

# FUNDAMENTAL OF TECHNOPRENEURSHIP (UCSD2762)

## Chapter 4 Feasibility Analysis

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# Chapter Learning Objectives

1. Explain what a feasibility analysis is and why it's important.
2. Discuss the proper time to complete a feasibility analysis.
3. Describe the purpose of a product/service feasibility analysis.
4. Explain a concept statement and its components.
5. Describe the purpose of a buying intentions survey and how it's administered.

# Chapter Learning Objectives

6. Describe the purpose of industry/market feasibility analysis.
7. Discuss the characteristics of an attractive industry.
8. Describe the purpose of organizational feasibility analysis.
9. Explain the importance of financial feasibility analysis and list the most critical issues to consider in this area.

# ThinkGum



# What is Feasibility Analysis (FA)?

- ... is the process of determining whether a business idea is **viable** (capable of working successfully)
- ... preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing
- A properly conducted feasibility analysis includes four separate components:
  - Product/ service
  - Industry/ Target market
  - Organizational
  - Financial

# Feasibility Analysis Outline

**Table 3.1** FEASIBILITY ANALYSIS

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Part 1: Product/Service Feasibility

- A. Product/service desirability
- B. Product/service demand

Part 2: Industry/Target Market Feasibility

- A. Industry attractiveness
- B. Target market attractiveness

Part 3: Organizational Feasibility

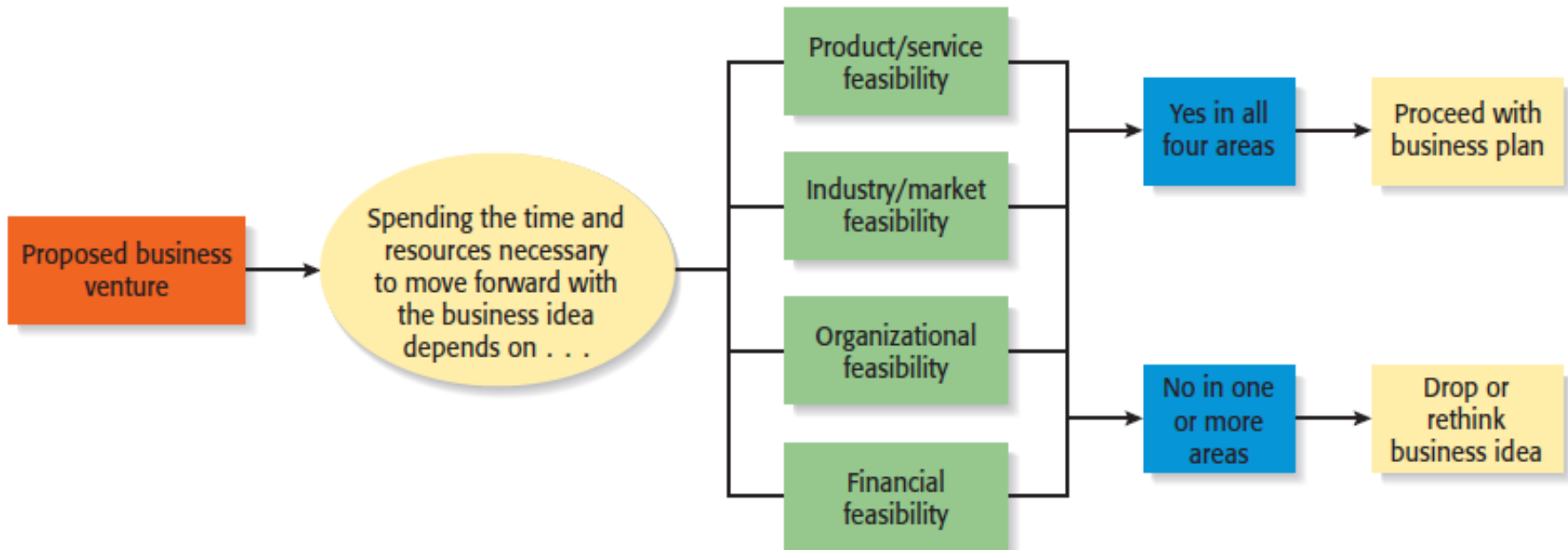
- A. Management prowess
- B. Resource sufficiency

Part 4: Financial Feasibility

- A. Total start-up cash needed
  - B. Financial performance of similar businesses
  - C. Overall financial attractiveness of the proposed venture
- Overall Assessment
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# Why Conduct FA?

- To screen ideas before a lot of resources are spent on them
- Allows ample opportunity for the idea to be revised



# When To Conduct FA?

- The proper time to conduct a feasibility analysis is early in thinking through the prospects for a new business.



# How to Conduct FA?

- **Primary research:** data from industry experts, feedback from prospective customers, focus groups and surveys
- **Secondary research:** data from industry studies, census bureau data, analyst forecast, library & Internet research
- **First Screen:** template for primary research (Appendix 3.1 – pg 130-132)
- **Internet Resource Table:** template for secondary research (Appendix 3.2 – pg. 132-133)

# Product/Service FA

- ... assessment of the **overall appeal of the product or service being proposed**
- Before a prospective firm rushes a new product or service into development, it should **be sure that the product or service is what prospective customers want**
- Avoiding “**shioh sendiri product/ services**”



Desirability

Demand

# Product/Service Desirability

**1<sup>st</sup>, ask the following questions to determine the basic appeal of the product or service.**

- Does it make sense? Is it reasonable? Is it something consumers will get excited about?
- Does it take advantage of an environmental trend, solve a problem, or take advantage of a gap in the marketplace?
- Is this a good time to introduce the product or service to the market?
- Are there any fatal flaws in the product or service's basic design or concept?

# Product/Service Desirability

## 2<sup>nd</sup>, Administer a Concept Test.

- **Concept Statement:** a one page description of a business, that is distributed to people who are asked to provide feedback on the potential of the business idea.
  - **Description of Product/ Service** – features, sketches
  - **Intended Target Market** – consumers, businesses
  - **Benefits of Product/ Service** – how it adds value or solve problem
  - **How the Product/ Service will be Positioned** relative to Competitors
  - Description of Company' s **Management Team**

# Product/Service Desirability

## New Venture Fitness Drink's Concept Statement

### **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.

# Product/Service Desirability

## 2<sup>nd</sup>, Administer a Concept Test.

- Show the concept statement to at least 10 people who are familiar with the industry
- Get their feedback
- Conduct Short Survey (Table 3.2 – pg. 107)
  - List 3 things you like about the product/ service idea described in this statement.
  - Provide 3 suggestions for making the idea better.
  - Do you think the idea is feasible?
  - Provide any additional comments or suggestions you think might be helpful.

# Product/Service Demand

- Determine if there is demand for the product/ service

Administer a  
Buying  
Intentions  
Survey

Conduct library,  
Internet, and  
Gumshoe  
research

# Product/Service Demand

One of the most effective things an entrepreneur can do to conduct a thorough product/service feasibility analysis is to hit the streets and talk to potential customers





# Demand: Buying Intentions Survey

- Is an instrument that is used to **gauge customer interest in a product or service.**
- Consists of a **concept statement** or a similar description of a product with a **short survey** attached to 20 – 30 potential customers.
- The Buying Intentions Survey (Table 3.3, pg. 109)

# Demand: Buying Intentions Survey

## Table 3.3 BUYING INTENTIONS SURVEY

*Distributed to a different group of people than those who completed the initial concept statement test*

How likely would you be to buy the product or service described above, if we make it?

\_\_\_\_\_ Definitely would buy

\_\_\_\_\_ Probably would buy

\_\_\_\_\_ Might or might not buy

\_\_\_\_\_ Probably would not buy

\_\_\_\_\_ Definitely would not buy

*Additional questions that are sometimes included in the survey:*

How much would you be willing to pay for the product or service?

Where would you expect to find this product or service for sale?

# Demand: Buying Intentions Survey

- How to find qualified people to talk to about a product/ service idea?
  - Contact trade associations
  - Attend industry trade shows
- Internet Resource Table (Appendix 3.2) provides a directory of trade associations

## Demand: Library, Internet & Gumshoe Research

- Reference librarians can often point you towards resources to help you investigate a business idea, such as **industry-specific magazines, trade journal and industry reports.**
- Refer case CADI Scientific (pg. 124) – industry trajectory, growing vs shrinking segment, statistics, etc.
- Internet searches can often yield important information about the potentially viability of a product or service idea.

# Gumshoe Research

- ... a detective or an investigator that scrounges around for information or clues wherever they can be found.
- Be a gumshoe – Ask people what they think about your product or service idea. If your idea is to sell educational toys, spend a week volunteering at a day care center and watch how children interact with toys.

# Industry/ Target Market FA

- An assessment of the overall appeal of the industry and the target market for the proposed business.
- **Industry**: is a group of firms producing a similar product or service.
- A firm's **target market**: the limited portion of the industry it plans to go after.
- Most firms do not try to service their entire industry
- Components of product/service FA:
  - **Industry** Attractiveness
  - **Target Market** Attractiveness

# Industry Attractiveness

- Industries vary in terms of their overall attractiveness.
- The most attractive industries have the following characteristics, especially the first three.

**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
- Sell 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 Attractiveness

- Information that addresses these issues can be found from:
  - IBISWorld, Frost & Sullivan, Standard & Poor's NetAdvantage and other resources from the library



# Target Market Attractiveness

- A place within a larger market segment that represents a narrower group of customers with similar needs
- **Challenge:** identifying an attractive target market is to find a market that's **large enough for the proposed business** but is yet **small enough to avoid attracting larger competitors.**
- Assessing the attractiveness of a target market is tougher than an entire industry.
- Often, considerably ingenuity must be employed to finding information to assess the attractiveness of a specific target market.

# Organizational FA

- To determine whether a proposed business has **sufficient management expertise, organizational competence, and resources** to successfully launch a business.
- Focuses on non-financial resources.
- Components of organizational FA:
  - **Management Prowess**
  - **Resources Sufficiency**

# Management Prowess

- A firm should candidly evaluate the prowess, or ability, of its management team to satisfy itself that management has the requisite passion and expertise to launch the venture.
- Two of the most important factors:
  - The **passion** that the solo entrepreneur or the founding team has for the business idea.
  - The extent to which sole entrepreneur or the founding team **understands the markets** in which the firm will participate.

# Management Prowess



An indication of passion is the willingness of a new venture team to complete a comprehensive feasibility analysis

# Resource Sufficiency

- An assessment of whether an entrepreneur has sufficient resources to launch the proposed venture.
- 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.
  - If critical resources are not available in certain areas, it may be impractical to proceed with the business idea.

# Resource Sufficiency

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

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

# Financial FA

- Is the final component of a comprehensive feasibility analysis.
- A preliminary financial assessment is sufficient.
- Components of organizational FA:
  - Total Start-Up Cash Needed
  - Financial Performance of Similar Businesses
  - Overall Financial Attractiveness of the Proposed Venture

# Total Start-Up Cash Needed

- The first issues refers to the the total cash needed to prepare the business to make its first sale.
- An actual budget should be prepared that lists all the anticipated capital purchases and operating expenses needed to generate the first \$1 in revenues.
- The point of this exercise is to determine if the proposed venture is realistic given the total start-up cash needed.



# Financial Performance of Similar Businesses

- Estimate the proposed start-up's financial performance by comparing it to similar, already established businesses.
- There are several ways to doing this, all of which involve a little ethical detective work.
  1. 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.
  2. 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.

# Overall Financial Attractiveness of the Proposed Venture

- A number of other financial factors are associated with promising business startups.
- 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.
- The table on the next slide lists the factors that pertain to the overall attractiveness of the financial feasibility of the business idea.

# Overall Financial Attractiveness of the Proposed Venture

## Financial Factors Associated With Promising Business Opportunities

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

# First Screen

- ... is a template for completing a feasibility analysis.
- It's called "First Screen" because it's a tool that can be used in the initial pass at determining the feasibility of a business idea.
- If a business idea cuts muster at this stage, the next step is to complete a business plan.

# Summary

1. Understand what is feasibility analysis and why it's important.
2. Understand when to do feasibility analysis.
3. Understand the different types of FA.
4. Explain a concept statement and its components.
5. Understand what is buying intentions survey and how it's administered.
6. Explain the importance of library, Internet, and gumshoe research.
7. Understand the characteristics of an attractive industry.

# Activity

- Think about a product/ services that you want to introduce.
- Analyze the basic appeal of your product/ services?
- Administer a concept test – Concept statement
- Identify 10 peoples/ experts within the selected industry
- Ask for their feedback on your Concept statement

# Homework

- Get feedback about the demand of your product/ service
  - Buying intention survey – questionnaire (primary) – are there any demand on your product/ services?
- Conduct survey to 20 – 30 potential customers
- More survey (secondary)
- Analyze the industry you about to enter – perform industry analysis – industries characteristics – is it attractive?
- Use First Screen/ FA tools to assist your work (can be downloaded from UTM eLearning)

# Tips

- Events:
  - Expo Beli Barangan Malaysia, Persada Johor, 19 to 24 Oct
  - MITM Travel Fair, Danga City Mall, 21 – 23 Oct
  - Any other events
- Please take some photos as evidence
- Other resources
  - <http://www.malaysiaindustry.com/business/analysis-report/>
  - etc



# Report

- Submit your complete Feasibility Analysis report:
  - Concept statement
  - Buying Intention Survey
    - Instrument: Questionnaire/ Interview
    - Results – Analysis (Statistics, etc)
    - Photos
    - Industry analysis
  - Completed First Screen report
- Dateline: 2<sup>nd</sup> November 2011