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

Start a new business

Develop the concept for your venture

Evaluate technical feasibility

How will product be produced

Determine fixed production costs

Determine variable production costs

Establish a price structure for your product or service

Develop a preliminary marketing plan

Research customers and markets

Test your product or service

Assess market size, segments and trends

Evaluate the competition

Develop a sales forecast

Flesh out your marketing plan

Market through traditional distribution channels

Market direct to the consumer

Market to the government

Market in foreign markets

Market through specialty channels

Develop a detailed marketing program for each channel you plan to use
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

- What 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

- Evaluate financial feasibility of concept
- Estimate one-time start-up expenditures
- Estimate expected monthly operating expenses
- Develop short-term financial projections
- Pro forma income statement
- Forecast your cash flow
- Pro forma balance sheet
- Determine your breakeven point
Determining Your Break-Even Point

![Graph showing sales revenue vs. expenses with break-even point, profit area, loss area, and fixed expenses labeled.]

- Sales
- Total Costs
- Breakeven Point
- Profit Area
- Loss Area
- Fixed Expenses
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

• **Step 1.** Determine the expenses the business can expect to incur.

• **Step 2.** Categorize the expenses in step 1 into fixed expenses and variable expenses.

• **Step 3.** Calculate the ratio of variable expenses to net sales. Then compute the contribution margin:

\[
\text{Contribution Margin} = 1 - \frac{\text{Variable Expenses}}{\text{Net Sales Estimate}}
\]

• **Step 4.** Compute the breakeven point:

\[
\text{Breakeven Point} = \frac{\text{Total Fixed Costs}}{\text{Contribution Margin}}
\]
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

Select the organizational structure for your business

- Sole Proprietorship
  - Select and register a business name
  - Draw up a partnership agreement

- Partnership
  - Select and register a partnership name
  - Draw up a partnership agreement

- Corporation
  - Select a corporate name
  - Draw up articles of incorporation
  - File for incorporation with provincial or federal government

- Comply with provincial licensing requirements
- Comply with municipal licensing requirements
- Deal with mandatory deductions
- Consider employment standards
## Forms of Business Organization

### Sole Proprietorship

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Simple and inexpensive to start</td>
<td>• Unlimited liability</td>
</tr>
<tr>
<td>• Individual control over operations</td>
<td>• More difficult to obtain financing</td>
</tr>
<tr>
<td>• All profit to the owner</td>
<td>• Limited resources and opportunity</td>
</tr>
<tr>
<td>• Losses deductible from any other income</td>
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Forms of Business Organization

*Partnership*

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Pooling of financial resources and talents</td>
<td>• Unlimited liability</td>
</tr>
<tr>
<td>• Simplicity and ease of organization</td>
<td>• Divided authority</td>
</tr>
<tr>
<td>• Increased ability to obtain capital</td>
<td></td>
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<tr>
<td>• Potential for growth</td>
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**Forms of Business Organization**

**Corporation**

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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</thead>
<tbody>
<tr>
<td>• Limited liability</td>
<td>• Cost</td>
</tr>
<tr>
<td>• Continuity of the business</td>
<td>• Legal formalities</td>
</tr>
<tr>
<td>• Easier to raise capital</td>
<td>• Inability to flow losses through to the shareholders</td>
</tr>
<tr>
<td>• Potential employee benefits</td>
<td>• Need for personal guarantees</td>
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<tr>
<td>• Tax advantages</td>
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Protect Your Idea

Protecting your intellectual property

- Apply for any patents
- Register your trademarks
- Copyright protection
- Integrated circuit topographies
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