Feasibility Plan Framework

Frank Moyes and Stephen Lawrence
Deming Center for Entrepreneurship
Leeds School of Business
University of Colorado at Boulder

Feasibility Plan
Framework

Introduction

The objective of the feasibility plan is to find and assess opportunities that your venture could exploit. It asks two simple questions:

- Will anyone buy the product or service?
- Can it make a profit?

While the questions are straightforward, the answers are anything but. These two questions quickly lead you to a raft of others that you will address in this Framework.

This feasibility analysis should be done by anyone who wants to start an entrepreneurial venture. It does not matter if it is high or low tech, high or low growth, nonprofit or social, lifestyle or an entity within a large corporation or government agency.

The feasibility plan is different than a business plan. Feasibility analysis is done at the conceptual stage – it is all about the idea and whether it is viable. The business plan is done after you decide that the concept is viable and describes how you will do it, i.e. the strategies for starting and growing the venture.

You should approach the feasibility plan by:

- Starting the analysis with a broad perspective of the opportunity. The more that you learn about the market and industry, it often becomes apparent that there are other opportunities which you had not considered. Most entrepreneurs find that the venture they finally start bears little resemblance to the original idea.
- Talk to lots of people about your concept. You cannot do this analysis in a vacuum. You need feedback from multiple sources about the concept, the product or service, the market, and competition, and profitability.

<u>Goals</u>
Before embarking on this analysis it is worth taking some time to think about how starting this venture meets your own personal goals. Consider the following questions:

- What is your motivation in starting a new business?
- How will you define success?
- How do you feel about:
    - Taking risks?
    - Being in ambiguous situations that are constantly changing?
    - Making decisions where there is a scarcity of good information?

- How passionate are you about the concept? Could you see yourself spending long hours and a good portion of your working life in this venture?
- What personal resources (time, personal network, money, etc) can you provide?
- What experience and knowledge do you have to bring to the venture?

<u>Sections of the Feasibility Plan Framework</u>

- Market Analysis
    - What are the size, growth and trends?
    - What potential segments of the market could you enter?
    - What problem are you solving?
    - Who are the potential target customers?
- Industry Analysis
    - What is the competitive environment?
    - How do companies compete?
    - What are the barriers to entry?
    - Who are the competitors?
- Product or Service
    - What products and/or service address the market need?
    - What are the key attributes?
    - How do customers benefit?
    - How will you differentiate the concept from the competition?
- Financial Viability
    - Can you make a profit?
    - Can you achieve a positive cash flow?

In this framework markets refer to groups of customers and industry to competition.

Market Analysis

<u>Overall Market</u>

Describe the market in which you operate, analyze the total market size and growth, and set the stage for defining the entry point. The information for this section will be based on primary and secondary research. Address the following:

- How large is the market (numbers of customers, units sold or transactions, dollar value of purchases)?
- What are the historic and future growth rates?
- What are the trends that are driving the market? How is the market changing? Consider:
    - Economic, socio-cultural, political/legal, global, environmental, demographic and technological. For example, what is the impact of aging baby boomers, single parent families, e-commerce, etc?

- Both positive and negative developments. Even negative trends may represent opportunities, e.g. in mature markets a consolidation plan could be viable.

Addressable Market

The overall market does not necessarily represent your opportunity. Let's say you have designed a new road bicycle that is light weight and sells for $2,000. The market opportunity for this is not the entire bicycle market. You will never be able to capture a share of the market for kid's bicycles, cruisers, or mountain bikes. Therefore, the addressable market is considerably less than the overall market and is where you will focus your attention.

Market Need

One of the most difficult questions that you must answer is what problem are you solving for your target market, i.e. why is there a need for your product/service? Entrepreneurs become enamored with their idea because often they have been thinking about it for a long time. Here you must be able to prove that there are potential markets which need your product/service.

Consider the following needs when analyzing the market. It is not necessary for you to address all of these.

- Physical: food, warmth, shelter, sleep, etc.
- Physiological: health, cleanliness, comfort, fitness, safety, etc.
- Emotional: euphoria, love, prestige, stress, etc
- Social: ethical, honesty, power, competitiveness, integrity, friendship, etc.
- Intellectual: achievement, better decisions, artistry, etc.
- Economic: revenues, productivity, cost savings, maintenance, etc.
- Financial: ROI, DCF, payback, burn rate, etc.

Segmentation

Next, identify different groups of customers who may be willing to buy your product/service to satisfy a need. A market segment is a subgroup of people or organizations sharing one or more characteristics that cause them to have similar product/service needs. Segmenting the market is the basis for deciding on your initial and future markets, product or service offering and marketing strategy. In this section you should address all of the potential markets, not just the one you plan to enter first. The following are different ways to segment the market:

- Groups of customers: demographics, psychographics, e.g. baby boomers, grandparents, environmentalists, conservatives, etc.
- Sectors: industrial (petroleum, construction, etc.), financial (retail banks, mortgage lenders, insurance, etc.), government (state, military, homeland security, etc.)
- Geography: local regional, national, international
- Product/service features: speed, performance, fragrance, etc.
- Benefits: enhance image, trend setter, improve sex life, save money, etc.
- Prices: premium, lowest cost, standard mark-up, etc.

- Distribution channel: retail, internet, door-to-door, etc.

Continuing with the bicycle example, potential segments would include athletic baby boomers with incomes greater than $150,000; first time cyclists who want to enter competitions; and courier services in large cities; and bicycle tour companies.

As with the total market, for each segment determine the market size (numbers of customers, units sold or transactions and dollar value of purchases), growth (historic and future) and trends.

Are there customer groups or regions that are not adequately being served? Is there a segment where customers are dissatisfied?

<u>Target Markets</u>

In the previous section you have identified potential segments to enter. Here you should characterize the customers in each segment. Most ventures address either a consumer market or a business market. The motivations of each are different.

- Consumer market - characterize the target markets according to the following criteria:
  - Demographics (gender, sex, age, race, education, occupation or profession, income, location, etc)
  - Psychographics or life style (attitudes, beliefs, opinions, interests, values, etc.)
  - Social status (infers certain behavior: middle class values education, family activities, etc.
  - What does the target market think about the product/services currently in the marketplace? How willing are they to change?
  - What distribution is required to reach the consumer?
  - How are buying decisions made? Who makes the decision? Who influences the decision? Are buying decisions based primarily on price, quality, service, convenience, or others? Is there repeat business?
- Business market - characterize the target markets according to the following criteria:
  - Describe the organizations that purchase the product/service. What industry or sector, e.g. automotive, state governments, nonprofit? What size, e.g. Fortune 100, number of employees, etc.? Where located?
  - What does the target market think about the product/services currently in the marketplace? How willing are they to change?
  - How are buying decisions made? Are there different approval levels? Are decisions made centrally or decentralized? At what level is the ultimate responsibility for approving expenditures? What is the budgeting cycle? How long does it take from the first contact to receipt of an order?

- What criteria are used to make buying decisions: lowest price, service response, tech support, distance from supplier, global reach, ISO 9000, design capability, range of products, just-in-time, inventory levels, etc.?
- Are purchases typically made directly from the supplier, through wholesalers, distributors, retailers, or other?

Entry Points

Based on the segmentation that you did above, which segments represent possible points of entry? Explain why you have selected these particular entry points. You do not need to decide on only one at this stage of the analysis.

Industry Analysis

In this section you will describe your competitors and how they compete. Here you must show that you understand the nature of the competition and that it is an attractive industry to enter.

Industry Organization

Describe how the industry is organized.

- How are goods and services produced and delivered to customers? Where are they produced? What is the level of integration?
- How do distributors, dealers, VAR's and systems integrators fit in?
- A good way to understand the industry is to analyze the value chain from beginning to end. This should give you a good understanding of the competitive forces and where you fit in.
- How do your competitors perceive themselves? Look at their websites; obtain brochures, literature, and advertisements.

Competitive Environment

Describe the competitive environment in your industry:

- How do the companies in the marketplace compete: service, quality, price, new product/service introductions, customer support, etc.?
- What is the degree of rivalry among competitors? A highly competitive industry means price competition. Most new firms can't compete on price.
- What are the gross profit margins? Net profit margins?
- What is the response of competition to new entries into the market?
- What problems and concerns do customers have with these competitors?
- Is your market place fragmented or dominated by a few companies that control a large share of the market?
- What is the size of the competitors? Unless these companies are SOT's (slow, old and traditional), you should not consider competing directly with them.

Barriers to Entry

Describe the barriers to entry that a new venture faces:

- Economies of scale: manufacturing, marketing, technological
- Customer loyalty: well established brands, long established relationships
- Agreements with customers, suppliers, strategic partners
- Control of the distribution channel
- Switching costs
- Capital requirements: high investment
- Access to distribution channels: exclusive distribution agreements, dominant position of competitors
- Intellectual property: patents, trade secrets, copyrights, trademarks, know-how
- Industry hostility to new entrants. Will competitors use all means to drive out new companies: pricing, legal, threats, spreading rumors.
- Government regulations: defense contracts, import restrictions
- Social conventions

<u>Competition</u>
Write a brief paragraph on each of the important competitors that describes what the company does; its position in the industry; strengths and weaknesses. Make sure that you consider all of the following sources of competition:

- Direct: companies that produce same product/service; but, they may have different strategies to compete - price, quality, selection, performance, design, tech support.
- Indirect: companies that satisfy same need with different product/services.
- Future: companies that have the capability to enter your market; they may have the same customers, but use different technology or channels.

Product or Service

Describe your product or service. It is possible to provide both a product and service, so you are restricted to just one.

<u>Attributes:</u>

- Product ventures: function (speed, taste, cost reduction, etc.) durability, installation, ease of use, packaging, etc.
- Service ventures: function, environment, reliability, responsiveness, availability, usability, etc.
- Retail ventures: the product offering, ambiance, décor and layout, location, etc.
- Internet ventures: service offering, e.g. e-tailing, communication and information, data interchange, B2B buying and selling, social networking, ASP's, networking, etc.

<u>Benefits</u>
If attributes are about the product/service, then benefits are <u>about the customer</u>. Think about the impact on the target markets' emotions and/or pocketbook.

- How do the benefits address the needs of the target market? Think beyond a generic description of benefits:
  - Best quality: do you mean appearance, durability, reliability, etc.?
  - Good service: do you mean on-time delivery, maintenance, tech support, etc.?
  - Efficiency: do you mean less time, easier to use, greater output, fewer resources, etc.?
  - Save time: to do what? It may not always be important to save time.
  - Convenience, for what?
  - Cost savings: versus what?
- Are the benefits well understood by the market? What <u>evidence</u> do you have to support this?

When considering the benefits of the product or service, remember that attributes are not the same as benefits. The fact that a bicycle is fast and red is important, but these are not benefits. The benefits are that you can win competitions and look cool.

<u>Differentiation</u>
Many entrepreneurs launch their venture by differentiating their product or service from the competition. Describe how your product/service will it be differentiated.

- Does the product/service have unique features? Benefits?
- What evidence do you have to support the demand for these features or benefits?

Financial Viability

There are many ways to determine the financial viability of your venture. In this Framework you have two approaches to consider: profitability and cash flow. Remember that all you are trying to do here is determine whether the venture is viable. You do not go into the level of detail as you would when preparing business plan financial projections.

Profitability

Estimate the potential profitability of the venture. There are three drivers of profitability that should to be considered:

- Revenue – project the revenues by estimating over three years:
  - Volume of sales in units, customers, or transactions, etc.
  - Prices of the product/service
- Cost of Revenue – project the costs associated with producing and delivering the product or service. It usually includes labor and material.
- Gross Profit – should be expressed in dollars and %
  - Gross Profit = Revenue – Cost of Revenue
  - % Gross Profit Margin = $\frac{\text{Revenue – Cost of Revenue}}{\text{Revenue}}$
- Major Operating Expenses – project the major expenses
  - Marketing e.g. advertising expense for a consumer product
  - Development e.g. software development expenses for software
  - Administrative e.g. building lease expense for a retailer

Project a simple Operating Income Statement. Your focus should be on what profitability might look like once the venture has passed through the start-up phase. Describe the key assumptions used.

Operating Income	Year 1	Year 2	Year 3
Revenues			
Cost of Revenues			
Gross Profit			
% Gross Profit Margin			
Operating Expenses			
Marketing			
Development			
Administrative			
Total			
Operating Income			

Cash Flow

An alternative method to determine financial viability is by projecting Cash Flow over the first three years of the venture. The objective is to learn whether your venture can reach positive cash flows. Use the following format to project cash flows (note: these projections could also be done on a monthly basis):

Cash Flow	Year 1	Year 2	Year 3
BEGINNING CASH BALANCE			
CASH RECEIPTS			
Product sales			
Service sales			
Other			
Total Receipts			
TOTAL CASH AVAILABLE			
CASH DISBURSEMENTS			
Purchases			
Wages			
Taxes			
Rent			
Utilities			
Legal			
Owner draw			
Equipment purchase			
Other			
Total Disbursements			
FORECASTED CASH BALANCE			

Conclusion

Describe succinctly why the concept is or is not feasible. This is a key section of the Framework because here you must make the case that there is attractive opportunity for your venture.

If you conclude that your concept is feasible, prepare an action plan of the next steps you will take. This could include: writing a business plan; building a prototype; doing in-depth market research; finding a location; identifying people that could help you start the business; raising funds, etc.

If you conclude that your concept is not feasible, you face two alternatives: you can scrap the whole idea and get a real job. Or, you can rethink the concept based on what you have learned from this analysis. It is not unusual for an entrepreneur to go through several iterations before settling on a particular approach.

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