3rd Question

What Is Feasibility Analysis?

Feasibility analysis is the process of evaluating a business idea to determine its viability.

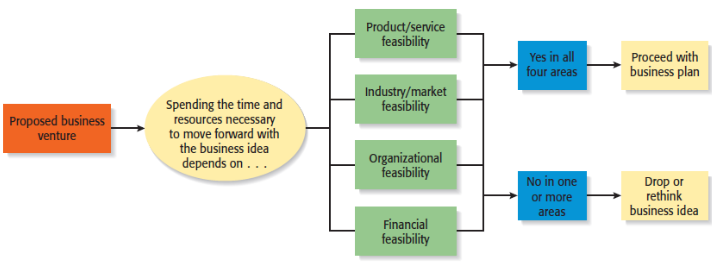
- Purpose: To assess whether the idea is worth pursuing.
- Preliminary Evaluation: It is an early-stage assessment to identify if the business idea has potential for success before committing significant resources.

When to Conduct a Feasibility Analysis ?

Timing of Feasibility Analysis:

- Conduct feasibility analysis early in the process of evaluating a new business idea.
- The goal is to screen and assess ideas before significant resources (time, money, effort) are spent.

Components of a Properly Conducted Feasibility Analysis



Outline for a Comprehensive Feasibility Analysis

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

1. Product/Service Feasibility Analysis

The goal of a product/service feasibility analysis is to evaluate the overall appeal of the product or service being proposed. This ensures the product or service aligns with customer needs and market demand before significant resources are committed to its development.

Product/Service Desirability

Desirability is about whether people like the idea.

Questions to Evaluate Appeal:

- Does the product or service make sense? Is it reasonable?
- Does it excite potential consumers?
- Does it address an environmental trend, solve a problem, or fill a gap in the marketplace?
- Is the timing right for its introduction?
- Are there any fatal flaws in its design or concept?

Administer a Concept :

- Develop a **concept statement**—a one-page document describing the business idea.
- Share the concept statement with potential customers or industry experts and gather feedback.
- Purpose of Feedback:

  Assess the viability of the idea.

  Get suggestions for improvements or refinements before moving forward.

Product/Service Demand

Demand is about whether people will actually pay for it.

Step 1: Administer a Buying Intentions Survey

- Create a short survey based on the **concept statement** to gauge interest.
- Distribute the survey to a sample of potential customers.

- Use tools like **SurveyMonkey** or other online platforms for easy and cost-effective administration.

Step 2: Conduct Library, Internet, and Gumshoe Research

- **Library Research:**

  Use trade journals, industry reports, and publications to gather data on your business idea.

  Consult with reference librarians for specific resources.

- **Internet Research:**

  Search for industry insights and competitor analysis to assess market potential.

- **Gumshoe Research:**

  Adopt a detective's approach to gather on-the-ground insights.

  Example: If selling educational toys, volunteer at a daycare to observe children's interactions with toys.

  Directly ask potential customers for their thoughts on your product/service idea.

2. **Industry/Target Market Feasibility Analysis**

The purpose of this analysis is to evaluate the overall appeal of the industry and target market for the proposed business:

- Industry: A group of firms producing similar products or services.
- Target Market: The specific segment of the industry the business plans to focus on.

Industry Attractiveness

Industry Attractiveness refers to how favorable an industry is for new businesses based on factors like growth potential, competition, profitability, and market demand. A highly attractive industry offers good opportunities for success, while an unattractive industry may have high competition, low profitability, or declining demand.

Industries differ in their attractiveness. Favorable industries often exhibit characteristics that support business success.

Characteristics of Attractive Industries:

- Young vs. Old: Younger industries often present more growth opportunities.
- Early Life Cycle vs. Late Life Cycle: Early-stage industries provide more innovation and market entry chances.
- Fragmented vs. Concentrated: Fragmented industries offer opportunities to stand out without facing dominant competitors.
- Growing vs. Shrinking: Industries experiencing growth are more likely to support new businesses.
- "Must-Have" vs. "Want-to-Have" Products/Services: Essential products/services face steady demand.
- Uncrowded: Lower competition makes it easier to establish market presence.
- High Operating Margins: Higher profit margins allow better financial stability.
- Not Dependent on Low-Cost Key Raw Materials: Less vulnerability to fluctuations in raw material prices increases resilience.

Target Market Attractiveness

Definition: The specific segment of the market the business aims to serve.

Challenges in Target Market Assessment:

- Size vs. Competition:

- The market should be large enough to support the business.
- It should also be small enough to avoid drawing attention from larger competitors.

- Data Accessibility:
  - Gathering reliable information on a specific target market often requires creativity and ingenuity.

3. Organizational Feasibility Analysis

This analysis evaluates whether a proposed business has the **management expertise**, **organizational capability**, and **non-financial resources** necessary to successfully launch and sustain the business.

Management Prowess

Definition: The ability and readiness of the management team or entrepreneur to lead the business effectively.

Key Factors:

- Passion for the Idea: The entrepreneur or founding team must be genuinely enthusiastic about the business concept.
- Market Understanding: The team must demonstrate a strong understanding of the target market and industry dynamics.
- Self-Evaluation: Honest assessment of whether the team has the skills and commitment to meet challenges.

Resource Sufficiency

Definition: Evaluates if the entrepreneur has access to the necessary non-financial resources for launching and sustaining the business.

Steps:

- Identify 6 to 12 critical resources required for the business's success.
  - Assess if these resources are readily available or can be acquired within a reasonable timeframe.
  - Determine if the absence of critical resources would make the venture unfeasible.

4. Financial Feasibility Analysis

The financial feasibility analysis is the final component of a comprehensive feasibility analysis. Its purpose is to determine whether the business idea is financially viable and worth pursuing. A preliminary financial assessment is sufficient at this stage.

Total Start-Up Cash Needed

- **Definition**: Assess the total cash required to prepare the business to make its **first sale**.

  Steps:

  Create a **detailed budget** listing all anticipated:

  Capital purchases: Equipment, machinery, technology, etc.

  Operating expenses: Salaries, rent, marketing, utilities, etc.

  Ensure the required cash aligns with the financial resources available.

- **Objective**: To determine if the start-up venture is **realistic** based on the required start-up cash.

Financial Performance of Similar Businesses

- **Definition**: Estimate the financial performance of the proposed business by comparing it with similar, established businesses.

Methods:

- Use industry reports and financial trend analyses to access data on similar businesses.
- Conduct observational research:

  Track customer activity at similar businesses.

  Estimate sales and expenses based on observed trends.

Overall Financial Attractiveness of the Proposed Venture

- **Definition**: Assess whether the business opportunity is financially promising by examining critical financial factors.
- **Key Financial Factors**:
  - **Steady and rapid sales growth**: Expect growth in sales within the first 5 to 7 years in a defined market.
  - **High recurring revenue**: Revenue from repeat customers provides stability.
  - **Predictable income and expenses**: The ability to forecast with reasonable certainty.
  - **Internally generated funds**: The business should eventually sustain growth without external funding.
  - **Exit opportunities for investors**: Investors should have the ability to convert equity into cash.

<u>Example of a Feasibility Study: Launching a Specialty Coffee Shop</u>

This feasibility analysis evaluates the potential success of launching a specialty coffee shop focused on high-quality, ethically sourced coffee and a unique customer experience.

1. Product/Service Feasibility Analysis

Goal: To determine if the coffee shop aligns with customer needs and market demand.

Product/Service Desirability

Questions to Evaluate Appeal:

- Does the coffee shop offer a unique and high-quality experience?
- Will customers be excited about specialty, ethically sourced coffee?
- Does it solve a problem (e.g., lack of premium coffee options in the area)?
- Is now the right time to launch, considering market trends and competition?
- Are there any major flaws (e.g., location issues, high pricing)?

Administer a Concept Statement:

- Create a one-page document outlining:
  - The shop's purpose (premium, sustainable coffee with a cozy atmosphere).
  - Key features (handcrafted drinks, local pastries, comfortable workspace).
  - Target audience (students, professionals, remote workers, coffee lovers).
- Share the concept with potential customers and industry experts.
- **Purpose of Feedback:**
  - Validate the idea's appeal.
  - Identify potential improvements (menu selection, pricing, ambiance).

Product/Service Demand

Step 1: Buying Intentions Survey

- Create a short survey with questions such as:

- How often do you buy coffee outside your home?
- What price would you pay for a high-quality coffee?
- Do you prefer organic, fair-trade coffee?

- Use **Google Forms, SurveyMonkey**, or in-person surveys near coffee hotspots.
- Analyze responses to measure demand.

Step 2: Research Methods

- **Library Research:** Analyze industry reports on coffee consumption trends.
- **Internet Research:**
  - Study competitors (Starbucks, local coffee shops).
  - Identify pricing strategies and customer preferences.
- **Gumshoe Research:**
  - Visit competitors to observe peak hours, menu items, and customer behavior.
  - Ask coffee drinkers about their preferences and favorite cafes.

2. Industry/Target Market Feasibility Analysis

Goal: To assess the overall appeal of the coffee shop industry and the target market.

Industry Attractiveness

- **Growing industry:** The coffee market continues to expand, driven by specialty coffee demand.
- **Early-stage industry opportunities:** Third-wave coffee shops focusing on premium quality are trending.
- **Fragmented market:** Small coffee shops can thrive by offering a unique experience.
- **Recurring revenue potential:** Daily customers ensure stable income.
- **"Must-have" product:** Coffee is a daily necessity for many consumers.

Target Market Attractiveness

- **Target Market:** Young professionals, students, remote workers, and coffee enthusiasts.
- **Market Size vs. Competition:**
  - The demand for specialty coffee is increasing.
  - Niche focus (e.g., eco-friendly coffee, locally sourced beans) helps differentiation.
- **Data Accessibility:**
  - Use surveys, competitor analysis, and market reports to gather insights.

3. Organizational Feasibility Analysis

Goal: To determine if the business has the expertise and resources to launch and sustain the coffee shop.

Management Prowess

- **Passion for Coffee & Customer Service:** Owners must be committed to quality and experience.
- **Industry Knowledge:** Understanding of coffee sourcing, roasting, and barista skills.
- **Self-Evaluation:** Assess ability to handle daily operations, staffing, and marketing.

Resource Sufficiency

- **Critical Resources Needed:**
  - Equipment (espresso machines, grinders, brewing tools).

- Quality coffee beans (sourced ethically and sustainably).
- Location (high foot traffic, accessibility).

- **Availability Check:**
  - Partner with local coffee roasters for quality supply.
  - Hire experienced baristas and customer service staff.

4. Financial Feasibility Analysis

Goal: To evaluate the financial viability of the coffee shop.

Total Start-Up Cash Needed

- **Estimated Budget:**
  - **Location & Lease:** $30,000 (deposit, renovation, permits).
  - **Equipment:** $15,000 (espresso machines, grinders, brewing tools).
  - **Inventory:** $5,000 (coffee beans, milk, pastries).
  - **Marketing:** $5,000 (branding, social media, grand opening).
  - **Total Start-Up Cost:** ~$55,000.

Financial Performance of Similar Businesses

- **Research Competitors:**
  - Analyze pricing, customer volume, and profit margins at similar coffee shops.
- **Observational Research:**
  - Visit local cafes and estimate customer spending habits.
  - Track peak hours to determine potential sales volume.

Overall Financial Attractiveness

- **Expected Sales Growth:** Aim for 200 daily customers in the first year.
- **Recurring Revenue:** Daily coffee purchases ensure steady income.
- **Predictable Costs:** Fixed rent, staffing, and inventory expenses.
- **Investor Appeal:** Strong market demand for specialty coffee.

What is Red Ocean?

"Red Ocean" refers to **existing, highly competitive markets** where businesses fight over the same customers. In a Red Ocean, industries are well-defined, and companies try to outperform competitors by improving their products, lowering costs, or increasing efficiency.

Characteristics of a Red Ocean:

- **High competition:** Many companies compete for the same market share.
- **Well-established demand:** Customers are already familiar with the products and services.
- **Price wars & shrinking profits:** Businesses often lower prices to attract customers, reducing profitability.
- **Limited innovation:** Companies mainly focus on improving existing offerings rather than creating something new.

Example of a Red Ocean Market:

- **Fast Food Industry** – McDonald's, Burger King, KFC, and Wendy's all compete in a well-established industry.
- **Smartphone Industry** – Apple, Samsung, and other brands fight over the same customers by improving specs and features.

Business Process Reengineering (BPR)

Business Process Reengineering (BPR) is a radical approach to redesigning business processes to achieve **dramatic improvements** in performance, efficiency, and quality. Instead of making small changes or optimizations, BPR **rethinks and reworks** processes from scratch to deliver **maximum value** to customers.

5 Key Steps of BPR

1. **Map Current Processes** – Identify and document how things work now.
2. **Analyze Gaps & Issues** – Find inefficiencies, delays, and bottlenecks.
3. **Identify Improvements** – Eliminate unnecessary steps, automate tasks, and integrate functions.
4. **Design a New Process** – Create a more efficient workflow with clear KPIs.
5. **Implement & Monitor** – Train employees, launch the new system, and track performance.

Why is Business Process Reengineering Important?

BPR is **essential** for organizations that need to improve performance, reduce inefficiencies, and stay competitive.

1. Reducing Costs and Cycle Times

- **Eliminates unnecessary steps** and manual processes, reducing operational costs.
- Shortens **cycle times** by improving process flow.
- Example: A company switches from **paper-based invoices to digital invoices**, reducing processing time from weeks to hours.

2. Improving Quality and Customer Satisfaction

- Reducing **errors and rework** leads to better quality products and services.
- Customers experience **faster service and fewer complaints**.
- Example: A telecom company **automates customer support chatbots**, reducing wait times.

3. Increasing Agility and Innovation

- Helps businesses quickly **adapt to market changes** and new technologies.
- Enables **faster decision-making** by reducing complexity.
- Example: A retail business adopts **e-commerce and automated order fulfillment** to compete with online retailers.

Real-World Examples of Business Process Reengineering

1. Ford's Accounts Payable Process

- **Problem:** Ford's accounts payable process was slow and required many approvals.
- **Solution:** Ford **automated invoice processing and removed unnecessary approvals**, reducing staff by 75%.

2. Amazon's Warehouse Automation

- **Problem:** Manual inventory management led to inefficiencies.
- **Solution:** Amazon introduced **robots and AI-driven systems** to optimize inventory tracking and fulfillment, improving delivery speed.

3. Domino's Pizza Digital Transformation

- **Problem:** Traditional phone orders led to delays and errors.
- **Solution:** Domino's **introduced mobile ordering and AI-driven chatbots**,

reducing order mistakes and increasing sales.

How Business Process Reengineering (BPR) Helps Businesses Sustain Growth Beyond Maturity?

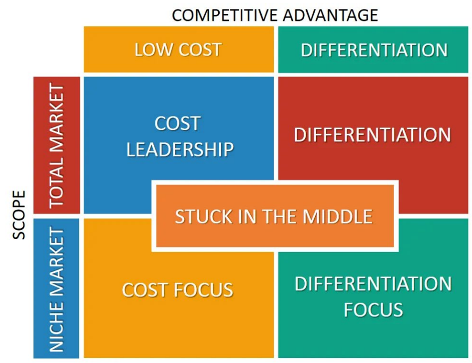
When a business reaches the **maturity stage** of its lifecycle, growth often slows down, competition increases, and operational inefficiencies become more apparent. Many companies struggle at this stage because they continue relying on **outdated processes, rigid structures, and inefficient workflows**.

Business Process Reengineering (BPR) helps businesses survive and thrive beyond maturity by fundamentally transforming their operations, making them more **efficient, agile, and competitive**.

Key Ways BPR Supports Business Growth Beyond Maturity

Reduces Costs & Inefficiencies – Eliminates redundant processes and streamlines workflows.
Drives Digital Transformation – Integrates AI, automation, and cloud technology.
Enhances Customer Experience – Improves speed, personalization, and responsiveness.
Increases Agility & Adaptability – Enables faster decision-making and market responsiveness.
Creates New Revenue Streams – Helps businesses pivot and expand into new markets.
Improves Decision-Making – Uses real-time data and AI for smarter strategies.
Restructures Organizations – Reduces bureaucracy for faster operations.

Porter's Generic Strategies – Competitive Strategies



Definition:
Porter's Generic Strategies, developed by **Michael Porter**, describe how businesses can achieve a **competitive advantage** in their industry. These strategies help businesses position themselves effectively against competitors.

Components of Porter's Generic Strategies

1. **Cost Leadership Strategy**

- Aim: Become the **lowest-cost** producer in the industry.
- How: Reduce production costs, optimize supply chains, and achieve economies of scale.
- Example: **Walmart** – Offers low prices by minimizing operational costs.

2. **Differentiation Strategy**

- Aim: Offer **unique products or services** that stand out.
- How: Focus on innovation, branding, and superior quality.
- Example: **Apple** – Premium design, innovation, and strong brand loyalty.

3. **Cost Focus Strategy**

- Aim: Target a **niche market** with lower prices.
- How: Provide cost-effective solutions for a specific customer segment.

- Example: **Aldi** – Budget-friendly grocery stores catering to price-sensitive shoppers.

4. **Differentiation Focus Strategy**

- Aim: Serve a **niche market** with unique, high-quality products.
- How: Offer specialized services or premium products for a specific customer base.
- Example: **Rolex** – Luxury watches for high-income customers.

Using Porter's Generic Strategies in a Red Ocean to Gain Competitive Advantage

Can Porter's Generic Strategies Be Used in a Red Ocean?

Yes! Porter's Generic Strategies can help businesses **gain a competitive advantage** even in a **Red Ocean**, where competition is intense, and the market is saturated. By applying **Cost Leadership, Differentiation, or Focus Strategies**, a company can stand out and increase sales despite fierce competition.

Example:

How to Apply Porter's Strategies in the Car Industry

Industry: Car Manufacturing (Highly competitive Red Ocean market)
Company Example: Toyota

1. **Cost Leadership Strategy (Winning on Price)**

How?

- Optimize production through **lean manufacturing** (Toyota Production System).
- Reduce costs through **economies of scale** and **efficient supply chains**.
- Offer **affordable** yet reliable vehicles.

Example: Toyota **Corolla** – One of the world's best-selling cars due to affordability, reliability, and fuel efficiency.

2. **Differentiation Strategy (Winning on Uniqueness)**

How?

- Focus on **innovation** (Hybrid & Electric Vehicles).
- Invest in **brand reputation** for durability & quality.
- Enhance **safety features, technology, and design** to attract premium buyers.

Example: Toyota Prius – The first mass-produced **hybrid car**, differentiating itself through eco-friendliness and fuel efficiency.

3. **Cost Focus Strategy (Targeting a Specific Budget Segment)**

How?

- Focus on low-cost, **small cars for emerging markets**.
- Manufacture in regions with lower costs.

Example: Toyota Etios – Affordable model designed specifically for **developing markets like India**.

4. **Differentiation Focus Strategy (Luxury & Performance for a Niche Market)**

How?

- Create a **premium car brand** with luxury features.
- Focus on a niche audience that values luxury, comfort, and technology.

Example: Lexus (Toyota's luxury brand) – Competes with **Mercedes & BMW** by offering luxury, reliability, and advanced technology.