



## Entrepreneurship & Innovation

Prepared by Dr. Amany  
Ramadan

ENT 611

Entrepreneurship & Innovation

### Lecture 3

## CHAPTER 3

# CONDUCTING A FEASIBILITY ANALYSIS AND CRAFTING A WINNING BUSINESS PLAN



# FEASIBILITY ANALYSIS

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- Entrepreneurs do not lack creative ideas, but ...
- Is a particular idea a viable foundation for creating a successful business?
- Feasibility study addresses the question: “Should we proceed with this business idea?”

# FEASIBILITY ANALYSIS

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- *A feasibility analysis* is the process of determining if the idea is a viable foundation for creating a successful business. If the idea meets the necessary criteria, the entrepreneur's next step is to build a solid business plan for capitalizing on the idea.

# Feasibility Analysis

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## 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.
- Is an investigative tool.

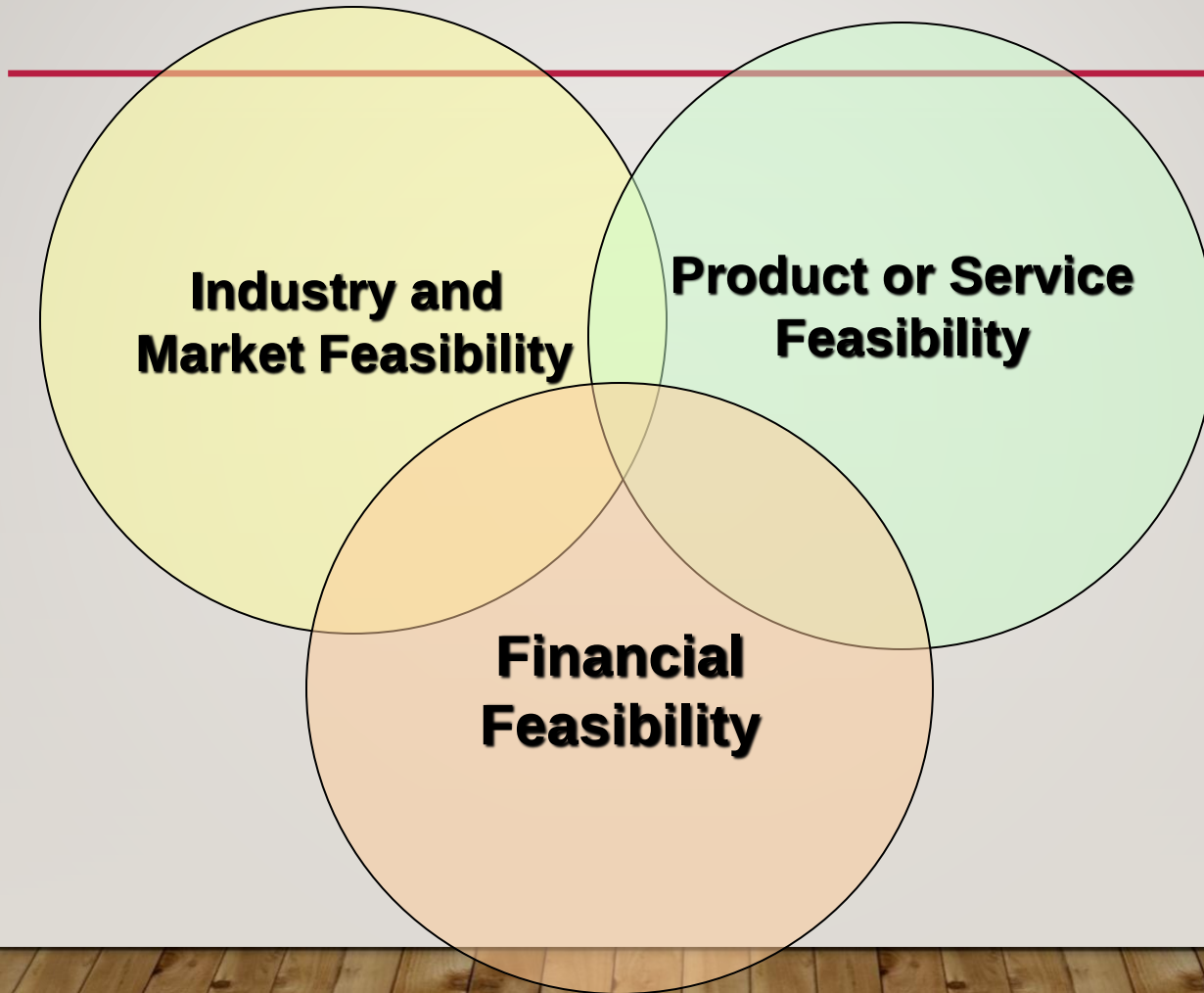


# BUSINESS PLAN

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- A business plan is a planning tool for transforming an idea into reality.
- It builds on the foundation of the feasibility study but provides a more comprehensive analysis than a feasibility study.

# ELEMENTS OF A FEASIBILITY ANALYSIS



# INDUSTRY AND MARKET FEASIBILITY ANALYSIS

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Two areas of focus:

1. Determining how attractive an industry is overall as a “home” for a new business.
2. Identifying possible niches a small business can occupy profitably.

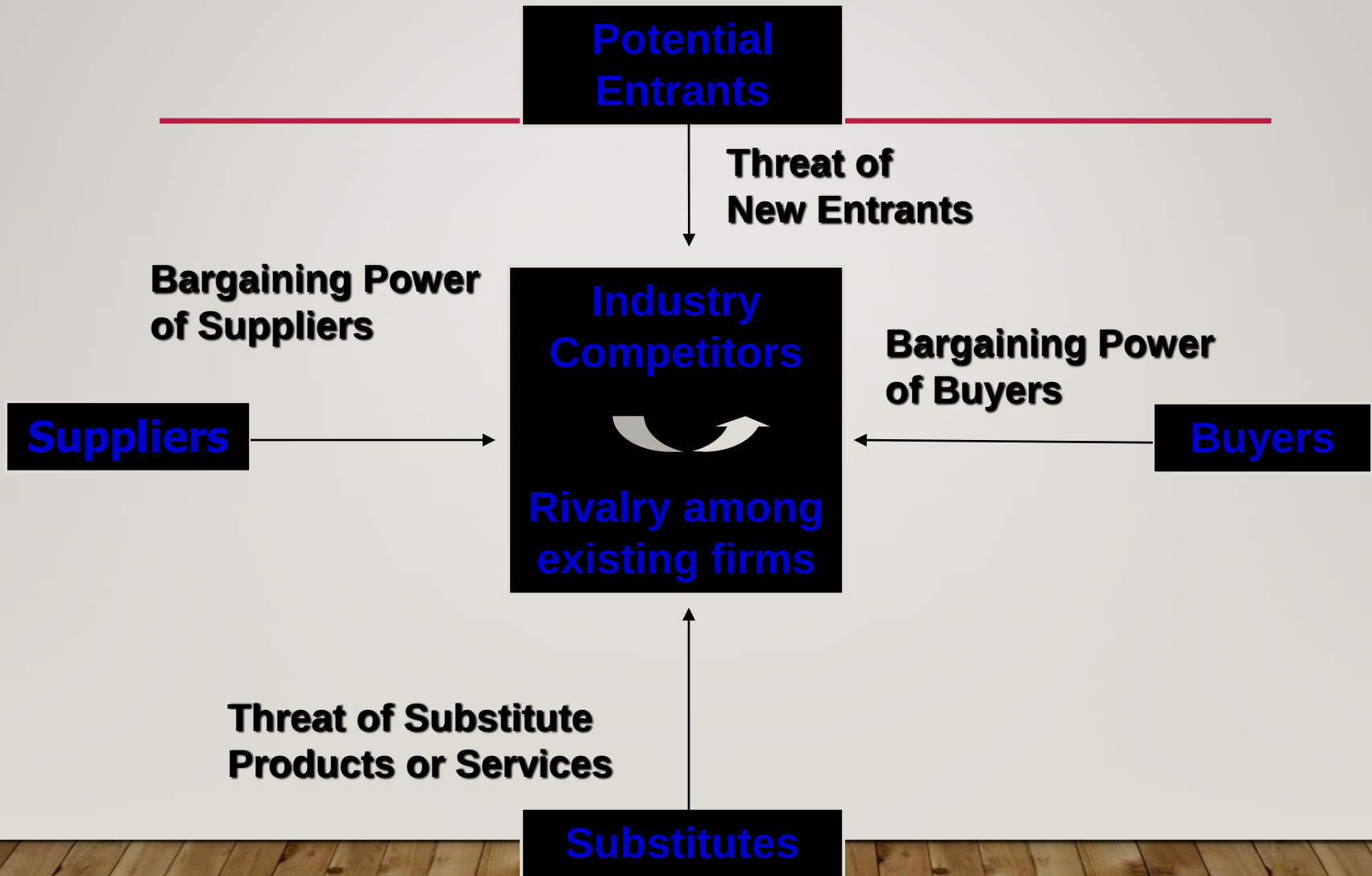
# FIVE FORCES MODEL

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Five forces interact with one another to determine the setting in which companies compete and, hence, the attractiveness of the industry:

1. Rivalry among companies in the industry
2. Bargaining power of suppliers
3. Bargaining power of buyers
4. Threat of new entrants
5. Threat of substitute products or services

# FIVE FORCES MODEL



# RIVALRY AMONG COMPANIES

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- Strongest of the five forces
- Industry is more attractive when:
  - Number of competitors is large, or, at the other extreme, quite small.
  - Competitors are not similar in size or capacity.
  - Industry is growing fast.
  - Opportunity to sell a differentiated product or service exists.

# BARGAINING POWER OF SUPPLIERS

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- The greater the leverage of suppliers, the less attractive the industry.
- Industry is more attractive when:
  - Many suppliers sell a commodity product.
  - Substitutes are available.
  - Switching costs are low.

# BARGAINING POWER OF BUYERS

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- Buyers' influence is high when number of customers is small and cost of switching to a competitor's product is low.
- Industry is more attractive when:
  - Customers' switching costs are high.
  - Number of buyers is large.
  - Customers want differentiated products.
  - Customers find it difficult to collect information for comparing suppliers.

# THREAT OF NEW ENTRANTS

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- The larger the pool of potential new entrants, the less attractive an industry is.
- Industry is more attractive to new entrants when:
  - Advantages of economies of scale are absent.
  - Capital requirements to enter are low
  - Buyers are not loyal to existing brands
  - Government does not restrict the entrance of new companies

# THREAT OF SUBSTITUTES

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- Substitute products or services can turn an industry on its head.
- Industry is more attractive to new entrants when:
  - Quality substitutes are not readily available.
  - Prices of substitute products are not significantly lower than those of the industry's products.
  - Buyers' switching costs are high.

# FIVE FORCES MATRIX

**Table 4.1 Five Forces Matrix**

Assign a value to rate the importance of each of the five forces to the industry on a 1 (not important) to 5 (very important) scale. Then assign a value to reflect the threat that each force poses as a threat to the industry. Multiply the importance rating in column 2 by the threat rating in column 3 to produce a weighted score. Add the weighted scores in column 3 to get a total weighted score. This score measures the industry's attractiveness. The matrix is a useful tool for comparing the attractiveness of different industries.

Minimum Score = 5 (Very attractive)  
Maximum Score = 125 (Very unattractive)

|                                                   | Importance<br>(1 to 5)                     | Threat to<br>Industry (1 to 5)     | Weighted<br>Score |
|---------------------------------------------------|--------------------------------------------|------------------------------------|-------------------|
|                                                   | (1 = Not Important,<br>5 = Very Important) | (1= Low<br>3 = Medium<br>5 = High) | Col 2 x Col 3     |
| Force                                             |                                            |                                    |                   |
| Rivalry among companies competing in the industry | 5                                          | 3                                  | 15                |
| Bargaining power of suppliers in the industry     | 2                                          | 2                                  | 4                 |
| Bargaining power of buyers                        | 2                                          | 4                                  | 8                 |
| Threat of new entrants to the industry            | 3                                          | 4                                  | 12                |
| Threat of substitute products or services         | 4                                          | 3                                  | 12                |
|                                                   |                                            | <b>Total</b>                       | <b>51</b>         |

# BUSINESS PROTOTYPING

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- Entrepreneurs test their business models on a small scale before committing serious resources to launch a business that might not work.
- Recognizes that a business idea is a hypothesis that needs to be tested before taking it full scale.

