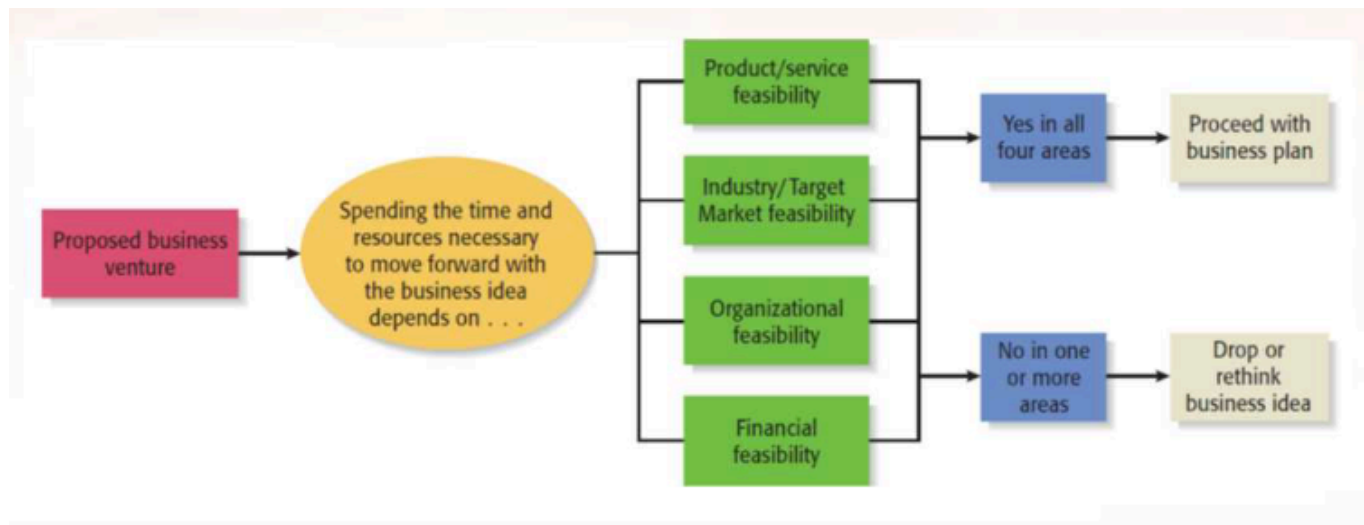


L15 APSC221 - Feasibility Analysis

Feasibility analysis is the process of determining whether a business opportunity is viable, if an idea is worth pursuing



Product/Service

- an assessment of the overall appeal of the product or service being proposed
- the product/service should be what prospective customers want

Questions to ask:

- does it make sense? is it reasonable?
- does it take advantage of market trends or gaps?
- is this a good time to introduce the product/service to the market?

Concept test

- concept statement: a one-page description distributed to people for feedback
- feedback should give a sense of the viability of the product/service
- sections: product, target market, benefits of the product, market positioning, management team

Demand should also be evaluated with potential customers through forms, ads, or surveys

Industry/Target Market

An assessment of the overall appeal of the industry and the target market for the proposed business

A firm's **target market** is the limited portion of the industry it plans to go after.

Characteristics of attractive industries:

- young rather than old, early rather than late in their life cycle
- fragmented
- growing, not crowded
- selling "needs", not "wants"
- high operating margins

Challenge: find a market that's large enough for the proposed business but is yet small enough to avoid attracting larger competitors

Organizational Feasibility

Conducted to determine whether a proposed business has sufficient management expertise, organizational competence, and resources to successfully launch a business

Focuses on non-financial resources

The team must have passion for the business idea, and a strong understanding of the markets in which it will operate in

A firm should also list the 6-12 most critical non-financial resources that will be needed to move the business idea forward successfully, such as:

- office/lab/manufacturing space
- contractors or service providers
- management employees and support personnel
- ability to obtain intellectual property protection
- ability to form favorable business partnerships

Financial Feasibility

A total start-up cash number should be determined by listing all anticipated capital purchases and operating expenses to generate the first dollar in revenue.

Estimate the proposed start-up's financial performance by comparing it to similar, already established businesses.

Financial factors associated with promising business opportunities:

- steady and rapid growth in sales during the first 5-7 years in clearly defined market niche
- high percentage of recurring 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