Lecture 6: Developing Feasibility Studies & Business Plans

Points to be Pondered…

- What is a Feasibility Study?
- What is a Business Plan?
- How do they differ?
- What Resources are available to help develop each?
  - Are all Studies created Equal?

What is a Feasibility Study?

- A feasibility study is an analysis of the viability of an idea through a disciplined and documented process of thinking through the idea from its logical beginning to its logical end.

- A feasibility study provides an ***Investigating*** function that helps answer *"Should we proceed with the proposed project idea? Is it a viable business venture?"*

- A feasibility study should be conducted to determine the viability of an idea BEFORE proceeding with the development of a business.

Levels of Feasibility Assessment

- A feasibility study of an idea is conducted at three levels
  - Operational Feasibility
    - “Will it work?”
  - Technical Feasibility
    - “Can it be built?”
  - Economic Feasibility
    - “Will it make economic sense if it works and is built?”
    - “ Will it generate PROFITS?”

Why do a Feasibility Study?

- Provide a thorough examination of all issues and assessment of probability of business success
- Give focus to the project and outline alternatives
- Narrow business alternatives
- Surface new opportunities through the investigative process
- Identify reasons NOT to proceed
- Enhance the probability of success by addressing and mitigating factors early on that could affect the project
- Provide quality information for decision making
- Help to increase investment in the company
- Provide documentation that the business venture was thoroughly investigated
- Help in securing funding from lending institutions and other monetary sources

Data Sources for a Feasibility Assessment

- Data required for a feasibility study can come from primary or secondary sources
  - Primary data can include formal interviews and surveys
    - Collection of primary data can be expensive and time consuming
  - Secondary data can include industry and trade publications, statistics of industry associations, and government agency reports

Steps for an Economic Feasibility Study

- Identify and Estimate all Capital Expenditures
- Identify and Estimate all Variable Costs related to the Proposed Business Venture
  - Identify People and Skills required to operate
    - Determine Wages, Salaries, and Benefits
- Identify and Estimate Project Related Costs
  - Infrastructure development or improvements
  - Advertising and Promotion
  - Legal Fees
  - Municipal & State Development taxes
- Identify and Estimate all Fixed Costs

Estimating Total Capital Requirements

- Assess the “seed capital” needs of the business project and how these needs will be met
- Estimate capital requirements for facilities, equipment and inventories
- Replacement capital requirements and timing for facilities and equipment
- Estimate working capital needs
- Estimate start-up capital needs until revenues are realized at full capacity
- Estimate contingency capital needs (constructions delays, technology malfunction, market access delays, etc.)
- Estimate other capital needs

Equity and Credit

- Estimate Equity and Credit Needs
  - Identify alternative equity sources and capital availability
    - Producers, Local Investors, Angel Investors, Venture Capitalists
  - Identify and assess alternative credit sources
    - Banks, Government (direct loans or loan guarantees), Grants, Local and State Economic Development Incentives
  - Assess expected financing needs and alternative sources
    - Interest Rates, Terms, Conditions, Covenants, Liens, Etc.
  - Debt to Equity Levels

Cost-Benefit Analysis

Utilize data collected to determine economic feasibility:

- Estimate Expected Costs and Revenue
- Estimate the Profit Margin and Expected Net Profit
- Estimate the sales or usage needed to break-even
- Estimate the returns under various production, price and sales levels to create a “sensitivity analysis”
- Assess the reliability of the underlying assumptions of the financial analysis
- Benchmark against industry averages and/or competitors
- Identify limitations or constraints of the economic analysis
- Project expected cash flow during the start-up period
- Project income statement, balance sheet when reaching full operation

What Defines Feasibility?

- A feasible business venture is one where
  - the business will generate adequate cash flow and profits,
  - the business will withstand the risks it will encounter,
  - the business will remain viable in the long-term, and
  - the business will meet the goals of the founders.

What Next?

- After the feasibility study has been completed and presented to the leaders of the project, they should carefully study and analyze the conclusions and underlying assumptions
- Next they will decide which course of action to pursue
  - Potential Courses of action include
    - **Choosing the most viable business model, developing a business plan and proceeding with creating and operating a business**
    - **Identifying additional scenarios for further study**
    - **Deciding that a viable business opportunity is not available and moving to end the business assessment process**
    - **Following another course of action**

Developing a Business Plan

What is a Business Plan?

- A Business Plan summarizes the plan of action after a course of action has been determined through the Feasibility Study
- A Business Plan provides a ***Planning*** function
- A Business Plan outlines the actions needed to take the proposal from “idea” to “reality”
- A Business Plan tells *How* your business will be created and *Why* it will be successful
- A Business Plan provides a road map for strategic planning

Why Write a Business Plan?

- Put the Pieces Together—Do the pieces fit together in a logical manner?
- Create a Blueprint for Action
- Focus Founders and/or Management Team
- Obtain Financing
- Attract Equity Investment
- Attract Key Managers and Employees
- Obtain Contracts
- Create Joint Ventures, Mergers, Acquisitions

What is included in a Business Plan?

- A Business Plan should be brief, concise & straight to the point
- Main requirements include:
  - Executive Summary
  - Problem to Solve & Solution
  - Mission, Vision & Strategic Objectives
  - Target Market
  - Market Analysis
  - Competitor Analysis
  - Marketing Plan
  - Business Structure
  - Financial Plan
  - Next Steps

How Effective Is the Business Plan?

- How effective a Business Plan is depends on how well the following questions are answered:
  - Who are we?
  - What do we do?
  - What do we have to offer?
  - Why will someone pay for our products/service?
  - What resources do we have?
  - Where are we going?
  - What do we need to get there?
  - Why will we be successful?
  - Why should someone participate or invest?
  - How will we measure performance?

The Story a Business Plan Tells…

- Business Plan should be tailored to the stakeholders
- Be aware of each potential stakeholder's priorities
- Make sure all priorities are addressed in a balanced manner in the business plan
- If more than one version of a business plan is written, make sure each tells the SAME story only with difference emphasis

Who is the "Target" of a Business Plan?

Stakeholder	Issues to Emphasize	Issues to Deemphasize
Banker	Cash-Flow, Assets, Solid Growth	Fast Growth, Hot Market
Investor	Fast Growth Potential	Assets, Large Market, Management Team
Strategic Partner	Synergy, Proprietary	Sales Force, Assets, Products
Large Customers	Stability, Service	Fast Growth, Hot Market
Key Employees	Security, Opportunity	Technology
Merger & Acquisition Specialist	Past Accomplishments	Future Outlook

Feasibility Study vs. Business Plan

- Feasibility study answers the bottom line question—Is this venture going to make money?
- Feasibility study outlines and analyzes several alternatives or methods of achieving business success
- Feasibility study is conducted before a business plan
- Business plan is prepared only after the venture has been deemed to be feasible
- Business plan deals with only one alternative or scenario that is determined to be the “best” alternative
- Business plan considers the management side—goals and objectives of the planned business venture