CHAPTER 7: CONDUCTING A FEASIBILITY ANALYSIS

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FEASIBILITY ANALYSIS

DEFINITION

feasibility analysis

designed to assess whether your entrepreneurial endeavor is, in fact, feasible or possible.

BUSINESS PLAN VS FEASIBILITY ANALYSIS

- Feasibility analysis is largely numbers driven and can be far more in depth than a business plan.
- A feasibility study may become the basis for the business plan.

BUSINESS PLAN VS FEASIBILITY ANALYSIS

- A feasibility study allows a business to address where and how it will operate, its competition, possible hurdles, and the funding needed to begin.
- The business plan then provides a framework that sets out a map for following through and executing on the entrepreneurial vision.

MARKET FEASIBILITY ANALYSIS

MARKET FEASIBILITY ANALYSIS

Market feasibility analysis is to be conducted for the following reasons:

- to estimate the demand of the proposed product/service in future
- to estimate the market share of the proposed product/service in future.

MARKET FEASIBILITY ANALYSIS

Demand and market share is based on a factors like:

- consumption pattern
- availability of substitute goods/services
- type of competition

NOTE: A WIDE VARIETY OF INFORMATION HAS TO BE COLLECTED TO MAKE THESE ESTIMATIONS.

MARKET FEASIBILITY ANALYSIS

The market feasibility analysis must be able to answer the following questions:

- Who are the consumers, both present and prospective?
- What is the present and future demand?
- How is the demand distributed seasonally?
- How is demand distributed globally?
- How much price is the consumer willing to pay?
- What is the marketing mix of competitors?
- What marketing mix would the consumers accept?

TECHNICAL/OPERATIONAL FEASIBILITY ANALYSIS

TECHNICAL/OPERATIONAL FEASIBILITY ANALYSIS

technical/operational analysis

is done to assess the operational ability of the proposed business enterprise

KEY QUESTIONS

Key questions to be answered are:

- What are the technological needs of the proposed business?
- What other equipment does the proposed business need?
- From where will this technology and equipment be obtained?
- From where can the raw materials be obtained?
- What would be the equipment and technology?

PARAMETERS

1. Material Availability:

Assess the availability of the raw materials required for production of goods/services.

Study of material should make an account of following variables:

- availability of quality and quantity of raw materials
- factors on which the availability of raw material is dependent
- price sensitivity of raw material
- perishable time of raw material

PARAMETERS

2. Material requirement planning:

Analyze the quantity of material that would be required to let the production run smoothly

PARAMETERS

3. Analysis of choice of technology

Identify whether the product developed at the idea generation stage is technology feasible

Must answer questions like:

- Whether a technology for the product exists or not?
- If technology exists in more than one form, which technology would be more profitable to the company.
- The choices of the technology would be affected by:
  - capacity of the plant
  - amount of investment
  - availability of technology
  - production cost
  - latest developments
  - quantity of planned production
  - impact of environment

PARAMETERS

4. Plant Location:

Plant location refers to a fairly broad area where the enterprise is to be established, like city, industrial zone or costal area. Plant location is the physical layout of the business and is affected by process of production, safety of personnel, minimum production cost, scope of expansion, proper space utilization, etc.

PARAMETERS

5. Machinery and Equipment:

Machinery and equipment is dependent on production technology, plant capacity, investment cost of buying, maintenance and running cost.

FINANCIAL FEASIBILITY ANALYSIS

FINANCIAL FEASIBILITY ANALYSIS

financial feasibility analysis

done to assess financial issues of the proposed business venture

FINANCIAL FEASIBILITY ANALYSIS

1. Cost of land and building:

Depending on the requirement and the availability of funds the land and building, can be taken on lease or purchased.

FINANCIAL FEASIBILITY ANALYSIS

2. Cost of plant and machinery:

It includes estimates of cost of plant and machineries, their running and maintenance cost.

FINANCIAL FEASIBILITY ANALYSIS

3. Preliminary Cost Estimation

made to assess how much cost would be required in conducting market survey, preparing feasibility report, expenses in registering and incorporating machine, establishment expenses, expenses in raising capital from public and other miscellaneous expenses.

FINANCIAL FEASIBILITY ANALYSIS

4. Provision for contingencies

needs to be made to cover certain unexpected expenses which can emerge due to change in the external environment, like increase in price of raw material, or transport costs going up if the petrol prices are revised.

FINANCIAL FEASIBILITY ANALYSIS

5. Working capital estimates for running the business are also made.

FINANCIAL FEASIBILITY ANALYSIS

6. Cost of production, which would include raw material cost, labour cost, overhead expenses, utilities like power, water, fuel, etc.

FINANCIAL FEASIBILITY ANALYSIS

7. Sales and production estimates: Based on the plant capacity the production and sales estimates are made, which help in estimating profitability.

FINANCIAL FEASIBILITY ANALYSIS

Profitability projections are made on the following parameters:

- Cost of production
- Sales expenses
- Administrative expenses
- Expected Sales.

APPLYING FEASIBILITY OUTCOMES

APPLYING FEASIBILITY OUTCOMES

- After conducting a feasibility analysis, you must determine whether to proceed with the venture.
- One technique that is commonly used in project management known as a **go-or-no-go decision**.

GO-OR-NO-GO DECISION

go-or-no-go decision

a tool that allows a team to decide if criteria have been met to move forward on a project

APPLYING FEASIBILITY OUTCOMES

- Criteria on which to base a decision are established and tracked over time.
- You can develop criteria for each section of the feasibility analysis to determine whether to proceed and evaluate those criteria as either "go" or "no go", using that assessment to make a final determination of the overall concept feasibility.
- Determine whether you are comfortable proceeding with the present management, whether you can "go" forward with existing nonfinancial resources, whether the projected financial outlook is worth proceeding, and make a determination on the market and industry.
- If satisfied that enough "go" criteria are met, you would likely then proceed to developing your strategy in the form of a business plan.