



**Week 3**

## **Feasibility Analysis**

**MG4001**

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Reading Book Chapter: 03

Book Name: Entrepreneurship by Bruce R. Barringer & R. Duane Ireland



# Learning Objectives – Chapter 3

1. Explain what a feasibility analysis is and why it's essential.
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.
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?

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## Feasibility Analysis



- Feasibility analysis is the process of determining if 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.
- It is investigative in nature and is designed to critique the merits of a proposed business.



# BENEFITS OF A FEASIBILITY STUDY

**1**

Point out the valid reasons to go ahead with the idea

**6**

Narrow down the business alternatives

**2**

Saves time money and resources.

**7**

Enhances the probability of success in a short span of time

**3**

Enhances the team's focus

**8**

Helps to make clear future growth plans

**4**

Helps in identification of new opportunities

**9**

Adds value to funding pitches

**5**

Helps to take an informed "go/no-go" decision

**10**

Helps make realistic assumptions

# When To Conduct a Feasibility Analysis

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## □ 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

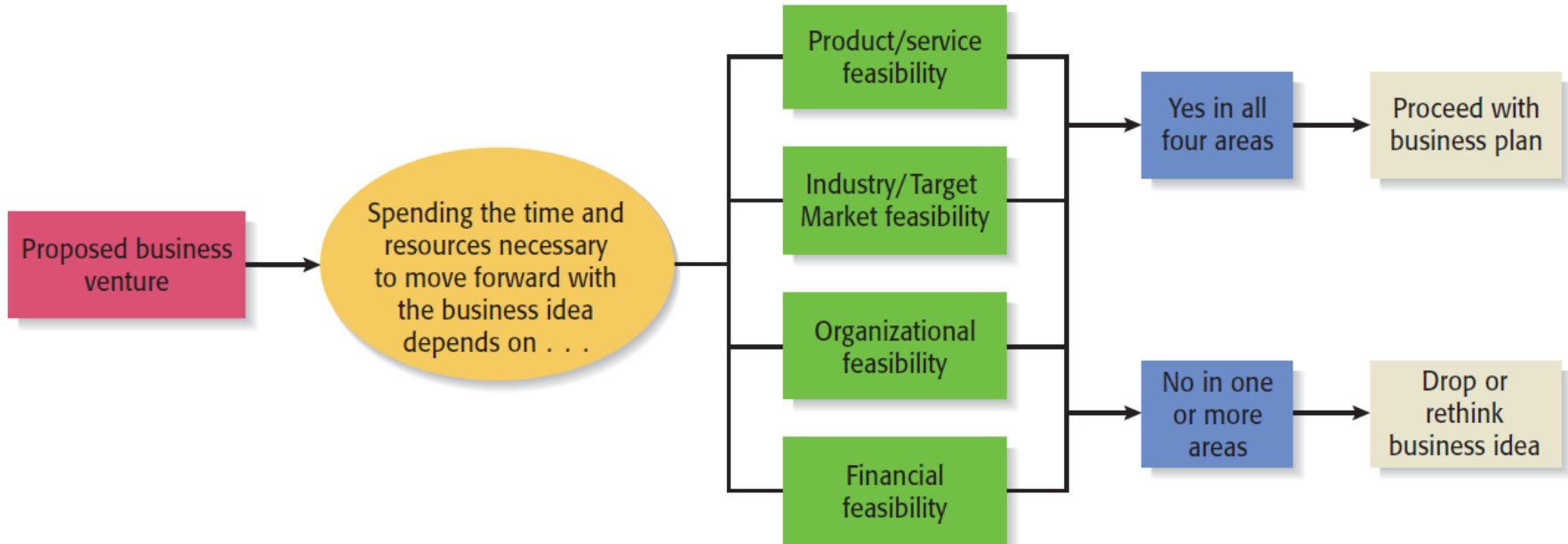
- A properly conducted feasibility analysis includes four separate components, as discussed in the following slides.



# Feasibility Analysis

3-6

Role of feasibility analysis in developing business ideas.



# Forms of Feasibility Analysis

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Product/Service Feasibility
Industry/Target Market Feasibility
Organizational Feasibility
Financial Feasibility

**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

## 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.

## Components of product/service feasibility analysis

**Product/Service  
Desirability**

**Product/Service  
Demand**



# Product/Service Feasibility Analysis

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## 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?

# Product/Service F

## Product/Service Desirability

### Second, Administer a **Concept**

- 1) A concept statement should be clear and concise.
- 2) A concept statement is a one-page document that describes the business to people who are asked to provide feedback.
- 3) The feedback will hopefully provide the following information:
  - A sense of the viability of the product or service.
  - Suggestions for how the idea can be improved or implemented further.

#### 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 Feasibility Analysis

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## Product/Service Demand

There are two steps to assessing product/service demand.

### **Step 1: *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.

### **Step 2: *Using Online Tools, Such as Google AdWords and Landing Pages, To Assess Demand.***

# Product/Service Feasibility Analysis

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## Product/Service Demand

### ***Step 2: Using Online Tools, Such as Google AdWords and Landing Pages, To Assess Demand.***

- ❑ 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 addresses.
- ❑ 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).

## 2

# Industry/Target Market Feasibility Analysis

- ✓ 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.
- ✓ Components of industry/target market feasibility analysis.

**Industry Attractiveness**

**Target Market  
Attractiveness**

# Industry/Target Market Feasibility Analysis

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## Industry Attractiveness

- ❑ The most attractive industries have specific characteristics.
- ❑ Particularly important—the degree to which environmental and business trends are moving in favour rather than against the industry.
- ❑ **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.

# Industry/Target Market Feasibility Analysis

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## 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 imagination must be employed to find information to assess the attractiveness of a specific target market.



# What Is Industry Concentration?

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- Watch the following video for more clarity
- <https://youtu.be/ALchkd4LxjA>

# Organizational Feasibility Analysis

Organizational feasibility is conducted to determine whether a proposed business has sufficient management expertise, organizational competence, and resources to successfully launch a business.

**Management Prowess**

**Resource Sufficiency**

**Operational Plan**

**Product/service design  
and development plan**



# Organizational Feasibility Analysis

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## 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.

# Organizational Feasibility Analysis

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## 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.

# Organizational Feasibility Analysis

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## 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.

# Organizational Feasibility Analysis

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## Management team and company structure

- It typically consists of the founder or founders and a handful of key management personnel. Each profile should include the following information
  - Title of the position
  - Duties and responsibilities of the position
  - Previous industry and related experience
  - Previous success
  - Educational background
- Organizational chart

# Organizational Feasibility Analysis

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## Operations Plan

- The operation plan section of the business plan outlines how your business will be run and how your product or service will be produced.

## Product/service design and development plan

- In the case of a product-oriented idea, you have to design the prototype of your product at the initial stage
- Sometimes Virtual prototype is preferable instead of a physical prototype
  - A virtual prototype is computer computer-generated 3-D image of an idea. It displays an invention as a 3-D model that can be viewed from all sides and rotated 360 degrees.



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# Financial Feasibility Analysis

It deals with two activities: raising money and managing a company's finances in a way that achieves the highest rate of return.

## Financial feasibility

It is a preliminary financial assessment

## Issues to be considered in financial feasibility

Total start-up cash

Overall financial attractiveness of the proposed venture

Total Start-Up Cash  
Needed

Financial Performance of  
Similar Businesses

Overall Financial  
Attractiveness of the  
Proposed Venture



# Financial Feasibility Analysis

3-24

## Total Start-Up Cash Needed

- It is prepared to list all the anticipated capital purchases and an explanation of where the money will come from
  - ▣ **Steps in calculating total start-up cash**
    1. List down the resources
    2. Estimated the cost of listed resources
    3. Decide about debt and equity financing
    4. Boot Strapping - a technique for generating finance

# Financial Feasibility Analysis

3-25

## Total Start-Up Cash Needed

### 1. List down the resources

- ▣ All the anticipated capital purchases (i.e. Machinery, plant, furniture, building etc.

### 2. Estimated the cost of listed resources

- ▣ The estimated purchase price of the resources

### 3. Decide about debt and equity financing

- ▣ Decide about the funding of the resources

- Debt: it is a loan

- Equity: it is an owner investment

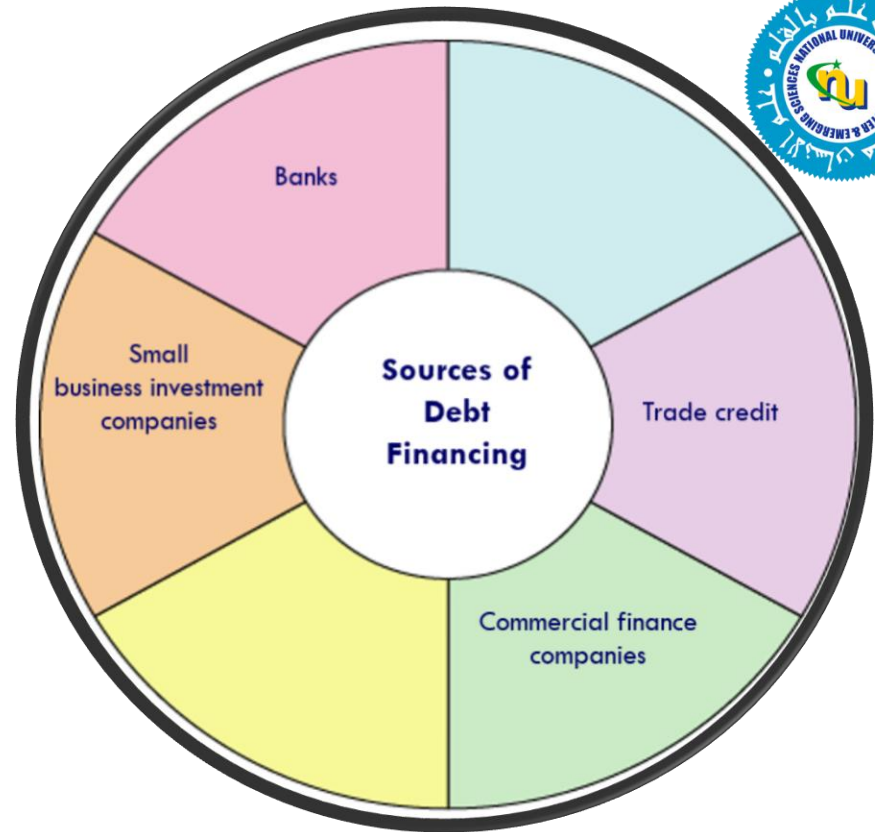
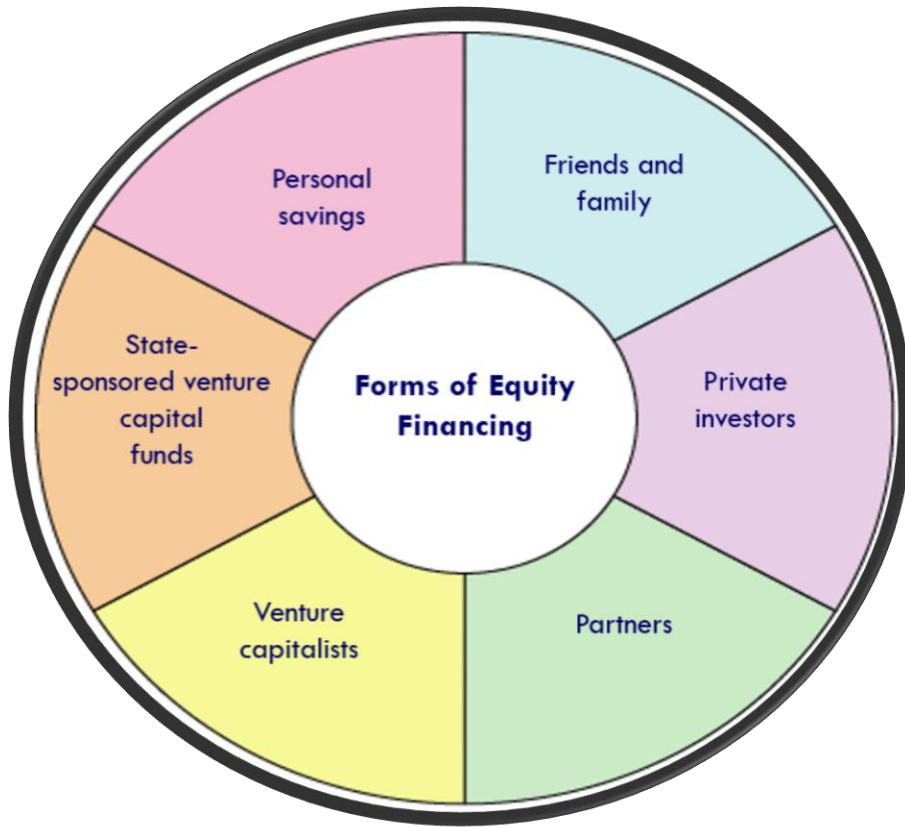
} **BOOT STRAPPING**

# Financial Feasibility Analysis

3-26

## 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.



**Bootstrapping** operating a business as frugally as possible and cutting all unnecessary expenses, such as borrowing, leasing, and partnering to acquire resources



## Sample Cost Estimation for ABC Hostel

**1,428,750**

Sr. No	Description	No of units	Cost per unit	Amount
1	Building Advance			250,000
2	Furniture			50000
3	Carpet	15	3500	52500
4	Mattresses	50	3500	175000
5	Cupboards	50	7500	375000
6	Generator	1		80000
7	Crockery			40000
8	Split AC	1		40000
9	Security Camera			50000
10	MicroWave	1		15000
11	Refrigrator	1		50000
12	Freezer	1		50000
13	Stove	1		10000
14	Water Cooler	1		5000
15	Iron Stand & Iron	1		5000
16	LED	1		25000
17	Lights	50	125	6250
18	Fans	20	2500	50000
19	Advertisement			50000
20	Miscellaneous			50000

# Financial Feasibility Analysis

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## 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



# Financial Feasibility Analysis

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## 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.

# Financial Feasibility Analysis

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## Overall Financial Attractiveness of the Proposed Investment

### □ 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.

# Crowd funders

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## **Crowd funding Platforms-**

Reward based Crowd funding platforms- will help you to raise funding to build a proto-type and market test a great idea or product.-

[www.kickstarter.com](http://www.kickstarter.com) (USA)

[www.indiegogo.com](http://www.indiegogo.com) (USA)

[www.peoplefund.it](http://www.peoplefund.it)

[www.sponsume.com](http://www.sponsume.com)

[www.pleasefund.us](http://www.pleasefund.us)

[www.wefund.com](http://www.wefund.com)

[www.pozible.com](http://www.pozible.com)

[www.crowdfunder.co.uk](http://www.crowdfunder.co.uk)

## **Equity/ investment Crowd funding platforms:**

[www.crowdcube.com](http://www.crowdcube.com)

[www.seedrs.com](http://www.seedrs.com)

# First Screen

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- First Screen
  - ▣ Shown in Appendix 3.1 is a template for completing a feasibility analysis.
  - ▣ It's called "First Screen" because it's a tool that can be used in the initial pass at determining the feasibility of a business idea.
  - ▣ If a business idea cuts muster at this stage, the next step is to complete a business plan.

