

Feasibility Study

The purpose of a feasibility study is to assess the viability of a new business idea.

Feasibility Question

The feasibility study needs to answer the question: **Does the idea make sense?** The study should provide a thorough analysis of the business opportunity, including an analysis of all possible roadblocks that may stand in the way of a successful venture. The outcome of the feasibility study will indicate whether or not to proceed with the proposed venture and to what scale. If the results of the feasibility study are positive, then you can proceed to develop a business plan.

What a Feasibility Includes

A feasibility study should examine four main areas:

- ❖ Market and Economic Issues
- ❖ Technical and organizational requirements
- ❖ Operational Requirements
- ❖ Financial overview

Market and Economic Issues:

The primary area of focus for the feasibility study is the potential market opportunities for the organization. If an adequate level of demand does not exist for the product, and the organization does not know how to differentiate its product so that it can compete with established industry players, then the proposed venture should not be pursued.

Questions that need to be answered in this area of the feasibility study include:

- ✓ What are the possible target markets for the organization's product?
- ✓ What demographic characteristics do they possess?
- ✓ How large are these markets? Where are they located?
- ✓ Is the market expected to grow in the future? By how much?

- ✓ What type of industry is the organization planning to enter?
- ✓ What are its (industry's) primary features?
- ✓ Who are the organization's competitors in this market?
- ✓ How large are these competitors? How established are they? How do they price their goods? How will these competitors react to the entrance of the organization?
- ✓ How much demand still exists for the product, after competitors have been taken into account?
- ✓ How will the organization differentiate its product from those of its competitors?
- ✓ What are the competitors' strengths and weaknesses, and how would the organization compare against them?
- ✓ How does the organization plan on gaining market share?
- ✓ What is the projected market share for the organization?
- ✓ What analysis supports your market share projections?

Data that can help to answer these questions may be found in existing sources or through primary research activities such as market surveys conducted on behalf of the organization.

Relevant information may be found through various sources such as government statistical publications, trade journals, industry reports, or companies such as Dunn & Bradstreet. The Internet has many resources as well as the Census and local economic development bodies.

Additional types of tools and analysis, such as GIS Mapping, can help to visualize the data and facilitate decision making?

The answers to market-related questions should help the organization develop realistic estimates of the projected demand for the organization's product for the first several years of operation. Based on this projected demand, the organization can determine its anticipated level of business volume, which is needed in order to design the facilities. If the

projected business volume is not large enough to justify the minimum viable size for the venture, then the venture is not feasible.

Technological and Organizational requirements:

This area concerns the internal set-up of the venture. Questions to be answered in this area include:

Plant and equipment issues:

- ✓ What type of equipment and technology will the business need to produce/sell its product? What are the costs involved?
- ✓ This includes both the initial purchase and installation costs of the equipment as well as the operational costs of running the equipment.
- ✓ What are the costs associated with the raw goods that you will carry?
- ✓ Who are the potential suppliers of this equipment? Where are they located? What sort of service and warranties do they provide? How long will it take to acquire the equipment and begin operations?
- ✓ Based on projected business volume, how much labour will be required by the organization? What are the exact specifications?
- ✓ Will the organization have a sufficient market share base that can justify expenses?
- ✓ What inputs and supports will be required by the parent organization?
- ✓ What are the organizational constraints the venture faces?
- ✓ What are the possible locations for the organization's facility?
- ✓ What size of facility is needed?
- ✓ What are the costs of the building?
- ✓ Does the proposed location have adequate access to infrastructures and services such as major highways, railways, and utilities?
- ✓ Will the organization build its own facility, rent or purchase an existing location?
- ✓ What are the operational requirements and how will they influence location choice?

- ✓ Where will the facility be located relative to the organization's customers? Who will be responsible for the transportation of goods between the facility and the market? What are the transportation costs involved?

Managerial and organizational issues:

- ✓ Is the organization structure the right one for this business?
- ✓ How important are delivery contracts and a fixed source of supply to the success of the business?
- ✓ What qualifications are needed to manage these operations?
- ✓ What are the key staff positions that need to be filled?
- ✓ What type of experience should management have?
- ✓ Are there potential candidates available to fill such positions? What will be the cost factor involved in finding and retaining acceptable candidates?
- ✓ Who will Champion this project to Boards or Management?

Financial overview:

Based on the estimates that have been gathered from the preceding sections of the study, the organization needs to determine its overall financial situation. Sources and uses of financing should be listed.

Questions such as the following need to be considered:

- ✓ What are the total start-up costs required in order to begin operations?
- ✓ For instance, what are the capital costs of the land, plant and equipment, and other start-up costs such as legal and accounting costs?
- ✓ What are the operating costs involved?
- ✓ Based on the estimated demand, what are the organization's revenue projections?
- ✓ How will the organization determine its pricing arrangements?
- ✓ What are the possible sources of financing for the organization?

- ✓ Who are potential lenders? What will be their required terms and limitations of borrowing?
- ✓ Based on the estimated revenues and costs, what is the projected profit (loss) of the organization?
- ✓ What is the break-even point?
- ✓ What is the IRR, ROI and CAP rate?
- ✓ What is the NPV of the Investment? What discount rate? For how many years?
- ✓ How will you attract investors? Who will be your investors? How will you market to them?
- ✓ What conditions will you provide? How will you guarantee the project?

If the results of the feasibility study indicate that the proposed venture is economically viable, then the organization can begin to develop a business plan, followed by an implementation plan based on the results of the feasibility study.

What If My Results are Negative?

If the results show that the project is not a sound business idea, then the venture should not be pursued. Although it is difficult to accept a feasibility study that shows these results, it is much more cost effective to discover this sooner rather than later, when more time and money would have been invested and lost.

It is tempting to overlook the need for a feasibility study. Often, the steering committee may face resistance from potential members on the need to do a feasibility study. Many will feel that they know that the proposed venture is a good idea, so why carry out a costly study just to prove what they already know? **The feasibility study is important because it forces the organization to put its ideas on paper and to assess whether or not those ideas are realistic.** It also forces the organization to formally evaluate which steps to take next.

Should We Hire an Outside Consultant?

Most feasibility studies are conducted by outside consultants for several reasons. Sometimes, organizations will conduct these studies internally if they have the resources and expertise.

Why Hire a Consultant	Why Conduct Internally
<ul style="list-style-type: none">• Independent of the group, better position to provide objective analysis and someone to remain accountable if project fails (public relations)• No vested interest in the outcome• Expertise in the Subject matter• Will help extract and present information in an industry approved format• Less costly than failure	<ul style="list-style-type: none">• No one knows your organization as well as you and no one will be able to measure your organizational capacity as clearly• Budgetary reasons. Feasibility studies are often 5-10% of the value of the entire project and are paid before the project even begins• Internal expertise in subject matter and in proposed project

How To Hire Outside Consultants

To get an estimate of the costs of a feasibility study, prepare scope of work and a rough outline of the work needed to be done. Contact several consultants and provide them with a copy of this rough draft to see what sort of estimates they give. When the time comes to hire a consultant, prepare a formal request for proposals that outlines the information that is needed and send this to several consultants.

It might be tempting to choose the lowest-cost consultant but always remember that quality work is the most important factor when choosing a consultant. Make sure that the consultant can provide an independent assessment of the business opportunity. For instance, hiring an engineering firm or an equipment manufacturer to conduct market analysis may lead to biased results in favor of proceeding with the venture. Engineering firms and equipment manufacturers may have an incentive to show positive results so they can obtain contracts with the organization once it chooses to start up operations. Engineering firms and equipment manufacturers are needed in order to provide information about equipment requirements and costs, but an independent consultant should conduct the overall feasibility study.