Assessing Viability and Feasibility of Business Ideas

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WHY NEW VENTURES FAIL

- Lack of Objective Evaluation
- No Real Insight into the Market
- Inadequate Understanding of Technical Requirements
- Poor Finance Understanding
- Lack of Venture Uniqueness
- Ignorance of Legal Issues

NEW-VENTURE IDEA CHECKLIST

- Basic Feasibility Is it legal/can the product or service work
- Competitive Advantage of the Venture
- What is the Customer Profile
- Marketing of Goods & Services
- Production of Goods & Services
- Financing the Venture
- Staffing Decision
- Control Mechanism

Fundamentals of a Feasibility Plan

 Provide essential information needed by investors and bankers

• Reasons for its chance of success/failure

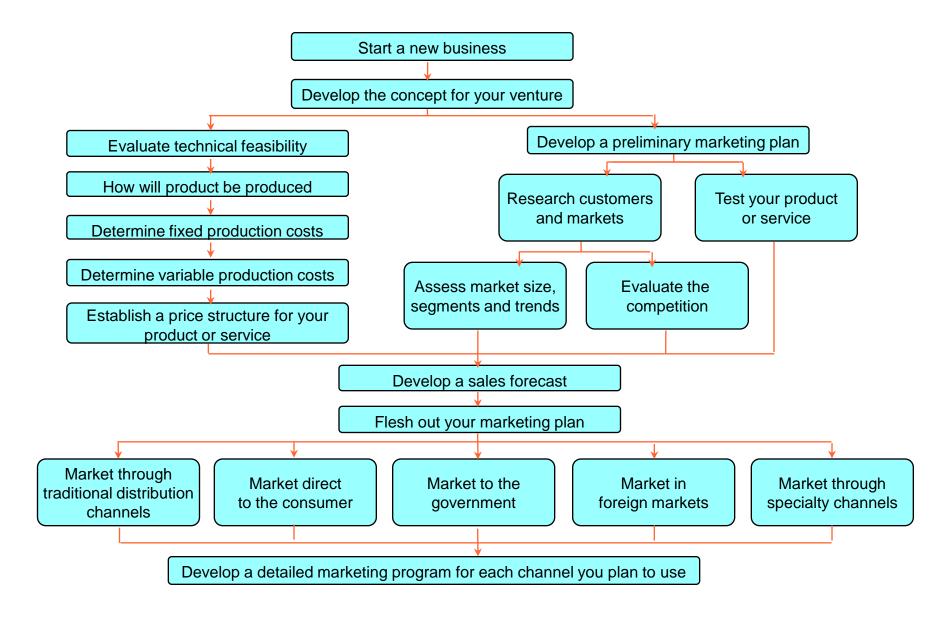
Supporting Documents

Feasibility Plan

- 1. Executive Summary
- 2. Business Concept
- 3. Marketing Research & Plan
- 4. Sales forecast
- 5. Finances
- 6. Manufacturing and Operations
- 7. Entrepreneurial Team

Technical and Market Assessment

Conducting a Feasibility Study



A Typical Feasibility Study

Feasibility Study Contents

Concept for your venture

 Explain clearly and concisely the principal concept underlying your venture and what sets it apart from other businesses.

Technical feasibility of your idea

- Indicate the degree of innovativeness of your venture idea and the risks associated with it.
- Does it need to be subjected to some form of technical evaluation or assessment?

Market assessment

- Describe the profile of your principal target customers.
- Indicate current market size, trends and seasonal patterns.
- How do you plan to test your idea?
- Describe any market research or customer surveys you plan to conduct.
- Assess the nature of your competition.
- Estimate your expected sales and market share.

Continued

A Typical Feasibility Study

Feasibility Study Contents

Your marketing plan

- Detail the marketing strategy you plan to use.
- Describe your marketing plan, including your sales strategy, advertising and promotion plans, pricing policy, and channels of distribution

Managing the supply situation

- How do you plan to assure continuing access to critical supplies of raw materials and component parts at reasonable prices?
- Will you produce or subcontract your production?

Continued

A Typical Feasibility Study (Continued)

Feasibility Study Contents

Conduct cost and profitability assessment

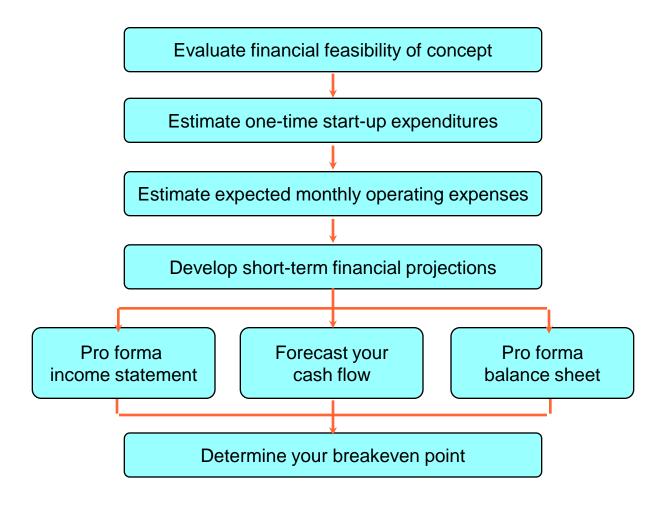
- Determine the funds required to set up your business.
- Develop short-term financial projections including:
 - Cash flow forecasts
 - Pro forma profit and loss statements
 - Pro forma balance sheet
 - Breakeven analysis

Plan for future action

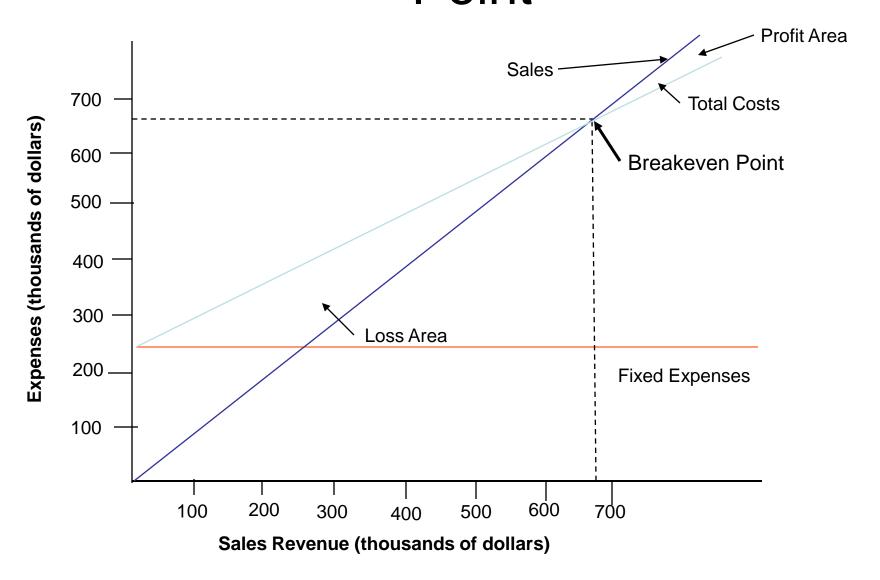
- Whet were the strong and weak points of your venture idea?
- Did your assessment indicate the business was likely to be profitable?
- Is it sufficiently attractive to proceed with the development of a complete business plan?

Cost and Profitability Assessment

Conducting a Feasibility Study



Determining Your Break-Even Point



Break-Even Point

- The breakeven point is the level of operation at which a business neither earns a profit nor incurs a loss.
- It is a useful planning tool because it shows entrepreneurs minimum level of activity required to stay in business.
- With one change in the breakeven calculation, an entrepreneur can also determine the sales volume required to reach a particular profit target.

Break-Even Point

- <u>Step 1</u>. Determine the expenses the business can expect to incur.
- <u>Step 2</u>. Categorize the expenses in step 1 into fixed expenses and variable expenses.
- <u>Step 3</u>. Calculate the ratio of variable expenses to net sales. Then compute the contribution margin:

• <u>Step 4</u>. Compute the breakeven point:

Sources of Capital

• Sources from internal operations

Short-term sources of debt financing

Liquidation of assets

Long-term sources of debt financing

Sources of equity financing

Operating Money

- To pay wages
- To pay taxes
- To pay operating expenses
- To make upcoming debt-reduction payments

Look for ways to maximize income on money you hold for a short time

5 Ways to Improve Cash Flow

- Bill it sooner
- Collect it sooner
- Pay it later
- Negotiate volume and early-pay discounts
- Encourage large orders

FINANCE

Angel investors

Venture capital

• Leverage Buyouts (LBOs)

Bootstrap financing

Angel investors

• An angel investor is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.

Venture capital

- Venture capital is a type of private equity capital typically provided to high-potential-growth companies in the interest of taking the company to an IPO.
- Venture capital investments are pooled professionally funds.

Leveraged Buyout

The acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital.

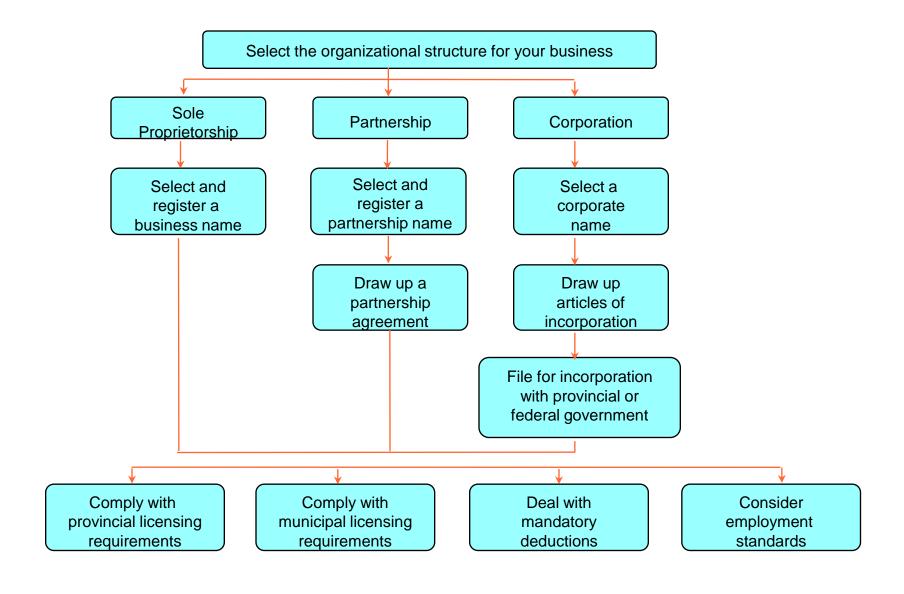
Bootstrap financing

• The process of creating a business from scratch without any investment.

Types of Bootstrap Financing

- **Trade Credit-** If your business can find a vendor or supplier to extend trade credit and allow you to order goods on net 30, 60, or 90 day terms, that is another form of bootstrap financing you could use. If your business is able to sell the goods before the payment is due, then you just generated cashflow without using any of your companies own cash.
- **Customers-** Your business can use a letter of credit from your customer to purchase materials without using any company resources. Just like when a contractor has their customer pay up front and then uses that money to buy the materials they need to complete the job.
- Real Estate- Leasing, refinancing, and borrowing against equity is a great way for a company to generate capital by using its own assets.
- **Leasing-** Free up cash by leasing equipment rather than purchasing outright.

Organize Your Business



Forms of Business Organization Sole Proprietorship

Advantages

- Simple and inexpensive
 Unlimited liability to start
- Individual control over operations
- All profit to the owner
- Losses deductible from any other income

Disadvantages

- More difficult to obtain financing
- Limited resources and opportunity

Forms of Business Organization Partnership

<u>Advantages</u>

- Pooling of financial resources and talents
- Simplicity and ease of organization
- Increased ability to obtain capital
- Potential for growth

Disadvantages

- Unlimited liability
- Divided authority

Forms of Business Organization Corporation

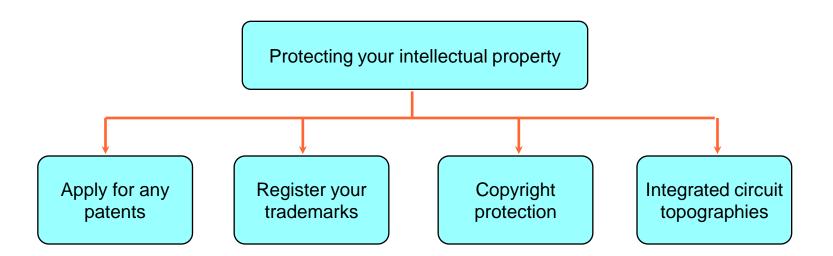
Advantages

- Limited liability
- Continuity of the business
- Easier to raise capital
- Potential employee benefits
- Tax advantages

<u>Disadvantages</u>

- Cost
- Legal formalities
- Inability to flow losses through to the shareholders
- Need for personal guarantees

Protect Your Idea



Forms of Intellectual Property

- Patents
- Trademarks
- Copyright
- Industrial Designs
- Integrated Circuit Topographies

Patent

- Can be granted to the inventor of any new and useful product, chemical composition, machine or manufacturing process
- Awarded on a "first to file" basis
- Protection provided for 20 years from date of application
- The onus is on you to protect your rights under the patent
- Holding a patent does not necessarily mean commercial success

Copyright

- Copyright precludes others from reproducing or copying your original published work--books, leaflets, lectures, maps, musical compositions, computer programs, etc.
- Exists for the duration of your life plus 50 years after your death
- No legal requirement the work be registered; copyright is automatically acquired upon creation of an original work
- Responsibility for policing copyright rests with the holder
- A copyright in Canada provides simultaneous protection in most other countries of the world

Business Plan

- 1. Title Page
- 2. Table of Contents
- 3. Executive Summary and Fact Sheet
- 4. Body of the Plan

The Company and Industry

The Product/Service Offering

Market Analysis

The Marketing Plan

The Development Plan

The Production/Operations Plan

The Management Team

Implementation Schedule and Risks Associated with the Venture

The Financial Plan

5. Appendices

STEPS FOR STARTING A ENTERPRISE

- 1. Selection of Product
- 2. Selection of form of Ownership
- 3. Selection of Site
- 4. Designing Capital Structure
- 5. Acquisition of Manufacturing Knowledge
- 6. Preparation of Project Report
- 7. Licenses & Arrangement of Finances

CASE STUDY & DISCUSSIONS