

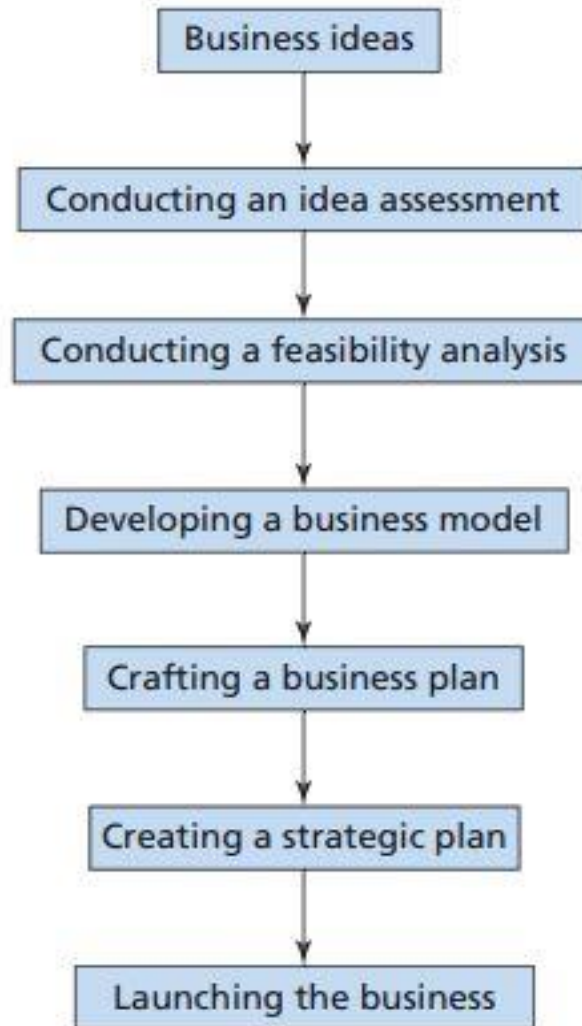
Conducting a Feasibility Analysis and Designing a Business Plan

Chapter 4

Idea assessment

- Once entrepreneurs develop ideas for new businesses, the next step is to assess these ideas.
- An idea assessment the process of examining a need in the market, developing a solution for that need, and determining the entrepreneur's ability to successfully turn the idea into a business.

Ideas to the launch of a new business venture



Idea sketch pad

- The idea sketch pad helps an entrepreneur assess ideas in a relatively short period of time.
- Customers
- Offering
- Value proposition
- Core competencies
- People

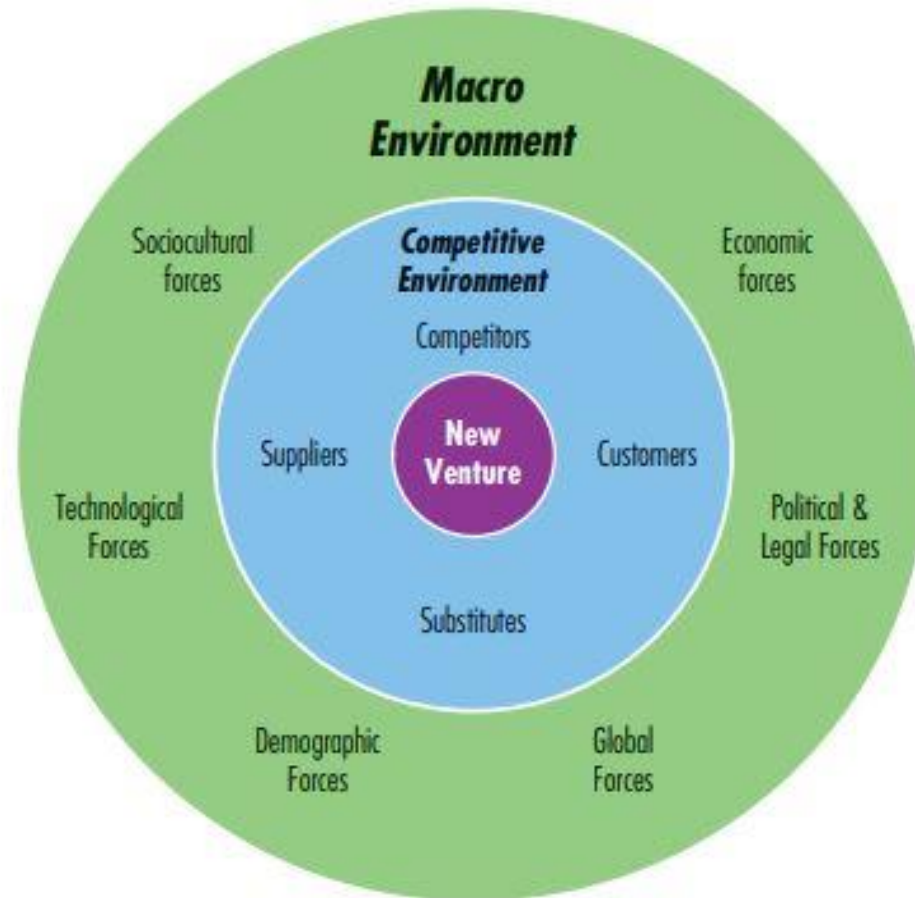
Feasibility Analysis

- the process of determining whether an entrepreneur's idea is a viable foundation for creating a successful business.
- A feasibility analysis consists of three interrelated components: an industry and market feasibility analysis, a product or service feasibility analysis, and a financial feasibility analysis.

Industry and Market Feasibility Analysis

- Determine how attractive an industry is overall as a “home” for a new business.
- Identify possible niches a small business can occupy profitably.
- The first step in assessing industry attractiveness is to paint a picture of the industry in broad strokes, assessing it from a “macro” level.
- Most opportunities for new businesses within an industry are due to changes taking place in that industry.

Environmental Forces and New Ventures



Environmental Forces and New Ventures

- Sociocultural
- Technological
- Demographic
- Economic
- Political and legal

Porter's Five Forces Model



Porter's Five Forces Model

I. Rivalry among companies competing in the industry

Generally, an industry is more attractive when:

- a. The number of competitors is large or, at the other extreme, quite small (fewer than five).
- b. Competitors are not similar in size or capability.
- c. The industry is growing at a fast pace.
- d. The opportunity to sell a differentiated product or service is present.

Porter's Five Forces Model

II. Bargaining power of suppliers to the industry

Generally, an industry is more attractive when:

- a. Many suppliers sell a commodity product to the companies in it.
- b. Substitute products are available for the items suppliers provide.
- c. Companies in the industry find it easy to switch from one supplier to another or to substitute products (i.e., “switching costs” are low).
- d. The items suppliers provide the industry account for a relatively small portion of the cost of the industry's finished products.

Porter's Five Forces Model

III. Bargaining power of buyers

Generally, an industry is more attractive when:

- a. Industry customers' "switching costs" to competitors' products or to substitutes are relatively high.
- b. The number of buyers in the industry is large.
- c. Customers demand products that are differentiated rather than purchase commodity products they can obtain from any supplier (and subsequently can pit one company against another to drive down price).
- d. Customers find it difficult to gather information on suppliers' costs, prices, and product features—something that is becoming much easier for customers in many industries to do by using the Internet.

Porter's Five Forces Model

IV. Threat of new entrants to the industry

Generally, an industry is more attractive to new entrants when:

- a. The advantages of economies of scale are absent.
- b. Capital requirements to enter the industry are low.
- c. Cost advantages are not related to company size.
- d. Buyers are not extremely brand-loyal, making it easier for new entrants to the industry to draw customers away from existing businesses.
- e. Governments, through their regulatory and international trade policies, do not restrict new companies from entering the industry.

Porter's Five Forces Model

V. Threat of substitute products or services

Generally, an industry is more attractive when:

- a. Quality substitute products are not readily available.
- b. The prices of substitute products are not significantly lower than those of the industry's products.
- c. Buyers' cost of switching to substitute products is high

Industry and Market Feasibility Analysis

- Market niches.
- The next step in assessing an industry is to identify potentially attractive niches that exist in the industry.
- The key question entrepreneurs address about a possible niche market is “Can we identify a niche that is large enough to produce a profit, or can we position our company uniquely in the market to differentiate it from the competition in a meaningful way?”

Product or Service Feasibility Analysis: Is There a Market?

- A product or service feasibility analysis determines the degree to which a product or service idea appeals to potential customers and identifies the resources necessary to produce the product or provide the service. This portion of the feasibility analysis addresses the question, “Are customers willing to purchase our goods and services?”
- Entrepreneurs need feedback from potential customers to successfully answer this question. Conducting **primary research** involves collecting data firsthand and analyzing it; **secondary research** involves gathering data that has already been compiled and is available, often at a reasonable cost or sometimes even free

Product or Service Feasibility Analysis: Is There a Market?

- CUSTOMER SURVEYS AND QUESTIONNAIRES
- FOCUS GROUPS
- PROTOTYPES
- IN-HOME TRIALS
- “WINDSHIELD” RESEARCH
- INDUSTRY DATABASES

Product or Service Feasibility Analysis: Is There a Market?

- DEMOGRAPHIC DATA
- CENSUS DATA
- FORECASTS
- MARKET RESEARCH
- ARTICLES
- LOCAL DATA
- THE INTERNET

Financial Feasibility Analysis: Is There Enough Margin?

- CAPITAL REQUIREMENTS
- ESTIMATED EARNINGS
- TIME OUT OF CASH
- RETURN ON INVESTMENT

Developing and Testing a Business Model

- The canvas is comprised of nine elements:

1. Customer segments
2. Value proposition.
3. Customer relationships
4. Channels
5. Key activities

Developing and Testing a Business Model

- 6. Key resources
- 7. Key partners
- 8. Revenue streams
- 9. Cost structure

Thank you!