

WHAT IS A FEASIBILITY STUDY?

A Business Feasibility Study will help you calculate problems and opportunities, determine objectives, define successful outcomes and identify the range of costs and benefits associated with several alternatives in order for your business idea to be considered **viable/ sustainable**.

COMPONENTS OF A FEASIBILITY STUDY

Potential investors and stakeholders can at any time before funding, request the Business Feasibility Study to verify the credibility of your business idea and the ability of the idea to remain competitive and the following sections help determine that:

1. Market Viability
2. Technical Viability
3. Business Model Viability
4. Management Model Viability
5. Economic and Financial Model Viability

EXECUTIVE SUMMARY

The Executive Summary is a summary of all the above mentioned sections of the Business Feasibility Study. When deciding whether or not they read the rest of the report, potential investors and stakeholders usually read this section first and glance at the financial section right after. Key points to remember regarding the summary:

1. Write this document after completing the sections of the Business Feasibility Study to ensure you leave nothing out.
2. Although the Executive Summary is written last, it is presented first.
3. The Executive Summary should be no more than one page long.

PRODUCT/SERVICE

Describe the following:

1. Product or service in simple language. Give a product mix if the business will initially be focusing on more than one product. A product mix is when your business sells multiple products related by [*product dimensions*](#).
2. How customers would buy and use the product or service. Give enough detail to help the reader judge the effectiveness of your marketing plans.
3. Key components or raw materials that will be used in making/ creating the product or service, how the business will source these and how available they are.
4. Plans to test the product to ensure it works as planned and is sufficiently durable, secure, trustworthy etc. (e.g. [*consumer product test*](#), beta test with NARFTC, BOBS etc.).
5. Plans to upgrade the product or expand the product line.

TECHNOLOGY

1. As necessary, provide further technical information about the product or service.

2. Describe additional or ongoing research and development progress and needs.
3. Keep the description in simple terms and/or explain technical terms enough to be understood by business-savvy but not necessarily by non-industry expert readers.

MARKET ENVIRONMENT

Target Market:

1. Define and describe the target market(s). Distinguish between end users and customers.
2. Be clear how end users and customers benefit. How and why would they buy the product or service?
3. What are the need(s) your product or services aims to fulfill? What is the level of market demand against what the business projects? How much needed is your product or service by the target market?

For a business selling to a business, include:

1. What industry is the target market in, who are the key players, frequency of product purchase, purpose of purchase, purchasing process?
2. Estimates of the market size, initial targeted geographic area, enterprise's targeted market share.

For a business selling to an individual, include:

1. Demographic factors such as income level, age range, gender, educational level.
2. Psycho-graphic factors which include relevant behavioral factors such as frequency of product purchase and shopping behaviour.

COMPETITION

1. Describe your direct competition and indirect competition (as it pertains to the target markets only).
2. For key competitors, give market share, resources, product and market focus, goals, strategies, strengths and weaknesses.
3. List all key barriers to entry.
4. Describe what is unique about your business's product/service compared to the competition. Make sure this is consistent with the unmet need of the target market(s).

5. State how difficult it will be for competitors to copy your product/service.
6. Describe how competitors will most likely react to your product launch and the enterprise's response strategy. Include estimates of the time it might take a competitor to copy your product or service.

INDUSTRY

1. Clearly define and describe the industry in which your business operates in. Include the size, growth rate, and current lifecycle position. Define key industry segments and state where enterprise fits in.
2. Describe demand and supply factors and trends affecting the industry performance.
3. Describe the larger forces that drive the market e.g. innovation, cultural change and legal regulation.

BUSINESS MODEL

1. Describe your proposed business model. How will the business generate revenue (i.e. sell the product; charge licensing, retail sales) Will there be recurring revenue?
2. Describe the model in enough detail to support financial projections presented later.

MARKETING AND SALES STRATEGY

1. Lay out the basic marketing and sales strategies.
2. Discuss any strategic partnership the business has or is planning to form. Do they provide critical market access or other resources? What are their rights and responsibilities?
3. Describe the distribution strategy (sell direct to customers through sales force, direct mail, or Internet; sell through manufacturers' representatives, wholesalers, distributors, or retailers). Provide projected profit margin or mark-up expectations, commissions, and other expected compensation (co-op advertising, slotting fees, etc.)

4. Describe the pricing strategy and justification. Include the expected gross profit margins.
5. Describe intended typical payment terms for customers. Other issues and their impact - e. g., warranties.
6. Quantify the marketing budget for at least the first year (ideally three).

PRODUCTION/OPERATING REQUIREMENTS

1. Describe how and where the business will manufacture, source or create, and deliver the final product or service to be able to estimate costs.
2. What physical premises are required given the location, size, age, condition, and capacity of the planned production and warehouse facilities, and number of shifts planned?
3. Will space be owned or leased? Will renovations of the space be required? At what cost?
4. How complicated or uncomplicated is the manufacturing process? Describe equipment needed and costs.

If the business will outsource production or distribute others' materials:

1. Describe supply sources. Are the sources of supply readily available?
2. Outline the relevant contract terms, manufacturer's capacity, minimum order and tooling requirements, reputation, size or financial condition required for suppliers' contract agreement.
3. Describe any plans to protect its proprietary processes and trade secrets and quality control.

If enterprise is providing a service:

1. How will the service be designed, delivered, measured and improved?
2. What stakeholders exist, who will be trading partners with the business? What will be the terms of the contract? Are there substitute partners?

MANAGEMENT AND PERSONNEL

1. List the proposed key managers, titles, responsibilities, relevant background, experience, skills and specifically related personnel costs to be incurred.

2. Sketching personnel requirements: what people will be needed now, in a year and in the long term? What skills and qualifications are required and what financial implications result to the current personnel needs?

INTELLECTUAL PROPERTY

1. Briefly describe patents, copyrights, and trademarks obtained and in process. Give all names that are on issued patents; summarise results of patent searches.
2. If the business is operating under a licensing agreement or patent assignment, give name of licensor/assignor, describe key terms (e.g. exclusivity, rights and responsibilities), and give termination or renewal date.
3. If the business concept is a science (research orientated) business, the intellectual property is extremely important. The protocols in managing them, particularly at the initial planning stage are critical. For example, if a researcher has published their research findings in an industry journal or on the internet prior to ensuring intellectual ownership through copyright or patent, then the knowledge is considered in the open domain and therefore cannot be considered restricted.
4. Often business planning associated with intellectual property must occur prior to a business (science research & development) concept being developed and validated so that the strength and ownership of the findings can be assured.

REGULATIONS/ENVIRONMENTAL ISSUES

Outline non-economic forces that might affect the prospects of the business:

1. Key government regulations and the plans for compliance.
2. Any environmental problems on property, plans to address the problems, and their cost.
3. Environmental factors i.e. waste disposal plans, if needed.
4. Political stability, if applicable.
 - Any other regulatory or political issues which may include proposed industry regulatory changes.

CRITICAL RISK FACTORS

Describe the critical risks faced by the enterprise (currently or in the future). Much of these components will arise from the [SWOT](#), [Porter's Five Forces](#) and [PEST Analysis](#). Examples include internal characteristics, uniqueness, investment, economic forecasts, change in regulations and technical obsolescence, etc. Be sure to describe how you will mitigate each risk.

START-UP SCHEDULE

Sketch the major events in the life of the business by listing the timetable/deadlines for completion of phases of business start-up. Be sure to demonstrate the relationship of events and to keep the milestones, financial requirements, personnel requirements, etc consistent. Establish a formal project schedule for the start-up process.

FINANCIAL PROJECTIONS

Include a narrative highlighting key underlying assumptions and the logic governing your projections. Include the businesses financial history, if any (e.g. [equity](#) and [debt](#)), and likely financing stages including information about funding sources and uses. Provide a page or two of notes explaining each financial spreadsheet attached explaining the assumptions behind each major item. Some core components of this part of the report are listed below:

1. [Balance Sheet Projections](#) - Three Years & Highlight flows of Capital,
2. [Income Projections](#) - Year 1 presented monthly or quarterly; years 2 and 3 presented annually.
3. [Cash Flow Projections](#) - Year 1 presented monthly or quarterly; Years 2 and 3 presented annually
4. [Break-Even Analysis](#) - When will the firm begin to make profit, and
5. [Cost Benefit Analysis](#) - Will the business provide a viable return on investment for the owner and/or the investors

CAPITAL REQUIREMENTS & STRATEGY

1. How much funding (equity) will the business need, and when?
2. What assets does the proposed business have to secure the financing?
3. What sources will provide the funding, i.e. investors, lending institutions such as MYSC through YDF etc?
4. What will be the ratio of debt to equity financing?
5. When will investors begin to see their profits? What is the expected return on investment (ROI)?

HOW TO CONDUCT A BREAK EVEN ANALYSIS

The entrepreneur will need to understand the following terms in order to understand and communicate the break-even analysis:

Selling Price (SP) - Represents the price that each unit/ product or service will be sold for.

Variable Costs (VC) - Consist of costs that vary in proportion to sales levels. They include direct/ raw material and labour costs, the variable part of manufacturing operating costs, transportation and sales expenses.

Contribution Margin (CM) - Equal to sales revenues/ total sales less variable costs or $SP - VC$.

Fixed Costs (FC) - These costs are considered those that remain constant within the projected range of sales levels. These can include facilities costs, general and administrative costs, capital interest and depreciation expenses.

Units (Y) - Represents the number of items sold or produced. For the purpose of a break-even calculation, it is assumed that the number of units sold during a period is equal to the number of units produced during the same period (which means all that has been produced is sold).

To calculate break-even, the entrepreneur should determine the variables: FC, SP, and VC. The process of separating the selling price and variable costs is not always straightforward and alternatively a contribution margin is given. The CM can still be used in the break-even calculation, replacing the SP and VC.

To calculate the number of units sold (or produced)

$$SP(Y) = VC(Y) + FC$$

Alternatively the formula to solve for Y, the number of units at break-even will give you:

$$Y = FC / (SP - VC) \text{ or } Y = FC / CM$$

Break-even revenue (Pula) = Break-even units x Selling Price

FINAL FINDINGS & RECOMMENDATIONS

Recommendations from the feasibility study regarding the viability of putting the business idea into practice should be honest, short and direct. When making the findings or recommendations arising from the Business Feasibility Study discussing the viability of the proposed business should include all aspects addressed in the study above.

A significant component of the findings should be related to the likelihood of success, projected return on investment and how the possible/ identified risks should be mitigated.

The purpose of the feasibility study is to argue on evidence whether the business will be successful or not.