Business Feasibility Study

Purpose

A feasibility study can help you see if it is possible to implement your business. It could help you take a step back and look objectively at the strengths, weaknesses, opportunities and threats of your proposed business venture. Will your idea work? Is it a sound concept? Is your idea viable or will it need a few changes before you invest time, talent, and money into this business?

Once you establish that your business idea is feasible, then you could proceed with a business plan. Much of the information that you have gathered for the feasibility study could be used for this. The business plan provides detailed financial forecasts, marketing strategies and information on how you will start and grow your business.

The difference? A feasibility study helps determine if your business idea will work and the business plan helps you plan your new venture and makes sure other people understand your business' potential.

Study Outline

1) **Executive Summary:** This is an optional part of the Feasibility Study to be used if you plan to present the study to interested parties such as potential partners or investors to gauge their interest before completing the entire business plan. Key points to remember include:
    a. Write the Executive Summary after the rest of the Study document is completed.
    b. Although it is written last and it acts as somewhat of a conclusion to the Feasibility Study, the Executive Summary is presented at the beginning of the Study.
    c. The Executive Summary should be from about 3 paragraphs to no more than a page long.

2) **Business Model:** Describe how the proposed business will generate revenue, (e.g. sell a product(s) via retail or wholesale, charge licencing fees, provide services, etc.). Other key points to include:
    a. What is the opportunity to create recurring revenues from customers?
    b. Is this company selling to businesses, consumers, or both?
    c. Do you plan to have investors in this business beyond yourself or family? If so how will they be compensated or repaid?
    d. In the foreseeable future do you plan to exit this business (sell or go public) or is this a long term venture?

3) **Product/Service:** Describe the proposed business' products and/or services. If the business is selling more than one product or service, try to estimate the product/service mix. Other key points to include:
    a. Describe how customers would use and buy the product(s) and/or service(s).
    b. Describe the key components (e.g. labor and/or materials) used in each product/service.
    c. For new products/services (e.g. a new drug, technology, or untried service), describe plans to develop and test the product or service.

4) **Industry:** Clearly define and describe the industry or industries in which the proposed business will be involved. Include key industry segments, industry size, growth rate, and outlook. Key points to include:
    a. Research and discuss the principal trends in the industry or industries. E.g. emerging customer tastes, new products, new processes, or new technologies that may impact the industry as a whole.
    b. Describe the demand and supply factors for the industry.
    c. Describe how the industry may be impacted by change in economy, regulation, or other relevant factors.

5) **Intended Market:** Define the market that the business will sell its products and services in by geography, demographics, and other relevant factors. Be careful to specifically define your market and rather than say that "everyone" is your target. Even products and services that are widely used (e.g. deodorant) have users that are more likely to use the product/service (e.g. Dove deodorant is for women). Key points to include:
    a. Describe the market size (e.g. number of users, dollar value of the market), trends, and seasonal patterns.
    b. Demographics of target purchasers (e.g. age, gender, etc.). For business customers, define who would be the purchase influencers and decision makers.
    c. Shopping behavior such as frequency of product/service purchase and how consumers/businesses normally purchase the product/service.
    d. Describe the main direct and indirect competition (Indirect competition includes substitute products/services) and their current estimated market share.
    e. Is the market for this product/service currently in the introduction, growth, mature, or decline phase of the business cycle? If the market is mature or in decline, describe the main competitive factors that will allow you to take customers from established competitors.
    f. Estimate your initial market share and growth rate. Be careful not to overestimate this!

6) **Operational Requirements:** How and where will the product and/or service be produced and delivered. Other key points to include:
    a. What physical premises will be required (e.g. home, office, manufacturing plant)? Estimate the size and cost of the premises.
    b. What technology needs will the business require? Research and estimate the costs.
    c. What tools and equipment will the business require? Research and estimate the costs.
    d. What labor requirements will there be (number of employees and hours of work)? Research and estimate the costs.
    e. Describe the supply sources and if there are suppliers readily available.
    f. Describe any key regulations that must be complied with and what are the requirements of those regulations?

7) **Critical Risk Factors:** Describe the critical risks faced by the proposed business. Key points to include:
    a. SWOT analysis (Strengths are internal to the business, Weaknesses are internal to the business, Opportunities are external to the business, and Threats are external to the business).
    b. What are the key factors that may affect your ability to successfully start this business?

8) Financial Projections:

a. Industry Standards: Research and discuss industry averages and standards for Gross Margins, Wages to Sales costs, and other major costs as they relate to your business. Find the information at www.ic.gc.ca/eic/site/pp-pp.nsf/eng/home .

b. Breakeven Analysis: Used to find out how many units must be sold (either product or time units) in a given period (e.g. per week, month, or quarter) in order to cover all the costs of the business for that given period. This can serve as a useful check on assumptions about costs, prices, and volumes.

   i. The formula to complete a Breakeven Analysis: **Fixed Costs** per period / (**Unit Price** – **Direct Costs** to produce the product/service) = N**umber of Units** needed to be sold in order to breakeven during that period.

   ii. If you have more than one item or service with different prices and direct costs (also known as variable costs) try to estimate the mix of what you are going to sell.

c. Cash flow projection: Complete a cash flow chart for the first one to two years of operation either by month or quarter. Use the information you have gathered about prices, estimated market share, growth potential, equipment costs, fixed costs, and variable costs. Be sure to include in the chart:

   i. All revenues: Record all revenues when they are received (e.g. investments, loans, and sales). Sales should be recorded in the month you receive the cash (so if you offer terms like net 30 days then you would record the revenue 30 days after you expect to get the sale).

   ii. All Expenditures: Record all expenses at the time of payment.

   iii. Subtract revenues from expenses to get a net cash surplus or deficit for the period.

   iv. Carry forward the surplus or deficit to the opening cash for the next period.

d. Capital Requirements: What are the upfront capital needs for this business? Include how you will find the money to finance the business (amount you will invest, amounts that you will seek from other investors such as family and friends, amounts you will seek from lenders, items that you will need to rent or lease, etc.). Key points to include:

   i. Amounts for purchasing tools, technology, and equipment (e.g. rent, purchase, or lease).

   ii. Amounts for plant/building or leasehold improvement costs if required.

   iii. Amounts for deposits and start-up costs (e.g. Legal, licenses, permits, franchise fees, etc.).

   iv. Amounts for inventory if required.

   v. Working capital needed (use your cash flow to determine the largest deficit plus a sufficient cushion for safety).