

A primer in Entrepreneurship

Chapter 3 – Feasibility Analysis



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Chapter 3: Feasibility Analysis

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- A. What is “feasibility analysis”?
- B. Product/Service Feasibility
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I. Feasibility Analysis

A. What is “feasibility analysis”?

1. Feasibility analysis is the process of determining if a business idea is viable.
2. It is the preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing.
3. Feasibility analysis takes the guesswork (to a certain degree) out of a business launch, and provides an entrepreneur with a more secure notion that a business idea is feasible or viable.



I. Feasibility Analysis

A. What is “feasibility analysis”?

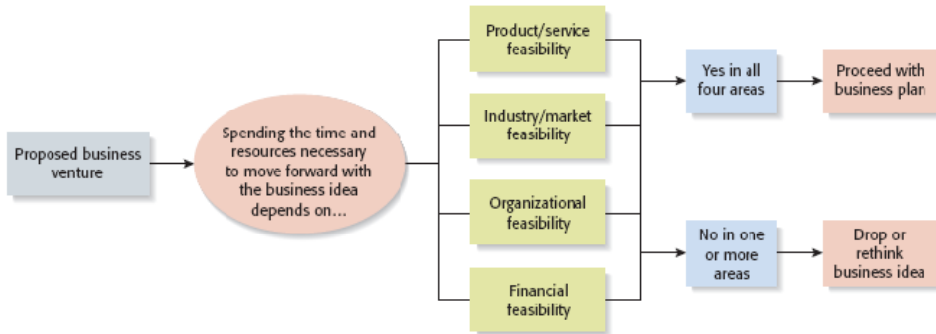
Timing of feasibility analysis:

It follows the opportunity recognition stage and comes before the development of a business plan → see next figure



I. Feasibility Analysis

A. What is “feasibility analysis”?



I. Feasibility Analysis

A. What is “feasibility analysis”?

- a. Although the sequence pictured makes perfect sense, statistics show that the majority of entrepreneurs do not follow this pattern before launching their ventures.
- b. Several studies have investigated why this is the case. The consensus of the research is that entrepreneurs tend to underestimate the amount of competition there will be in the marketplace and tend to overestimate their personal chances for success.
- c. Before a company undertakes a feasibility analysis, a concept statement should be developed.



I. Feasibility Analysis

A. What is “feasibility analysis”?

Four forms of feasibility analysis

Product/Service Feasibility
Analysis

Industry/Market Feasibility
Analysis

Organizational Feasibility
Analysis

Financial Feasibility
Analysis



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I. Feasibility Analysis

B. Product/Service Feasibility

- a. Is an assessment of the overall appeal of the product or service being proposed.
- b. The idea is that before a prospective firm rushes a product or service into development, it should be confident that the product or service is what its prospective customers want.
- c. The two components of a product/service feasibility analysis are:
 - i. Concept testing
 - ii. Usability testing



I. Feasibility Analysis

B. Product/Service Feasibility

1. Concept testing
2. Usability testing



I. Feasibility Analysis

B. Product/Service Feasibility

1. Concept Testing

- a. A concept test entails showing a representation of the product or service to prospective users to gauge customer interest, desirability, and purchase intent.
- b. A concept statement is a one page description of a business that is distributed by a startup entrepreneur to people who are asked to provide feedback on the potential of the business idea.
- c. There are three primary purposes for a concept test:
 - i. to evaluate the underlying premises of a product or service that an entrepreneur thinks is compelling
 - ii. to help develop an idea
 - iii. to estimate the potential market share the product or service might command.



I. Feasibility Analysis

B. Product/Service Feasibility

1. Concept testing

Information to Include

- a. A description of the product or service being offered.
- b. The intended target market.
- c. The benefits of the product or service.
- d. A description of how the product will be positioned relative to similar ones in the market.
- e. A description of how the product or service will be sold and distributed.
- f. Information about the founder or founders of the firm.



**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 formulated by Dr. William Peters, a world-renowned nutritionist, and Dr. Michelle Smith, a sports medicine 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 Drink 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.

I. Feasibility Analysis

B. Product/Service Feasibility

1. Concept testing
2. Usability testing



I. Feasibility Analysis

B. Product/Service Feasibility

2. Usability Testing

A concept test is usually followed by the development of a prototype or model of the product or service.



I. Feasibility Analysis

B. Product/Service Feasibility

2. Usability Testing

- a. Is the method by which users of a product are asked to perform certain tasks in order to measure the product's ease-of-use and the user's perception of the experience.
- b. Usability tests are sometimes called user tests, beta tests, or field trials, depending on the circumstances involved.
- c. While it is tempting to rush a new product or service to market, conducting a usability test is a good investment of an entrepreneur's or firm's resources.
- d. Many products that consumers find frustrating to work with have been brought to market too quickly.



I. Feasibility Analysis

B. Product/Service Feasibility

2. Usability Testing

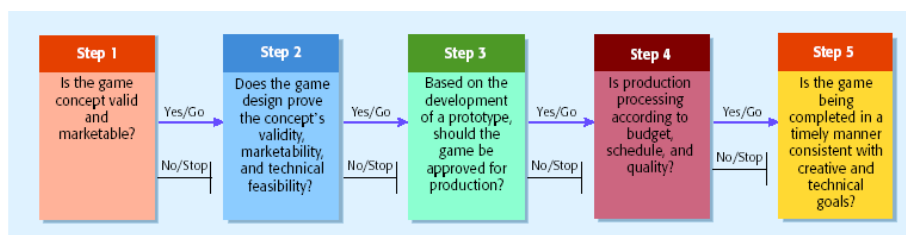
- a. Prototype
 - i. Conducting a usability test typically requires the development of a prototype.
 - ii. A prototype is the first physical depiction of a new product, which is usually still in a rough or tentative mode.
- b. Virtual Prototype: a virtual prototype is a computer-generated 3D image of an idea. It displays an invention as a 3D model that can be viewed from all sides and rotated 360 degrees.

For products, like a new board game, a prototype is needed to get more substantive feedback than can be gleaned from a concept statement



Role of feasibility analysis in the development of successful business ideas at Activision (an electronic games company)

The Activision “Green Light Process”



I. Feasibility Analysis

B. Industry/Market Feasibility

- a. Is an assessment of the overall appeal of the market for the product or service being proposed.
- b. For industry/market feasibility analysis, there are three primary issues that a proposed business should consider:
 - i. industry attractiveness
 - ii. market timeliness
 - iii. identification of a niche market.



I. Feasibility Analysis

B. Industry/Market Feasibility

i. Industry Attractiveness

A primary determinant of a new venture's feasibility is the attractiveness of the industry it chooses.



I. Feasibility Analysis

B. Industry/Market Feasibility

i. Industry Attractiveness

- I. Industries vary considerably in terms of their growth rate
- II. In general, the most attractive industries are characterized as the following:
 - (1) Are large and growing;
 - (2) Are important to the customer;
 - (3) Are fairly young rather than older and more mature;
 - (4) Have high, rather than low, operating margins;
 - (5) Are not crowded.



I. Feasibility Analysis

B. Industry/Market Feasibility

i. Industry Attractiveness

- (1) Although the criteria shown on the preceding slide is an ideal list, the extent to which a new business's proposed industry's growth possibilities satisfy these criteria should be taken seriously.
- (2) In addition to evaluating an industry's growth potential, a new venture will want to know more about the industry it plans to enter.
- (3) This can be accomplished through both primary and secondary research



I. Feasibility Analysis

B. Industry/Market Feasibility

Role of Primary and Secondary Research in Investigating Industry Attractiveness

Type of Research	How It Is Conducted
Primary research	This is research that is original and is collected by the entrepreneur. In assessing the attractiveness of a new market, this typically involves an entrepreneur talking to potential customers and key industry participants.
Secondary research	This is research that probes data that are already collected. Examples of where this data might come from are: industry-related publications, government statistics, competitor's Web sites, and industry reports from research firms like Forrester Research.



I. Feasibility Analysis

B. Industry/Market Feasibility

Market timeliness considerations

Nature of Product or Service Introduction	Major Considerations
Improvement on something already available in the marketplace	<ul style="list-style-type: none"> • Is the window of opportunity open or closed? • Is now a good time for a new market entrant (i.e., are customers buying, are industry incumbents making money?)
Breakthrough new product or service, which should establish a new market segment	<ul style="list-style-type: none"> • Should we try to capture a first-mover advantage?



I. Feasibility Analysis

B. Industry/Market Feasibility

3. Identification of a Niche Market

- a. A niche market is a place within a larger market segment that represents a narrower group of customers with similar interests.
- b. For a new firm, selling to a niche market makes sense for at least two reasons:
 - i. It allows a firm to establish itself within an industry without competing against major competitors head on.
 - ii. A niche strategy allows a firm to focus on serving a specialized market very well instead of trying to be everything to everybody in a broad market, which is nearly impossible for a new entrant.



I. Feasibility Analysis

B. Industry/Market Feasibility

3. Identification of a Niche Market

Another useful way of thinking about this topic is to distinguish between vertical and horizontal markets.:

- a. A vertical market, which is analogous to a niche market, focuses on similar businesses that have specific needs. Start-ups typically start by selling into vertical markets.
- b. A horizontal market meets the specific needs of a wide variety of industries, rather than a specific one.



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I. Feasibility Analysis

C. Organizational Feasibility Analysis

Is concerned with determining whether the business itself has sufficient skills and resources to bring a particular product or service idea to market successfully.

- a. management expertise
- b. organizational competence
- c. resources
- d. There are two primary issues to consider in this area:
 - i. Management prowess
 - ii. Resource sufficiency



I. Feasibility Analysis

C. Organizational Feasibility

1. Management Prowess

- a. A firm should candidly evaluate the prowess (ability) of its management team to make sure management has the
 - i. requisite passion and
 - ii. expertise to launch the venture.
- b. The most important factors in this area are:
 - i. The passion that the solo entrepreneur or the founding team has for the business idea.
 - ii. The extent to which the solo entrepreneur or the founding team understands the markets in which the firm will participate.
- c. Solo entrepreneurs or founding teams with established social and professional networks also have an advantage.



I. Feasibility Analysis

C. Organizational Feasibility

2. Resource Sufficiency

- a. This topic pertains to an assessment of whether an entrepreneur has sufficient resources to launch the proposed venture.
- b. The focus here should be on nonfinancial resources in that financial feasibility is considered separately.
- c. 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.
- d. If critical resources are not available in certain areas, it may be impractical to proceed with the business idea.



I. Feasibility Analysis

C. Organizational Feasibility

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

- a. Availability of affordable office or lab space.
- b. Likelihood of local and state government support of the business.
- c. Quality of the labor pool available.
- d. Proximity to key suppliers and customers.
- e. Willingness of high quality employees to join the firm.
- f. Likelihood of establishing favorable strategic partnerships.
- g. Proximity to similar firms for the purpose of sharing knowledge.
- h. Possibility of obtaining intellectual property protection in key areas.



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I. Feasibility Analysis

D. Financial Feasibility

- a. For feasibility analysis, a quick financial assessment is usually sufficient.
- b. The most important issues to consider at this stage are:
 - i. Total start-up cash needed.
 - ii. Financial performance of similar businesses.
 - iii. Overall attractiveness of the proposed venture.



I. Feasibility Analysis

D. Financial Feasibility

Total Start-Up Cash Needed

- a. The first issue refers to the total cash needed to prepare the business to make its first sale.
- b. An actual budget should be prepared that lists all the anticipated capital purchases and operating expenses needed to generate the first CHF 1 in revenues.
- c. When projecting start-up expenses, it is better to overestimate rather than underestimate the costs involved.
- d. Murphy's Law is prevalent in the start-up world—things will go wrong. It is a rare start-up that doesn't have some setbacks in getting up and running.



I. Feasibility Analysis

D. Financial Feasibility

3. Overall Financial Attractiveness of the Proposed Venture Financial Performance of Similar Businesses

- a. Estimate the proposed start-up's financial performance by comparing it to similar, already established businesses.
- b. There are several ways to doing this, all of which involve a little ethical detective work.
 - i. First, there are many reports available, some for free and some that require a fee, offering detailed industry trend analysis and reports on thousands of individual firms.
 - ii. Second, simple observational research may be needed. For example, the owners of New Venture Fitness Drinks could estimate their sales by tracking the number of people who patronize similar restaurants and estimating the average amount each customer spends.



I. Feasibility Analysis

D. Financial Feasibility

3. Overall Financial Attractiveness of the Proposed Venture Financial Performance of Similar Businesses

Business rating agencies:

<http://www.creditreform.ch/>

<http://www.dnbswitzerland.ch>

Business surveys: <http://www.kof.ethz.ch/services/data/>

Business organizations: <http://www.zurichcci.ch/>



I. Feasibility Analysis

D. Financial Feasibility

4. Overall Attractiveness of the Investment

- a. A number of other financial factors are associated with promising business startups.
- b. In the feasibility analysis stage, the extent to which a business opportunity is positive relative to each factor is based on an estimate rather than actual performance.
- c. The table on the next slide lists the factors that pertain to the overall attractiveness of the financial feasibility of the business idea.



I. Feasibility Analysis

D. Financial Feasibility

4. Financial Factors Associated With Promising Business Opportunities

- a. Steady and rapid growth in sales during the first 5 to 7 years in a clearly defined market niche.
- b. High percentage of recurring revenue—meaning that once a firm wins a client, the client will provide recurring sources of revenue.
- c. Ability to forecast income and expenses with a reasonable degree of certainty.
- d. Internally generated funds to finance and sustain growth.
- e. Availability of an exit opportunity for investors to convert equity to cash.

