



Entrepreneurship &
Innovation
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ENT 611
Entrepreneurship & Innovation

Lecture 3



Chapter

3

Feasibility Analysis and Crafting a
Winning Business Plan



Chapter
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Conducting a Feasibility Analysis and Crafting a Winning Business Plan

Entrepreneurship

Lecture 3: Conducting a Feasibility Analysis and Crafting a Winning Business Plan

FEASIBILITY ANALYSIS

- 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

- *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

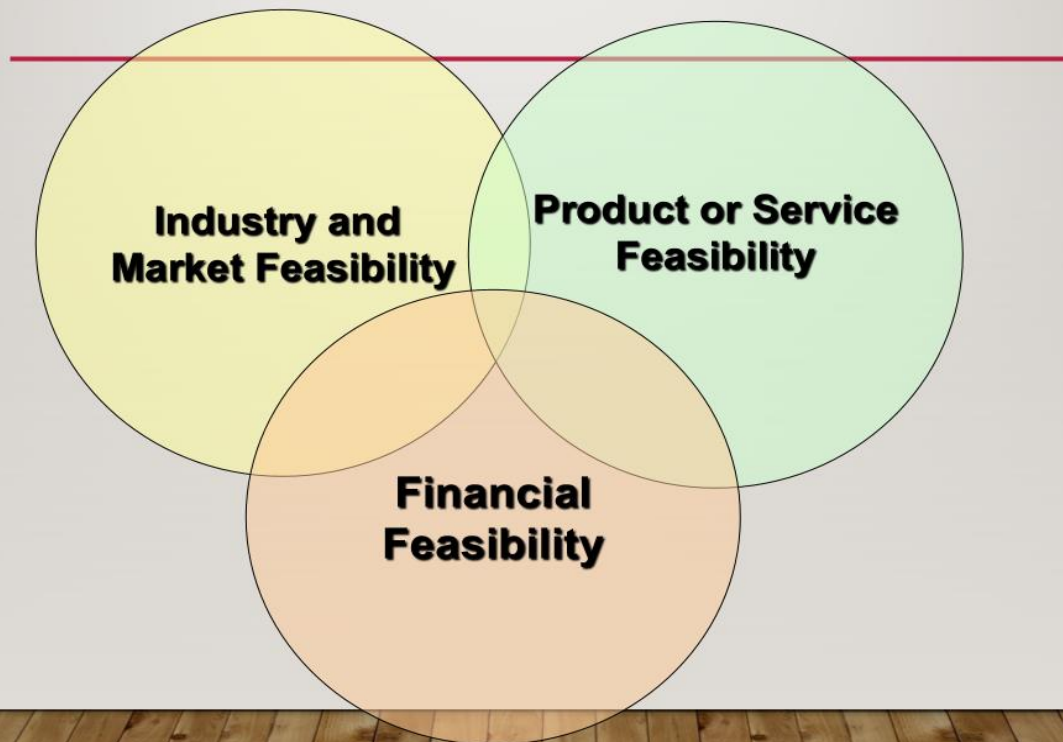
A feasibility study:

- 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

- 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

Two areas of focus:

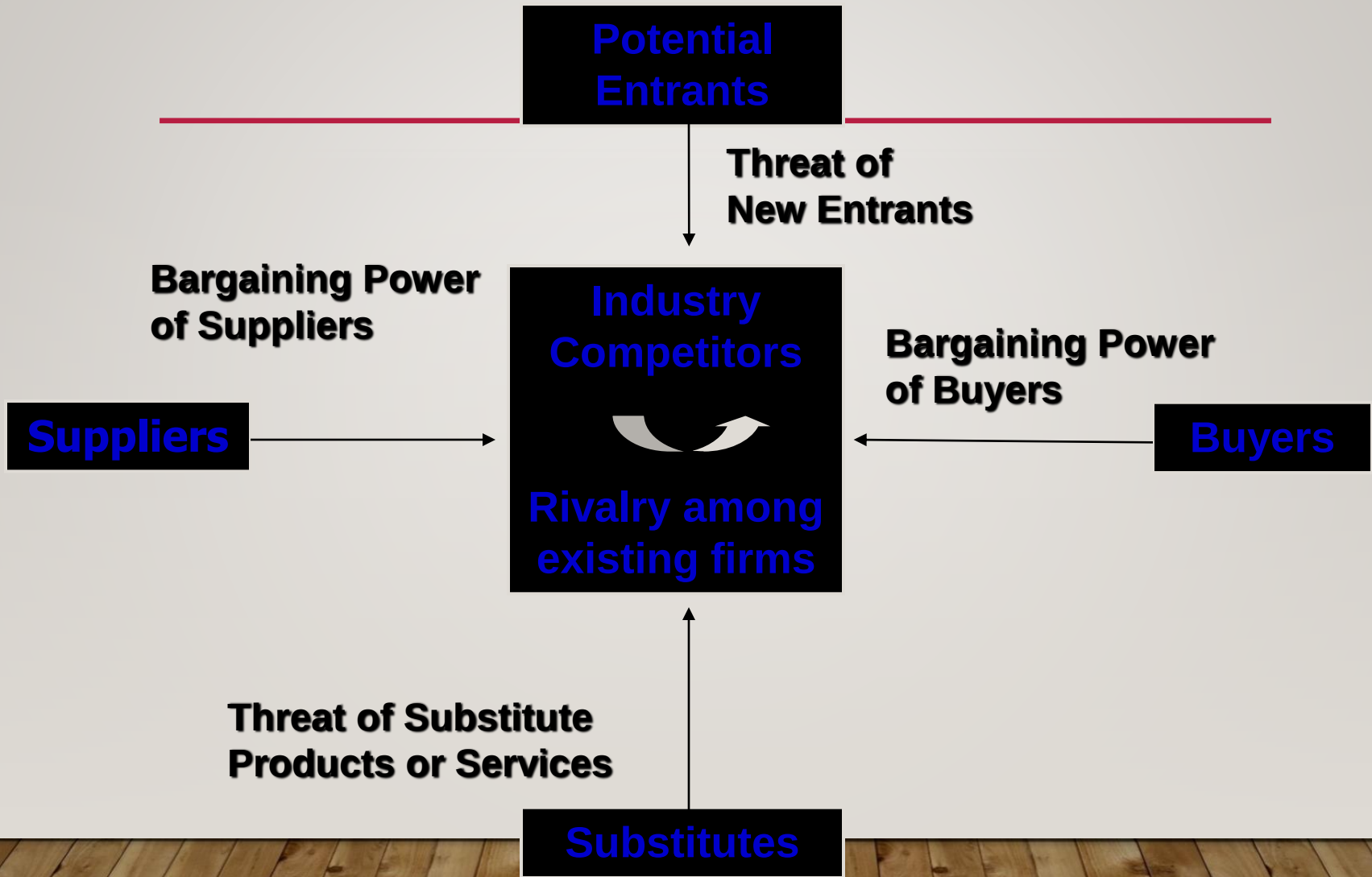
1. Determining how attractive an industry is overall as a “home” for a new business.
2. Identifying possible niches a small business can occupy profitably.

FIVE FORCES MODEL

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

- 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

- 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

- 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

- 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

- 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 (1 to 5)	Threat to Industry (1 to 5)	Weighted Score
	(1 = Not Important, 5 = Very Important)	(1= Low 3 = Medium 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
		Total	51

BUSINESS PROTOTYPING

- 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.



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