

Entrepreneurial New Ventures

Prepared by Dr. Sarah Chahine

ENT 634
Feasibility Analysis

Lecture 3





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MIDOCEAN
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Chapter
03

Feasibility Analysis



In this chapter, we discuss the importance of feasibility analysis in all its different forms; product/service feasibility analysis, industry/target market feasibility analysis, organizational feasibility analysis and financial feasibility analysis.

Chapter

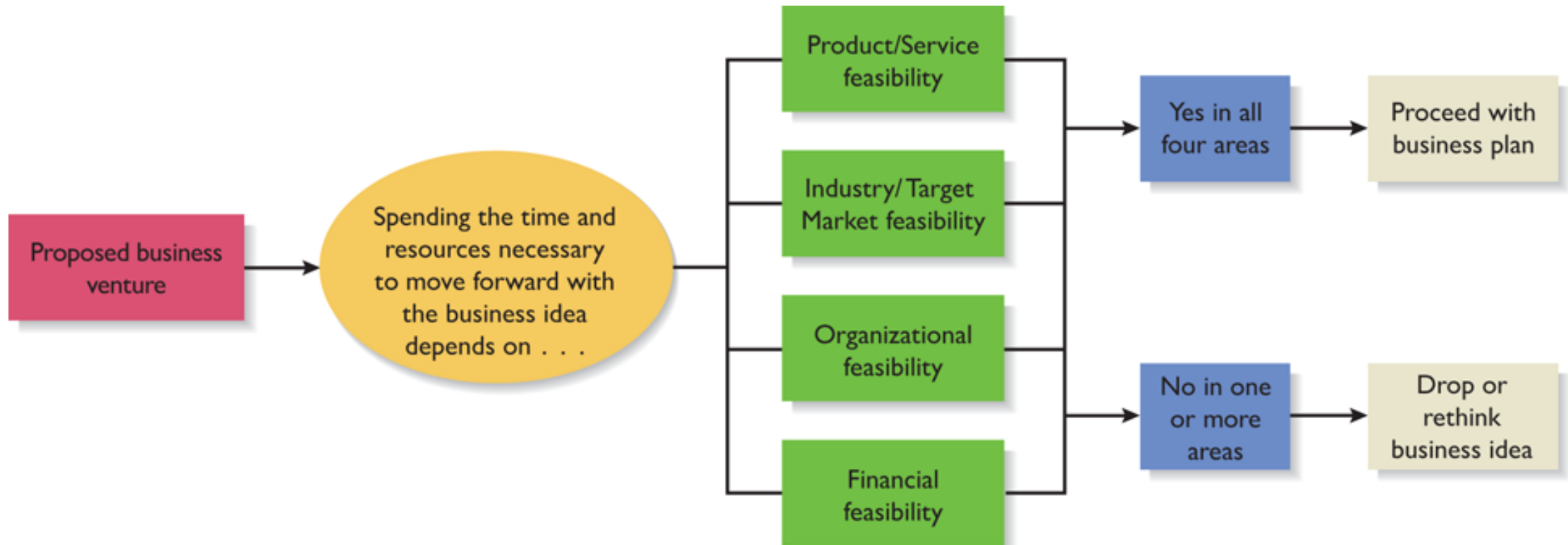
03

Feasibility Analysis

A Feasibility analysis is the process of determining if a business idea is viable. If a business idea falls short on one or more of the four components of feasibility analysis, it should be dropped or rethought, as shown in the figure in the next slide.

opportunity

Feasibility Analysis



Feasibility Analysis

- Completing a feasibility analysis requires both primary and secondary research.
 - **Primary research** is research that is collected by the person or persons completing the analysis. It normally includes talking to prospective customers, getting feedback from industry experts, conducting focus groups, and administering surveys.
 - **Secondary research** probes data that is already collected.

Feasibility Analysis

- The key objective behind feasibility analysis is to put an idea to the test—by eliciting feedback from potential customers, talking to industry experts, studying industry trends, thinking through the financials, and scrutinizing it in other ways.
- In some cases, it will be decided that the idea is not feasible. Although regrettable, it is better to know early rather than later if an idea doesn't have sufficient merit to become a business.

Product/Service Feasibility Analysis

- Product/service feasibility analysis is an assessment of the overall appeal of the product or service being proposed.
- There are two components to product/service feasibility analysis: product/service desirability and product/service demand.

Product/Service Feasibility Analysis

Product/Service Desirability

- The first component of product/service feasibility is to affirm that the proposed product or service is desirable and serves a need in the marketplace.
 - Does it make sense? Is it something real customers will buy?
 - Does it solve a problem, or fill a gap in the marketplace?
 - Is this a good time to introduce the product or service to the market?

Product/Service Feasibility Analysis

Concept Test

- A tool that is particularly useful in collecting feedback and advice from prospective customers is to administer a concept test.
- A concept test involves showing a preliminary description of a product or service idea, called a concept statement, to prospective customers and industry experts to solicit their feedback.

Product/Service Feasibility Analysis

Concept Test

- After the concept statement is developed, it should be shown to at least 25 people who are familiar with the industry that the firm plans to enter and who can provide informed feedback.
- Avoid family members and friends since they usually only provide positive feedback.

Product/Service Feasibility Analysis

Product/Service Demand

- The second component of product/service feasibility analysis is to determine if there is demand for the product or service. Three commonly utilized methods for doing this:
 1. Talking face-to-face with potential customers
 2. Utilizing online tools, such as Google AdWords
 3. Library, Internet, and gumshoe research

Industry/Target Market Feasibility Analysis

- Industry/target market feasibility is an assessment of the overall appeal of the industry and the target market of the product or service.
- An **industry** is a group of firms producing a similar product or service, such as computers, children's toys, airplanes, or social networks.
- A firm's **target market** is the portion of the industry that it goes after or to which it wants to appeal.
- There are two components to industry/target market feasibility analysis: industry attractiveness and target market attractiveness.

Industry/Target Market Feasibility Analysis

Industry attractiveness

Industries vary in terms of their overall attractiveness.

TABLE 3.4 Characteristics of Attractive Industries

- Are young rather than old
- Are early rather than late in their life cycle
- Are fragmented rather than concentrated
- Are growing rather than shrinking
- Are selling products or services that customers “must have” rather than “want to have”
- Are not crowded
- Have high rather than low operating margins
- Are not highly dependent on the historically low price of a key raw material, like gasoline or flour, to remain profitable

Industry/Target Market Feasibility Analysis

Industry attractiveness

- Industries that are young rather than old, are early rather than late in their life cycle, and are more receptive to new entrants than industries with the opposite characteristics.
- You also want to pick an industry that is structurally attractive—meaning start-ups can enter the industry and compete effectively.
- Some industries are characterized by such high barriers to entry or the presence of one or two dominant players that potential new entrants are essentially shut out.

Industry/Target Market Feasibility Analysis

Target Market Attractiveness

- A target market is a segment within a larger market that represents a narrower group of customers with similar needs.
- Most start-ups simply don't have the resources needed to participate in a broad market.
- Instead, by focusing on a smaller target market, a firm can usually avoid head-to-head competition with industry leaders and can focus on serving a specialized market very well.

Organizational Feasibility Analysis

- An organizational feasibility analysis is conducted to determine whether a proposed business has sufficient management expertise, organizational competence, and resources to successfully launch.
- There are two primary issues to consider in this area: management prowess and resource sufficiency.

Organizational Feasibility Analysis

Management Prowess

- A proposed business should evaluate the prowess, or ability, of its initial management team.
- Two of the most important factors in this area are:
 - The passion the entrepreneur has for the business idea
 - The extent to which the entrepreneur understands the markets in which the firm will participate.

Organizational Feasibility Analysis

Management Prowess

- Additionally, managers with extensive professional and social networks have an advantage in that they are able to reach out to colleagues and friends to help them plug experience or knowledge gaps.

Organizational Feasibility Analysis

Resource Sufficiency

- Determining whether the proposed venture has or is capable of obtaining sufficient resources to move forward.
- The focus in organizational feasibility analysis is on nonfinancial resources.
- The objective is to identify the most important nonfinancial resources and assess their availability.
- Example: specialized skills

Organizational Feasibility Analysis

Types of nonfinancial resources that are critical to many start-ups' success

- Affordable office space
- Lab space, manufacturing space, or space to launch a service business
- Contract manufacturers or service providers
- Key management employees (now and in the future)
- Key support personnel (now and in the future)
- Key equipment needed to operate the business (computers, machinery, delivery vehicles)
- Ability to obtain intellectual property protection on key aspects of the business
- Support of local governments and state government if applicable for business launch
- Ability to form favorable business partnerships

Financial Feasibility Analysis

- For feasibility analysis, a preliminary financial assessment is usually sufficient. The most important issues to consider at this stage are total start-up cash needed, financial performance of similar businesses, and the overall financial attractiveness of the proposed venture.

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 get the business up and running.
- Then, an explanation of where the money will come from should be provided.
- After that, a reasonable plan should be stipulated to repay the money.

Financial Feasibility Analysis

Financial Performance of Similar Businesses

- The second component of financial feasibility analysis is estimating a proposed start-up's potential financial performance by comparing it to similar, already established businesses.
- First, substantial archival data, which offers detailed financial reports on thousands of individual firms, is available online. The easiest data to obtain is on publicly traded firms through Hoovers or a similar source.

Financial Feasibility Analysis

Financial Performance of Similar Businesses

- The challenge is to find the financial performance of small, more comparable firms.
 - Several online tools can be used to provide data on the average sales and profitability for the firms in the industries they track.
 - If a start-up entrepreneur identifies a business that is similar to the one to be started, and the business isn't likely to be a direct competitor, it is perfectly acceptable to ask the owner or manager of the business to share sales and income data.

Financial Feasibility Analysis

Overall Financial Attractiveness of the Proposed Venture

- A number of other factors are associated with evaluating the financial attractiveness of a proposed venture. These evaluations are based primarily on a new venture's projected sales and rate of return (or profitability).
- A more precise estimation can be computed by preparing pro forma (or projected) financial statements, including one- to three-year projected statements of cash flow, income statements, and balance sheets.

Financial Feasibility Analysis

If a business idea gets through the feasibility stage, the next step is to complete a business plan.



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