



**Universität
Zürich** ^{UZH}

Department of Business Administration - Chair for Entrepreneurship

A Primer in Entrepreneurship

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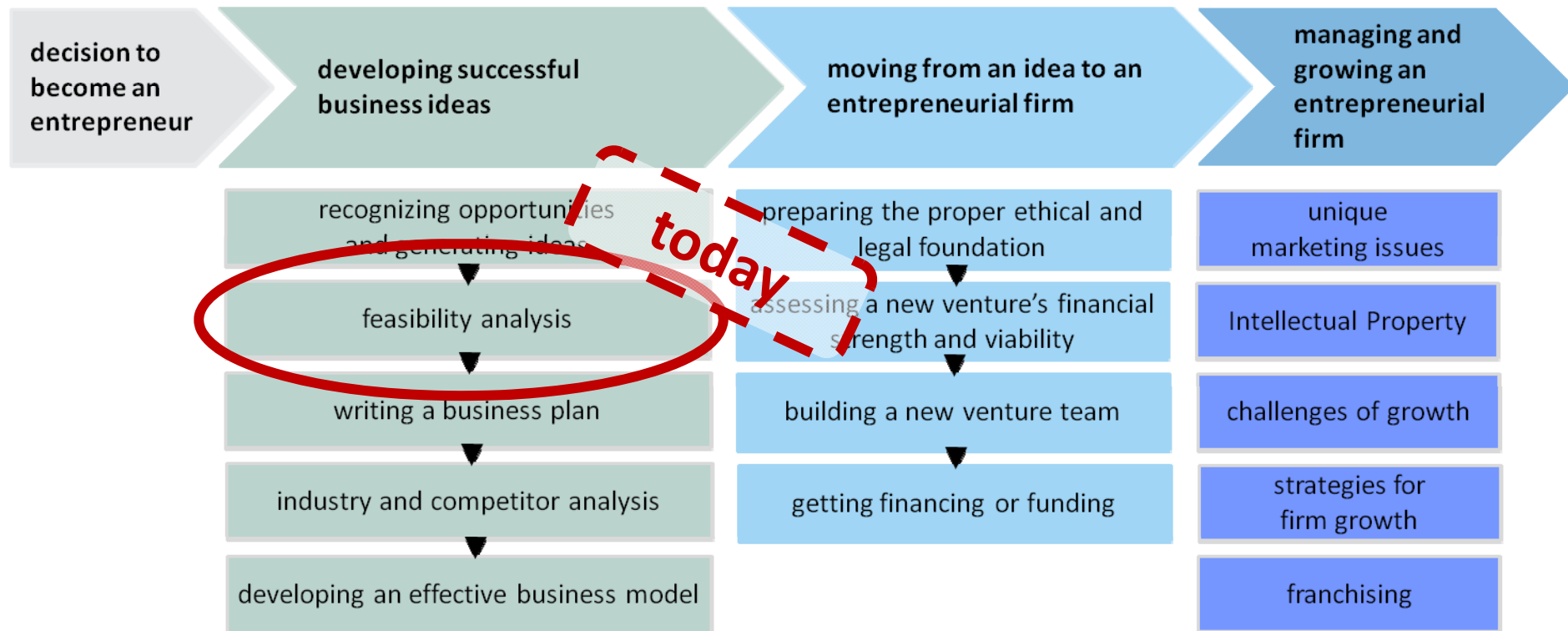
Chair of Entrepreneurship

Universität Zürich

Fall 2012



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A Primer in Entrepreneurship

Part II Developing Successful Business Ideas

Lecture 3 Feasibility Analysis

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Agenda

1. Feasibility Analysis: An Overview

1.1 Timing

1.2 Four Types of Feasibility Analysis

2. Product / Service Feasibility Analysis

2.1 Concept Testing

2.2 Usability Testing

3. Industry / Market Feasibility Analysis

4. Organizational Feasibility Analysis

5. Financial Feasibility Analysis



Questions

- ? What is a feasibility analysis and what is it designed to accomplish in general?
- ? What are the four areas that a properly executed feasibility analysis explores ?
- ? What are the (primary) issues to consider in each of these four areas ?

...to be answered in today's lecture.



1 Feasibility Analysis: An Overview

Feasibility analysis is the process of determining if a business idea is viable.

Feasibility Analysis ...

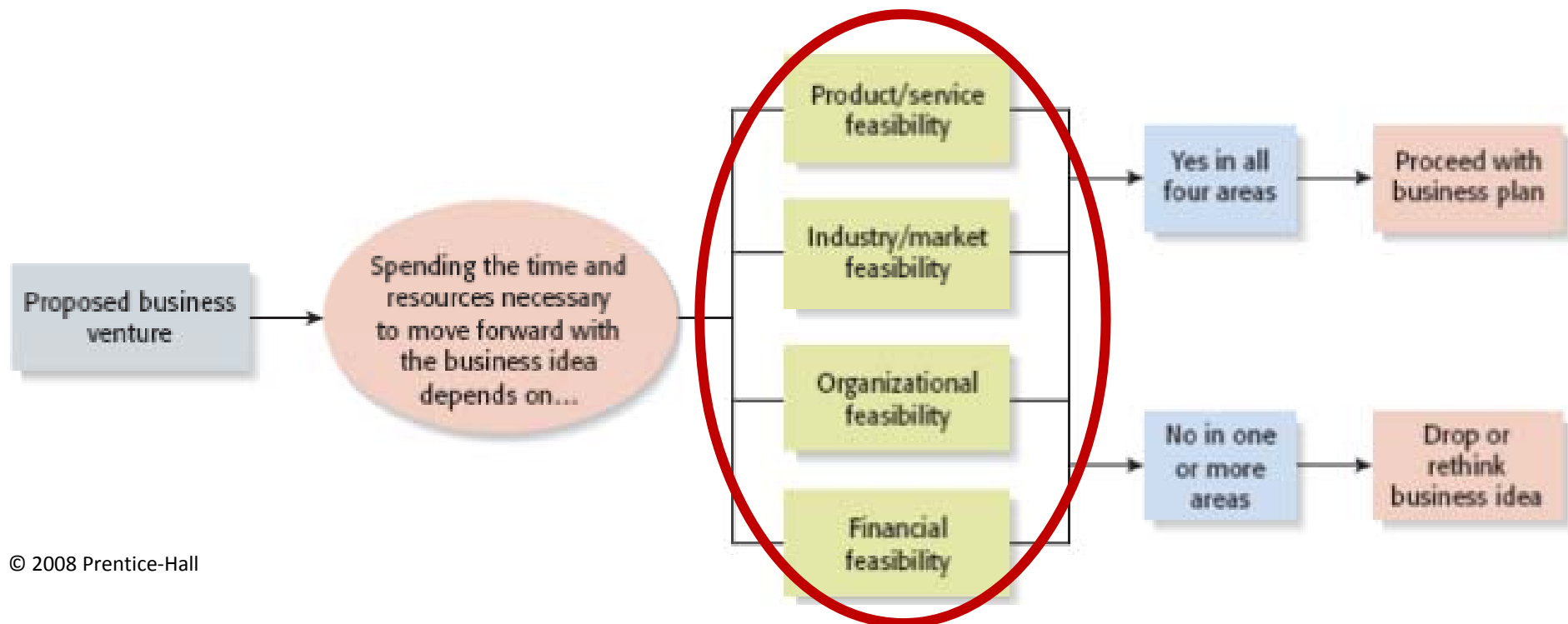
- ... is the preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing.
- ... takes the guesswork (to a certain degree) out of a business launch, and provides an entrepreneur with a more secure notion that a business idea is feasible or viable.
- ... follows the opportunity recognition stage but comes before the development of a business plan.



1 Feasibility Analysis: An Overview

1.1 Timing

Before a company undertakes a feasibility analysis, a concept statement should be developed.

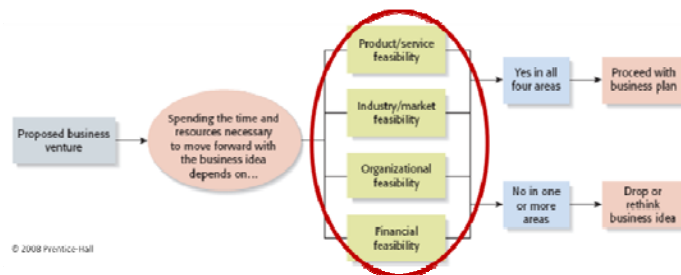


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1 Feasibility Analysis: An Overview

1.1 Timing



The sequence pictured makes perfect sense.

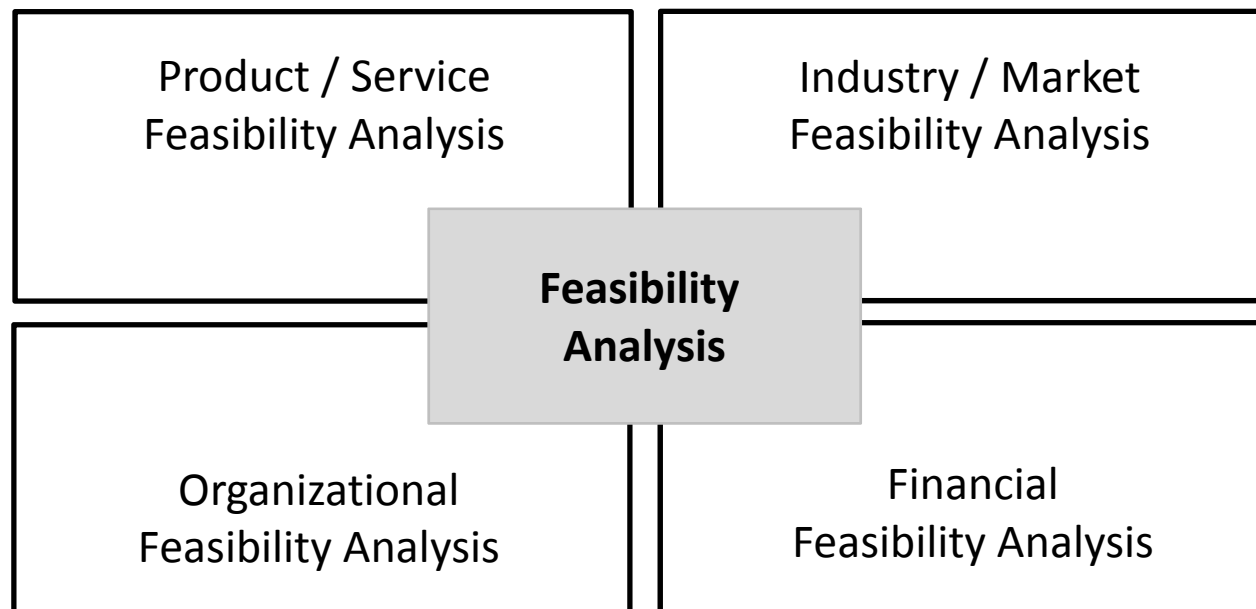
BUT The majority of entrepreneurs do not follow this pattern before launching their ventures.

Entrepreneurs tend to underestimate the amount of competition there will be in the marketplace and tend to overestimate their personal chance for success.



1 Feasibility Analysis: An Overview

1.2 Four Types of Feasibility Analysis





2 Product / Service Feasibility Analysis

The product / service feasibility analysis is an assessment of the overall appeal of the product or service being proposed.

idea

Before a prospective firm rushes a product or service into development, it should be confident that the product or service is what prospective customers want.

components

- Concept Testing
- Usability Testing



2 Product / Service Feasibility Analysis

2.1 Concept Testing

A concept test entails showing a representation of the product or service to prospective users to gauge customer interest, desirability, and purchase intent.

Concept Statement is a one page description of a business that is distributed by a startup entrepreneur to people who are asked to provide feedback on the potential of the business idea.



2 Product / Service Feasibility Analysis

2.1 Concept Testing

Purpose







1. evaluate the underlying premises of a product or service that an entrepreneur thinks is compelling
2. help develop an idea
3. estimate the potential market share the product or service might command



2 Product / Service Feasibility Analysis

2.1 Concept Testing

information to include

-  a description of the product or service being offered
-  the intended target market
-  the benefits of the product or service
-  a description of how the product will be positioned relative to similar ones in the market
-  a description of how the product or service will be sold and distributed
-  information about the founder or founders of the firm



2 Product / Service Feasibility Analysis

2.1 Concept Testing (Example) New Venture Fitness Drinks Inc.

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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



2 Product / Service Feasibility Analysis

A concept test is usually followed by the development of a prototype or model of the product or service ...

prototype

is the first physical depiction of a new product, which is usually still in a rough or tentative mode.

virtual prototype

is a computer-generated 3D image of an idea and displays an invention as a 3D model that can be viewed from all sides and rotated 360° .

For products, like a new board game, a prototype is needed to get more substantive feedback than can be gleaned from a concept statement.

...having a prototype available permits usability testing to take place.



2 Product / Service Feasibility Analysis

2.2 Usability Testing

Usability testing

... measures a product's ease of use and the user's perception of the experience.

... is sometimes called user test, beta test, or field trial.



The conduct of a usability test is a good investment of an entrepreneur's or firm's resources,

BUT it is tempting to rush a new product or service to market.

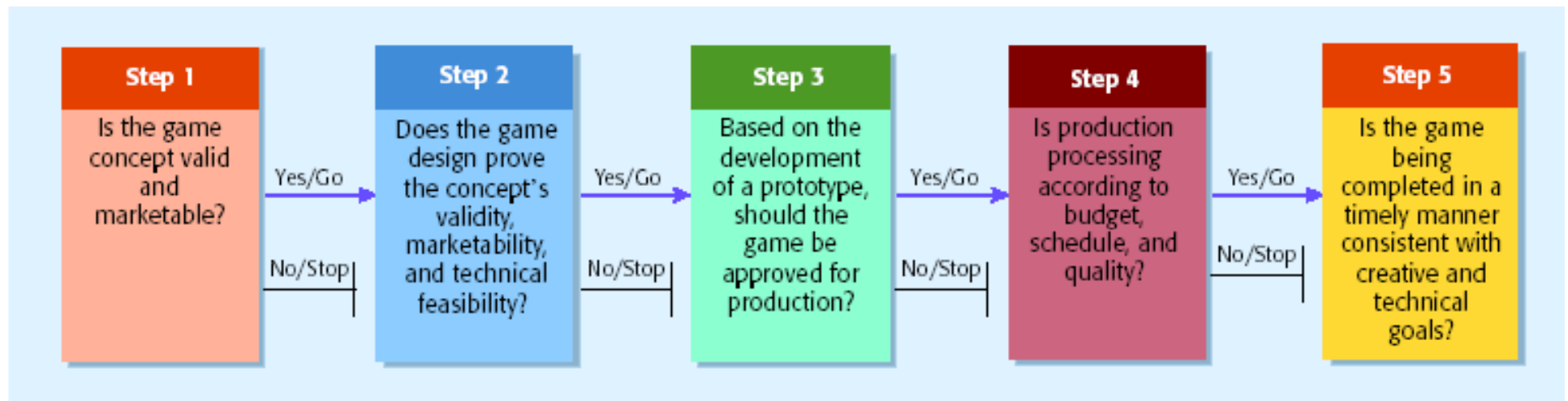
Many products that consumers find frustrating to work with have been brought to market too quickly!



2 Product / Service Feasibility Analysis

Concept and Usability Testing in Practice

The “green light process” at Activision





3 Industry / Market Feasibility Analysis

The Industry / Market Feasibility Analysis is an assessment of the overall appeal of the market for the product or service being proposed.

There are three primary issues that should be considered.

- 1.** industry attractiveness
- 2.** market timeliness
- 3.** identification of a niche market



3 Industry / Market Feasibility Analysis

industry attractiveness

A primary determinant of a new venture's feasibility is the attractiveness of the industry it chooses.

Industries vary considerably in terms of their growth rate.

Characteristics of the most attractive industries

- being large and growing
- being important to the customer
- being fairly young rather than older and more mature
- having high rather than low operating margins
- not being crowded

In addition to evaluating an industry's growth potential, a new venture will want to know more about the industry it plans to enter.



3 Industry / Market Feasibility Analysis

industry attractiveness

Getting to know more about the industry can be accomplished through both primary and secondary research.

Role of primary and secondary research in investigating industry attractiveness

Primary Research

Original research that is collected by the entrepreneur and involves an entrepreneur talking to potential customers and key industry participants.

Secondary Research

Research that probes data that are already collected and have its source in industry-related publications, government statistics, competitor's web sites, and industry reports from research like Forrester Research.



3 Industry / Market Feasibility Analysis

market timeliness

A second consideration is the timeliness of the introduction of a particular product or service.

**products/ services
being an improvement
of those already
available in the
marketplace**

- Window of opportunity: Open? Closed?
- Good time for entering the market:
Are customers buying?
Are industry incumbents making money?

**breakthrough product/
service establishing a
new market segment**

Should we try to capture a first-mover advantage?



3 Industry / Market Feasibility Analysis

identification of a niche market

A niche market is a place within a larger market segment that represents a narrower group of customers with similar interests.

Selling to a niche market makes sense, because ...

- ... it allows a firm to establish itself within an industry without competing against major competitors head on.
- ... it allows a firm to focus on serving a specialized market very well instead of trying to be everything to everybody in a broad market which is nearly impossible for new entrant.



3 Industry / Market Feasibility Analysis

identification of a niche market

Another useful way of thinking about this topic is to distinguish between vertical and horizontal markets.

Vertical Market

is analogous to a niche market and focuses on similar businesses that have specific needs. Start-ups typically start by selling into vertical markets.

Horizontal Market

meets the specific needs of a wide variety of industries, rather than a specific one.



4 Organizational Feasibility Analysis

The aim is to determine whether the business itself has sufficient expertise, competence and resources to successfully launch its business.

There are two primary issues to consider.

- 1.** Management Prowess
- 2.** Resource Sufficiency



4 Organizational Feasibility Analysis

management prowess

A firm should candidly evaluate the prowess (ability) of its management team.

Management should have:

- the requisite **passion**.

The passion that the solo entrepreneur or the founding team has for the business idea.

- the **expertise** to launch the venture.

The extent to which the solo entrepreneur or the founding team understands the markets in which the firm will participate.

Solo entrepreneurs or founding teams with **established social and professional networks** also have an advantage.



4 Organizational Feasibility Analysis

resource sufficiency

The assessment of whether an entrepreneur has sufficient resources to launch the proposed venture focuses on nonfinancial resources.

A firm should list the 6 to 12 **critical nonfinancial resources** that will be needed to move forward to successfully develop the business idea.



If critical resources are not available in certain areas, it may be impractical to proceed with the business idea.



4 Organizational Feasibility Analysis

resource sufficiency

Nonfinancial resources that may be critical to the successful launch of a new business may be :

- availability of affordable office or lab space,
- likelihood of local and state government support of the business,
- quality of the labor pool available,
- proximity to key suppliers and customers,
- willingness of high quality employees to join the firm,
- likelihood of establishing favorable strategic partnerships,
- proximity to similar forms for the purpose of sharing knowledge,
- possibility of obtaining intellectual property protection in key areas.



5 Financial Feasibility Analysis

**As the final stage of a comprehensive feasibility analysis
a quick financial assessment is usually sufficient.**

Most important issues to consider:

- 1.** total start-up cash needed
- 2.** financial performance of similar businesses
- 3.** overall attractiveness of the proposed venture



5 Financial Feasibility Analysis

total start-up cash needed

An actual budget should be prepared that lists all the anticipated capital purchases and operating expenses needed to generate the first CHF 1 in revenues.

Murphy's Law

“ Whatever can go wrong, will go wrong. ”

It is a rare start-up that does not have some setbacks in getting up and running.



When projecting start-up expenses, it is better to overestimate rather than underestimate the costs involved.



5 Financial Feasibility Analysis

financial performance of similar businesses

The proposed start-up's financial performance is estimated by comparing it to similar, already established businesses.

There are several methods to do this, all of which involve a little ethical detective work:

1. Available reports, of which some are for free and some require a fee: They offer detailed industry trend analysis and reports on thousands of individual firms.
2. Simple observation research: For example, the owners of New Ventures Fitness Drinks could estimate their sales by tracking the number of people who patronize similar restaurants and estimating the average amount each customer spends.



5 Financial Feasibility Analysis

financial performance of similar businesses

Business Rating Agencies

<http://www.creditreform.ch/>

<http://www.dnbswitzerland.ch>

Business Surveys

<http://www.kof.ethz.ch/services/data/>

Business Organizations

<http://www.zurichcci.ch/>



5 Financial Feasibility Analysis

overall attractiveness of the proposed venture

The extent to which a business opportunity is positive relative to each financial factor, which is associated with promising start-ups, is based on an estimate rather than actual performance.

Factors that pertain to the overall financial feasibility:

- ☒ steady and rapid growth in sales during the first 5 to 7 years in a 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 into cash



Do you know the answer ?



What is an feasibility analysis and what is it designed to accomplish in general?



What are the four areas that a properly executed feasibility analysis explores ?



What are the (primary) issues to consider in each of these four areas ?

...test yourself.



References

Barringer, B. and D., Ireland (2008): Entrepreneurship - Successfully Launching New Ventures, Pearsons Prentice-Hall.



Outlook

