysis that considers all of the critical aspects of a proposed project in order to determine the likelihood of it succeeding.



Feasibility Criteria Approach

1. Is it proprietary?
2. Are the initial production costs realistic?
3. Are the initial marketing costs realistic?
4. Does the product have potential for very high margins?
5. Is the time required to get to market and to reach the break even point realistic?
6. Is the potential market large?
7. Is the product the first of a growing family? (attractive to investors).
8. Does an initial customer exist?
9. Is this a growing industry?
10. Can the product – and the need for it – be understood by the financial community?

Up to the team to choose few or all from this table

part of the project

Table

9.5

Specific Activities of Feasibility Analyses

Technical Feasibility Analysis	Market Feasibility Analysis	Financial Feasibility Analysis	Organizational Capabilities Analysis	Competitive Analysis
<p>Crucial technical specifications</p> <ul style="list-style-type: none"> • Design • Durability • Reliability • Product safety • Standardization <p>Engineering requirements</p> <ul style="list-style-type: none"> • Machines • Tools • Instruments • Work flow <p>Product development</p> <ul style="list-style-type: none"> • Blueprints • Models • Prototypes <p>Product testing</p> <ul style="list-style-type: none"> • Lab testing • Field testing <p>Plant location</p> <ul style="list-style-type: none"> • Desirable characteristics of plant site (proximity to suppliers, customers), environmental regulations 	<p>Market potential</p> <ul style="list-style-type: none"> • Identification of potential customers and their dominant characteristics (e.g., age, income level, buying habits) • Potential market share (as affected by competitive situation) • Potential sales volume • Sales price projections <p>Market testing</p> <ul style="list-style-type: none"> • Selection of test • Actual market test • Analysis of market <p>Marketing planning issues</p> <ul style="list-style-type: none"> • Preferred channels of distribution, impact of promotional efforts, required distribution points (warehouses), packaging considerations, price differentiation 	<p>Required financial resources</p> <ul style="list-style-type: none"> • Fixed assets • Current assets • Necessary working capital <p>Available financial resources</p> <ul style="list-style-type: none"> • Required borrowing • Potential sources for funds • Costs of borrowing • Repayment conditions • Operation cost analysis • Fixed costs • Variable costs • Projected profitability 	<p>Personnel requirements</p> <ul style="list-style-type: none"> • Required skill levels and other personal characteristics of potential employees • Managerial requirements • Determination of individual responsibilities • Determination of required organizational relationships • Potential organizational development • Competitive analysis 	<p>Existing competitors</p> <ul style="list-style-type: none"> • Size, financial resources, market entrenchment • Potential reaction of competitors to newcomer by means of price cutting, aggressive advertising, introduction of new products, and other actions

