Feasibility Analysis

What Is Feasibility Analysis?

Feasibility Analysis

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

- It is the preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing.

- A feasibility study:

- Is not the same as a business plan.

- Serves as a filter, screening out ideas that lack the potential for building a successful business before an entrepreneur commits the necessary resources to building a business plan.

When to Conduct a Feasibility Analysis

- Timing of Feasibility Analysis
  - The proper time to conduct a feasibility analysis is early in thinking through the prospects for a new business.
  - The thought is to screen ideas before a lot of resources are spent on them.

- Components of a Properly Conducted Feasibility Analysis
  - A properly conducted feasibility analysis includes four separate components (see next)

Feasibility Analysis

Figure 3.1 Role of Feasibility Analysis in Developing Successful Business Ideas

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

C. Management prowess

D. Resource sufficiency

    Part 4: Financial

    Feasibility

E. Total start-up cash needed

    F. Financial performance of similar businesses

G. Overall financial attractiveness of the proposed venture

    Overall Assessment

Product Feasibility Analysis

Purpose

- Is an **assessment of the overall appeal** of the good or service being proposed.

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

Product Feasibility Analysis

Components of product/service feasibility analysis

- Product/Service Desirability

- Product/Service Demand

Product Desirability

First, find a (qualitative) sample of **experts** (can be also *lead-users*, suppliers, clients, other start-uppers) to whom make questions with the aim to determine the basic appeal of the product. For YOU, that means finding an answer to the following questions:

- Does it make sense? Is it reasonable? Is it something users will get excited about?

- Does it take advantage of an environmental trend, solve a problem, or take advantage of a gap in the marketplace?

- Is this a good time to introduce the product or service to the market?

- Are there any fatal flaws in the product or service's basic design or concept? (ask to suppliers/manufacturers!)

Product Desirability

- Second, Administer a **Concept Test**
  - A *concept statement* should be developed.
  - A *concept statement* is a one-page description of a product idea that is distributed to people who are asked to provide feedback on the potential of the idea.
  - Do not forget to provide in your concept statement:
    - A description of the product
    - The intended target market
    - The benefits provided by the product
    - The P.o.D. relative to existing solutions
    - A short description of the team

Figure 3.2 New Venture Fitness Drinks' Concept Statement

New Business Concept
New Venture Fitness Drinks Inc.

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 formulatedby Dr. William Peters, a world-renowned nutritionist, and Dr. Michelle Smith, a sportsmedicine 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 Drinks 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 accountant with seven years of experience at a Big 4 accounting firm.

Feedback from product desirability

- Collected feedback will provide the entrepreneur with:
  - A sense of the viability of the product idea.
  - Suggestions for how the idea can be strengthened or "tweaked" before proceeding further.

Product Demand

- There are three steps to assessing product/service demand.

- **Step 1: Talking Face-to-Face with Potential Customers**

- **Step 2: Using Online Tools**

- **Step 3: Library, Internet and Gumshoe Research**

Product Demand

- Step 1: **Talking Face-to-Face with Potential Customers**
  - The only way to know if your product or service is what people want is by talking to them.
  - The idea is to gauge customer reaction to the general concept of what you want to sell, and then tweak, revise, and improve on the idea based on the feedback.
  - In some cases, talking with potential customers will cause an entrepreneur to abandon an idea.
    - Entrepreneurs are often surprised to find that a product idea they think solves a problem gets lukewarm reception when they talk to actual customers.

Product Demand

- Step 2: **Using Online Tools**
  - The second way to assess demand is to utilize online tools to gauge reaction from potential customers (especially in B2C markets).
  - Online tools include the following:
    - Administrating surveys (limesurvey, surveymonkey, googleforms, etc.) -> surveys are ok for finding support to hp coming from qualitative analysis
    - Utilizing Google Trends
    - Purchasing Google ADS (and do some S.E.O.) to direct users to **landing pages** to see how many people request additional information.

Example

- Google Ads Coupled With Landing Pages
  - Some entrepreneurs buy text ads on search engines that show up when a user is searching for a product that is close to their idea.
  - If the searcher clicks on the text ad, they are taken to a landing page that describes the idea.
  - There may be a link on the landing page that says "For future updates please enter your e-mail address." Demand for the idea can be assessed by how many people click on the text ad and enter their e-mail address.

Product Demand

- Step 3: **Library, Internet and Gumshoe Research**

- Library Research

  – Library research provides access to archival data, which can provide useful information.

  – For example, if one were thinking about starting a company to sell educational toys, archival research may answer question such as:

    - What do industry experts say are the most important factors that parents consider when buying toys?

    - Is there a trade association for the makers of educational toys that can provide additional information?

Product Demand

- Step 3: **Library, Internet and Gumshoe Research**

- Internet Research
  - The Internet Resource Table in Appendix 3.3 provides specific recommendations of online resources to utilize.
    - For example, Statista.com, IBISWorld, etc. which are available for free through most university libraries, provides current industry reports and facts on hundreds of industries.
  - More general Internet research is also helpful

Product Demand

- Step 3: **Library, Internet and Gumshoe Research**

- Gumshoe Research
  - A gumshoe is a detective or an investigator that scrounges around for information or clues wherever they can be found.
  - Ask people what they think about your product or service idea. If your idea is to sell educational toys, spend time in watching how children interact with toys. Or ask the owner of a toy store to discuss your ideas.

Online tools available for determining Desirability and Demand (see Table 3.2)

- 3D PRINTING SERVICES

- A/B SPLIT TEST

- FORUMS FOR FEEDBACK ON BUSINESS IDEAS

- LANDING PAGES (FOR ATTRACTIVITY TEST)

- "MARKET" RESEARCH

- ONLINE WHITEBOARD

- FAST PROTOTYPING SERVICES

- Q&A WEBSITES

- SURVEY MANAGERS

- WEBISTES USABILITY TESTING

Industry/Target Market Feasibility Analysis

Purpose

- Is an assessment of the overall appeal of the industry and the target market for the proposed business.

- An industry is a group of firms producing a similar product or service.

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

Industry/Target Market Feasibility Analysis

Components of industry/target market feasibility analysis

- Industry Attractiveness

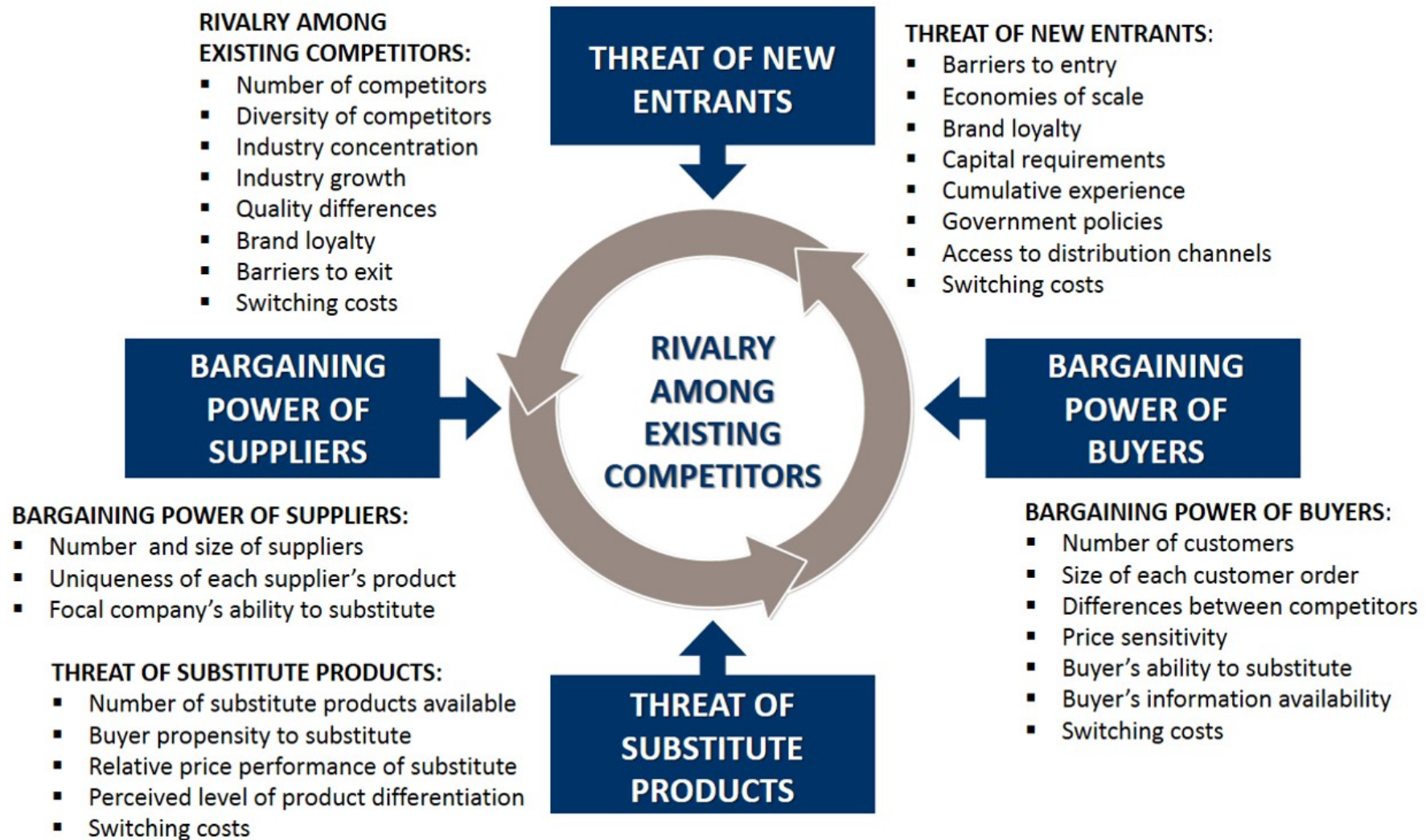- Target Market Attractiveness

Industry Attractiveness

- Industries vary in terms of their overall attractiveness.

- In general, the most attractive industries have some characteristics in common.

- Particularly important—the degree to which environmental and business trends are moving in favor rather than against the industry.

- In this phase, no need to go too much in deep with a….(following slide)

Industry Attractiveness: 5 forces framework

RIVALRY AMONG EXISTING COMPETITORS:
- Number of competitors
- Diversity of competitors
- Industry concentration
- Industry growth
- Quality differences
- Brand loyalty
- Barriers to exit
- Switching costs

THREAT OF NEW ENTRANTS

THREAT OF NEW ENTRANTS:
- Barriers to entry
- Economies of scale
- Brand loyalty
- Capital requirements
- Cumulative experience
- Government policies
- Access to distribution channels
- Switching costs

BARGAINING POWER OF SUPPLIERS

RIVALRY AMONG EXISTING COMPETITORS

BARGAINING POWER OF BUYERS

BARGAINING POWER OF SUPPLIERS:
- Number and size of suppliers
- Uniqueness of each supplier's product
- Focal company's ability to substitute

THREAT OF SUBSTITUTE PRODUCTS:
- Number of substitute products available
- Buyer propensity to substitute
- Relative price performance of substitute
- Perceived level of product differentiation
- Switching costs

THREAT OF SUBSTITUTE PRODUCTS

BARGAINING POWER OF BUYERS:
- Number of customers
- Size of each customer order
- Differences between competitors
- Price sensitivity
- Buyer's ability to substitute
- Buyer's information availability
- Switching costs

Porter, M.E. (1979). How Competitive Forces Shape Strategy. Harvard Business Review

Industry Attractiveness

Characteristics of Attractive Industries

- Are early rather than late in their life cycle.

- Are fragmented rather than concentrated.

- Are growing rather than shrinking.

- Are selling products and services that customers "must have" rather than "want to have."

- Have high rather than low operating margins.

- Are not highly dependent on the low price of a key raw material, like gasoline or flour, to be profitable

Target Market Attractiveness

- A firm's target market is the portion of the industry that it goes after or to which it wants to appeal. Most firms, and certainly entrepreneurial start-ups, typically do not try to service an entire industry. Instead, they select or carve out a specific target market and try to service that group of customers particularly well.

- Wonder Workshops, for example, is not trying to target the entire children's toy industry. Its target market is the set of parents who are willing to pay a premium for educational toys that teach kids how to code.

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Organizational Feasibility Analysis

Purpose

- Is 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:
  - **Management Prowess**
  - **Resource Sufficiency**

Management Prowess

- A proposed business should honestly evaluate the prowess, or ability, of its management team to satisfy itself that management has the requisites to launch the venture.

- Two of the most important factors in this area are:
  - The **passion** that the sole entrepreneur or the founding team has for the business idea.
  - The extent to which the sole entrepreneur or the founding team **understands the markets** in which the firm will participate (previous experience is key).

Resource Sufficiency

- This topic pertains to an assessment of whether an entrepreneur has sufficient resources to launch the proposed venture.

- To test resource sufficiency, a firm should list the 6 to 12 most critical nonfinancial resources that will be needed to move the business idea forward successfully.
  - If critical resources are not available in certain areas, it may be impractical to proceed with the business idea.

Resource Sufficiency

Examples of nonfinancial resources that may be critical to the successful launch of a new business

- Time

- Access to distribution channels

- Lab space, manufacturing space, or space to launch a service business

- Internet Visibility (at acceptable costs)

- Availability of contract manufacturers or service providers.

- Key management employees (now and in the future).

- Ability to obtain intellectual property protection.

- Possibility to form favorable business partnerships with key partners belonging to the ecosystem

Financial Feasibility Analysis

Components of financial feasibility analysis (no need to go in detail)

- Total Start-Up Cash Needed

- Financial Performance of Similar Businesses

Total Start-Up Cash Needed

- The first issue refers to the total cash needed to prepare the business to make its first sale.

- An actual budget should be prepared that lists all the anticipated **capital purchases** and **operating expenses** needed to generate the first revenues

- The point of this exercise is to determine if the proposed venture is realistic given the **total start-up cash needed**

- The 3Fs (family, friends and fools) can be ok for the very beginning. Start-uppers must demonstrate to be able to navigate the financial markets (and talk about self-financing, equity, debt or crowd)

Financial Performance of Similar Businesses

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

- First, look for industry reports, some are for free and some require a fee;
- Second, look for case studies, thesis, researches done on existing companies;
- Third, look for / buy financial data;
- Fourth, observe existing competitors and try to deduce how much they earn (how many clients/distributors do they have? How much do they ask for their services? How many people to they employ? etc.)