

# Entrepreneurship: Successfully Launching New Ventures

Sixth Edition, Global Edition



## Chapter 3

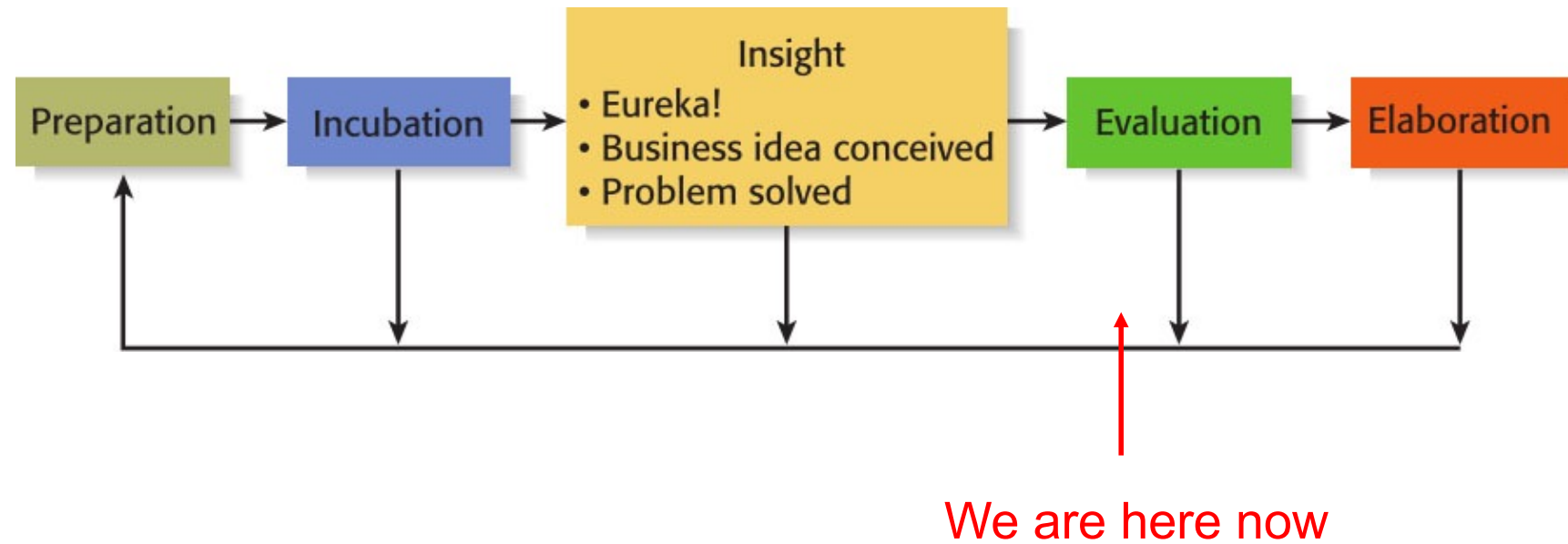
### Feasibility *Analysis*

# What Is Feasibility Analysis?

## **Feasibility Analysis**

- Feasibility analysis is the process of determining whether a business idea is viable.
- It is the preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing.

# Remember this?



**Figure 2.4** Five Steps to Generating Creative Ideas



# When to Conduct a Feasibility Analysis

- Timing of Feasibility Analysis
  - The proper time to conduct a feasibility analysis is early in thinking through the prospects for a new business.
  - The thought is to screen ideas before a lot of resources are spent on them.
- Components of a Properly Conducted Feasibility Analysis
  - A properly conducted feasibility analysis includes four separate components (see next)

# Feasibility Analysis

**Figure 3.1** Role of Feasibility Analysis in Developing Successful Business Ideas



# Outline for a Comprehensive Feasibility Analysis

## **Table 3.1** Feasibility Analysis

- 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



# Product Feasibility Analysis (1 of 2)

## Purpose

- Is an **assessment of the overall appeal** of the good or service being proposed.
- Before a prospective firm rushes a new product into development, it should be sure that the good or service is what prospective customers want.



# Product Feasibility Analysis<sub>(2 of 2)</sub>

## **Components of product/service feasibility analysis**

- Product/Service Desirability
- Product/Service Demand





# Product Desirability (1 of 3)

First, find a (qualitative) sample of **experts** (can be also *lead-users*, suppliers, *clients*, other start-uppers) to whom make questions with the aim to determine the basic appeal of the product. For YOU, that means finding an answer to the following questions:

- Does it make sense? Is it reasonable? Is it something users 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? (ask to suppliers/manufacturers!)



# Product Desirability (2 of 3)

- Second, Administer a **Concept Test**
  - A *concept statement* should be developed.
  - A *concept statement* is a one-page description of a product idea that is distributed to people who are asked to provide feedback on the potential of the idea.
  - Do not forget to provide in your concept statement:
    - A description of the product
    - The intended target market
    - The benefits provided by the product
    - The P.o.D. relative to existing solutions
    - A short description of the team

# Product Desirability (3 of 3)



Figure 3.2 New Venture Fitness Drinks' 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 Drinks 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.



## Feedback from product desirability

- Collected feedback will provide the entrepreneur with:
  - A sense of the viability of the product idea.
  - Suggestions for how the idea can be strengthened or “tweaked” before proceeding further.



# Product Demand

- There are three steps to assessing product/service demand.
- **Step 1: Talking Face-to-Face with Potential Customers**
- **Step 2: Using Online Tools**
- **Step 3: Library, Internet and Gumshoe Research**



# Product Demand

- Step 1: **Talking Face-to-Face with Potential Customers**
  - The only way to know if your product or service is what people want is by talking to them.
  - The idea is to gauge customer reaction to the general concept of what you want to sell, and then tweak, revise, and improve on the idea based on the feedback.
  - In some cases, talking with potential customers will cause an entrepreneur to abandon an idea.
    - Entrepreneurs are often surprised to find that a product idea they think solves a problem gets lukewarm reception when they talk to actual customers.



# Product Demand

- Step 2: **Using Online Tools**
  - The second way to assess demand is to utilize online tools to gauge reaction from potential customers (especially in B2C markets).
  - Online tools include the following:
    - Administrating surveys (limesurvey, surveymonkey, googleforms, etc.) -> surveys are ok for finding support to hp coming from qualitative analysis
    - Utilizing Google Trends
    - Purchasing Google ADS (and do some S.E.O.) to direct users to **landing pages** to see how many people request additional information.



# Example

- Google Ads Coupled With Landing Pages
  - Some entrepreneurs buy text ads on search engines that show up when a user is searching for a product that is close to their idea.
  - If the searcher clicks on the text ad, they are taken to a landing page that describes the idea.
  - There may be a link on the landing page that says “For future updates please enter your e-mail address.” Demand for the idea can be assessed by how many people click on the text ad and enter their e-mail address.





# Product Demand

- Step 3: **Library, Internet and Gumshoe Research**
- Library Research
  - Library research provides access to archival data, which can provide useful information.
  - For example, if one were thinking about starting a company to sell educational toys, archival research may answer question such as:
    - What do industry experts say are the most important factors that parents consider when buying toys?
    - Is there a trade association for the makers of educational toys that can provide additional information?



# Product Demand

- Step 3: **Library, Internet and Gumshoe Research**
- Internet Research
  - The Internet Resource Table in Appendix 3.3 provides specific recommendations of online resources to utilize.
    - For example, Statista.com, IBISWorld, etc. which are available for free through most university libraries, provides current industry reports and facts on hundreds of industries.
  - More general Internet research is also helpful



# Product Demand

- Step 3: **Library, Internet and Gumshoe Research**
- Gumshoe Research
  - A gumshoe is a detective or an investigator that scrounges around for information or clues wherever they can be found.
  - Ask people what they think about your product or service idea. If your idea is to sell educational toys, spend time in watching how children interact with toys. Or ask the owner of a toy store to discuss your ideas.



# Online tools available for determining Desirability and Demand (see **Table 3.2**)

- 3D PRINTING SERVICES
- A/B SPLIT TEST
- FORUMS FOR FEEDBACK ON BUSINESS IDEAS
- LANDING PAGES (FOR ATTRACTIVITY TEST)
- “MARKET” RESEARCH
- ONLINE WHITEBOARD
- FAST PROTOTYPING SERVICES
- Q&A WEBSITES
- SURVEY MANAGERS
- WEBISTES USABILITY TESTING

# Industry/Target Market Feasibility Analysis



## Purpose

- Is an assessment of the overall appeal of the industry and the target market for the proposed business.
- An industry is a group of firms producing a similar product or service.
- A firm's target market is the limited portion of the industry it plans to go after.

# Industry/Target Market Feasibility Analysis



## **Components of industry/target market feasibility analysis**

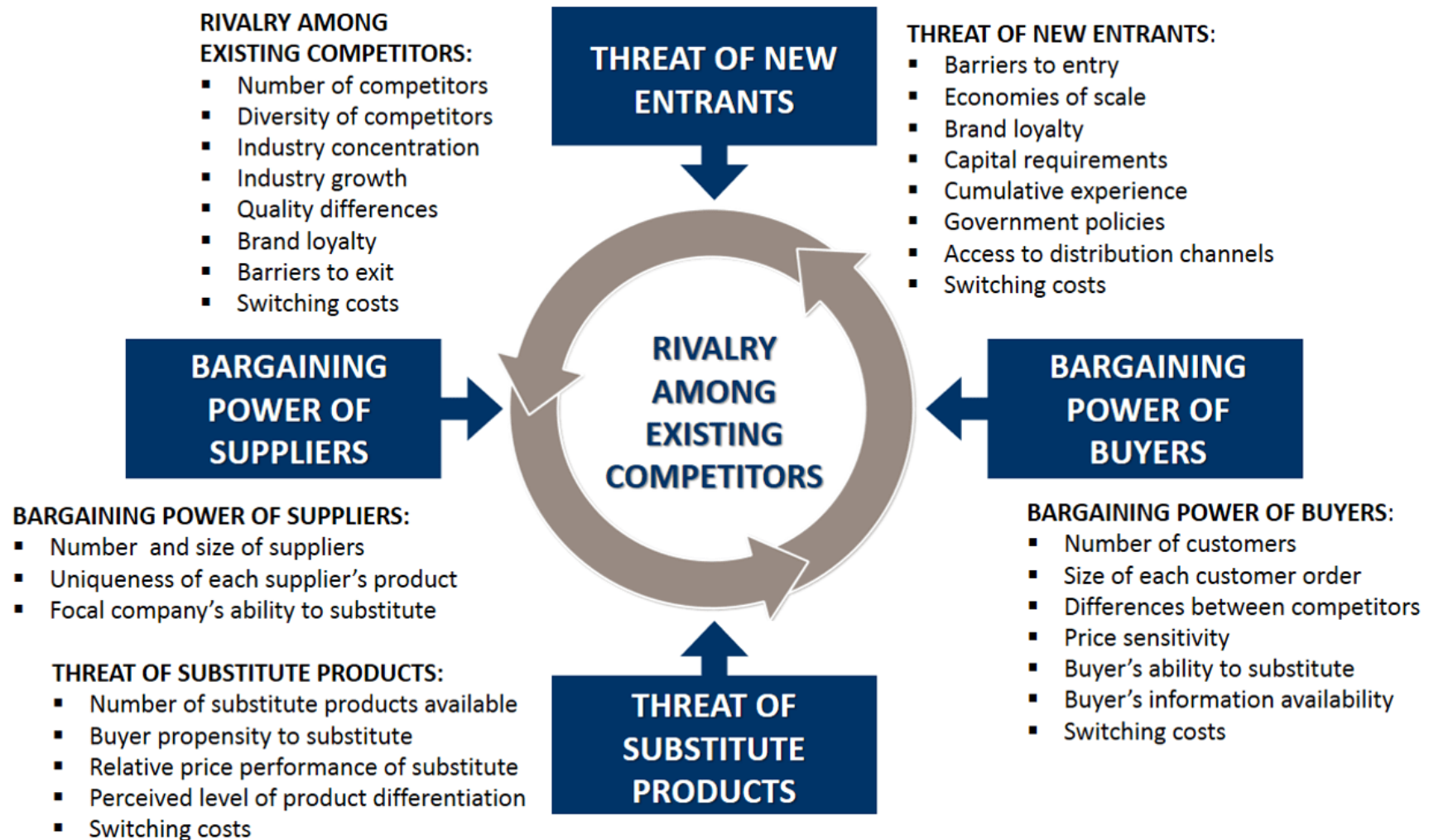
- Industry Attractiveness
- Target Market Attractiveness



# Industry Attractiveness

- Industries vary in terms of their overall attractiveness.
- In general, the most attractive industries have some characteristics in common.
- Particularly important—the degree to which environmental and business trends are moving in favor rather than against the industry.
- In this phase, no need to go too much in deep with a....(following slide)

# Industry Attractiveness: 5 forces framework



Porter, M.E. (1979). How Competitive Forces Shape Strategy. Harvard Business Review





# Industry Attractiveness

## Characteristics of Attractive Industries

- Are early rather than late in their life cycle.
- Are fragmented rather than concentrated.
- Are growing rather than shrinking.
- Are selling products and services that customers “must have” rather than “want to have.”
- Have high rather than low operating margins.
- Are not highly dependent on the low price of a key raw material, like gasoline or flour, to be profitable



# Target Market Attractiveness

- In general, start-ups target market niches that are large enough for the business but yet small enough to avoid attracting larger competitors (you can call them “blue oceans”).
- Assessing the attractiveness of a target market is tough: market reports can cost a fortune (for a start-up). In the alternative, information concerning market trends can be collected from trade associations, intermediates, distributors, retailers, and competitors.



# Organizational Feasibility Analysis

## Purpose

- Is conducted to determine whether a proposed business has sufficient management expertise, organizational competence, and resources to successfully launch a business.
- Focuses on non-financial resources:
  - **Management Prowess**
  - **Resource Sufficiency**



# Management Prowess

- A proposed business should honestly evaluate the prowess, or ability, of its management team to satisfy itself that management has the requisites to launch the venture.
- Two of the most important factors in this area are:
  - The **passion** that the sole entrepreneur or the founding team has for the business idea.
  - The extent to which the sole entrepreneur or the founding team **understands the markets** in which the firm will participate (previous experience is key).



# Resource Sufficiency

- This topic pertains to 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

- Time
- Access to distribution channels
- Lab space, manufacturing space, or space to launch a service business
- Internet Visibility (at acceptable costs)
- Availability of contract manufacturers or service providers.
- Key management employees (now and in the future).
- Ability to obtain intellectual property protection.
- Possibility to form favorable business partnerships with key partners belonging to the ecosystem



# Financial Feasibility Analysis

**Components of financial feasibility analysis (no need to go in detail)**

- Total Start-Up Cash Needed
- Financial Performance of Similar Businesses
- Overall Financial Attractiveness of the Proposed Venture



# Total Start-Up Cash Needed

- The first issue refers to 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 revenues
- The point of this exercise is to determine if the proposed venture is realistic given the **total start-up cash needed**
- The 3Fs (family, friends and fools) can be ok for the very beginning. Start-uppers must demonstrate to be able to navigate the financial markets (and talk about self-financing, equity, debt or crowd)



# Financial Performance of Similar Businesses



Estimate the proposed start-up's financial performance by comparing it to similar, already established businesses, if possible. How?

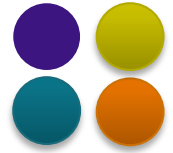
- First, look for industry reports, some are for free and some require a fee;
- Second, look for case studies, thesis, researches done on existing companies;
- Third, look for / buy financial data;
- Fourth, observe existing competitors and try to deduce how much they earn (how many clients/distributors do they have? How much do they ask for their services? How many people to they employ? etc.)

# 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 (*lock-in effect*).
- 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.



# A Feasibility Analysis Template

- Appendix 3.2 provides 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 is ok at this stage, the next step is to complete a business plan.