Feasibility Studies Made Simple

Rodney Overton

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is an international award winning writer (published in four languages) of more than twenty-five popular *business skills 'how-to'* books covering a wide range of business, human resources, management, planning and sales and marketing topics.

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Martin Books have a combined range of more than 100 books, CD ROMs and Training Facilitators Manuals available, covering areas of business such as Administration, Planning, Finance, Human Resources, Management, Marketing, Sales and Small Business.

We also have a Training Facilitators Manual available for a training course titled FEASIBILITY STUDIES.

Our books are distributed and published in four languages in a number of overseas countries.

Introduction

Establishing the feasibility of projects is a critical factor in business success.

Many factors may be involved and invariably luck can and probably will play a hand.

Many new projects which have passed countless feasibility studies have been sunk by unexpected events such as flood. fire, burglary, changes in legislation, plague, demographic shifts, an inability recruit and/or keep suitable staff, the failure of a major customer, seasonal demands, health scares, product recalls due to poor quality, withdrawal of financial support, weather, new technology and poor management to list but a few.

Many projects of course can pass feasibility tests and studies and be brought undone by sheer incompetence or downright dishonesty.

A key factor in any feasibility study must be ensuring that you are dealing with correct facts, correct assumptions and up to date financial data.

Many projects fail because assumptions were based on incorrect facts.

In this book we have endeavoured to provide a diverse range of thought provoking and stimulating information and checklists on which a professional quality feasibility study can be structured.

We currently have a range of more than 100 books, CD ROMs and Training Facilitators Manuals available, covering areas of business such as Business Administration, Business Planning, Finance, Human Resources, Management, Marketing, Sales and Small Business.

We hope that the material presented will offer encouragement, suggestions and resources to support new and effective ways of leading and succeeding in your chosen field.

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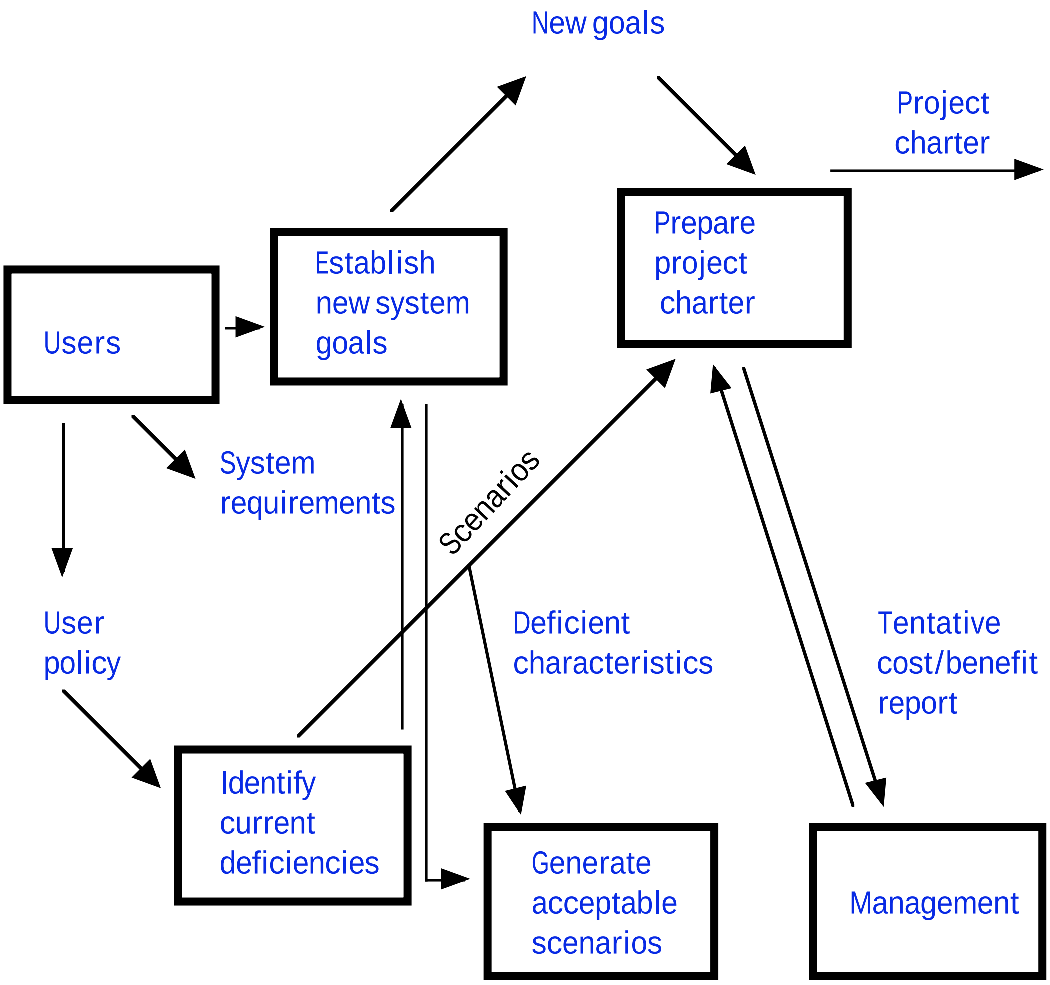
Getting Started

A Feasibility Study Process



Feasibility Analysis

When complex problems and opportunities are to be defined, it is generally desirable to conduct a preliminary investigation called a Feasibility Study.

A Feasibility Study is conducted to obtain an overview of the problem and to roughly assess whether feasible solutions exists prior to committing substantial resources to a project.

During a Feasibility Study, the systems analyst usually works with representatives from the department(s) expected to benefit from the solution.

The primary objective of a feasibility study is to assess three types of feasibility:

1) **Technical feasibility**
   Can a solution be supported with existing technology ?
2) **Economic feasibility**
   Is existing technology cost effective?
3) **Operational feasibility**
   Will the solution work in the organisation if implemented? By intent, the Feasibility Study is a very rough analysis of the viability of a project.

It is, however, a highly desirable checkpoint that should be completed before committing more resources.

The feasibility study answers a basic question: Is it realistic to address the problem or opportunity under consideration?

The final product of a successful feasibility study is a project proposal for management.

The contents of this report may include, but are not restricted to the following items.

1) Project Name.
2) Problem or opportunity definition.
3) Project description.
4) Expected benefits.
5) Consequences of rejection.
6) Resource requirements.
7) Alternatives.
8) Other considerations.
9) Authorisation.

A Feasibility Study is the first stage of the product or service development cycle. Its aim is to analyse the viability of a proposed project, product or service.

It analyses the proposed project, product or service with respect to the performance objectives expected by the organisation, and may include an evaluation of a current system.

The Feasibility Study may produce a cost benefit report and a project charter to be used as a guide during the analysis phase.

A Feasibility Study is the process of defining exactly what a project is and what strategic issues need to be considered to assess its feasibility, or likelihood of succeeding.

Feasibility Studies are useful both when starting a new business, or identifying a new opportunity for an existing business, such as a new product, service or branch.

A key factor in any Feasibility Study must be ensuring that you are dealing with correct facts, correct assumptions and up to date financial data.

Many projects fail because assumptions were based on incorrect facts.

Ideally, the feasibility study process involves making rational decisions about a number of enduring characteristics of a project, which may include:

1. Establishing project scope - stating exactly what the project is and what it is intended to achieve - its objectives
2. Vision/mission statement
3. Vision - where do you see this opportunity taking you?
4. Situation analysis, history and background of the product/service, industry and the organisation
5. Identifying the statutory and mandatory requirements
6. The aims, goals and objectives of pursuing the opportunity
7. Market opportunities
8. Current market penetration
9. Current market segments
10. Projected growth in each market segment
11. A review of what is currently on the market
12. Customer profile and demographics
13. Performance objectives expected
14. Estimation of customers and potential revenues
15. Critical success factors
16. Determination of competitive advantage
17. Barriers to entry, education, distribution channels, costs
18. Definition of proposed operations/management structure and management methods
19. The time frames
20. The initial costs involved
21. Financing and projected cash flows - where will the money come from?
22. Break even analysis
23. The pay back period
24. Return on investment
25. A report of cost benefits
26. Development of an action plan for the project to proceed
27. A summary of findings

Secondary issues

Some secondary issues which may need to be addressed are:

1. Is there a key decision maker involved?
2. Is technical feasibility an issue?
3. Are there clear business objectives to be addressed by the Feasibility Study?
4. How committed are users and management to achieving the stated business objectives?
5. Appointing analyst(s) to conduct the initial assessment.
6. Producing a schedule for the Feasibility Study and determining its size and scope based on previous experience, and considering the following points:
7. Deadlines imposed by the organisation
8. An estimation of the time required to complete the Feasibility Study
9. Appointing a research team based on the preliminary study to conduct the Feasibility Study.
10. Should a campaign go forward at this time?
11. Are there any Foundations and Grants to assist our project?
12. Are we in the optimal possible position to conduct a campaign?
13. Is there enough strong leadership available for the campaign?
14. When is the best time for the campaign to take place?
15. Where will the financial support come from?
16. What is a feasible goal for the project?
17. Do you have a business plan for this project, product or service?
18. What action do we need to take to make our vision a reality?

Turning Dreams Into Businesses

A Feasibility Study can assist with making the crucial decision of whether to proceed or not in a wide range of business issues.

It could be a construction project, a new business, or new branch, an export drive, a marketing campaign or the manufacture and sale of a new product or service.

Are you thinking about starting a business or proceeding with a new project?

1. How long have you been dreaming about starting your own business?
2. What steps have you taken toward making your dream come true?
3. Do you have family support to start your own business?
4. Can you afford a failure?
5. How much money do you need to make?
6. What kind of experience do you have in this industry?
7. Will this business help you realise your personal life goals?

Are you looking to grow your existing business or expand into new lines?

1. How long have you been in business?
2. Why do you need a business plan?
3. What level of sales growth would you like your business to achieve?
4. Will you need debt or equity sources of external capital to fuel that growth?
5. Have you formed the right legal entity to accommodate your growth plans?
6. How much does it cost you to make your product or provide your service?
7. Does your current price provide you with a high enough margin to make enough money?

Aims and Objectives

You should commence your Feasibility Study by writing the aims and objectives you envisage for your study.

Establish the scope of the Feasibility Study - state exactly what the project is and what it is intended to achieve - its objectives.

The aims, goals and objectives of pursuing the opportunity.

Some aims and objectives for a Feasibility Study could be:

The aims and objectives of this Feasibility Study are to investigate the feasibility of importing / manufacturing / selling a new type of widget for sale to the Australian market, as well as investigation of the costs involved and the potential profits and return on investment.

We are entering an era where things will be very different - an era of intelligent alliances.

The winners will be the organisations that have title to goods and ideas for the shortest time with the least investment, for the most profit.

Why do so few new products succeed?

In the writer's opinion and based on his hard won experience, some of the requirements and very common widespread mistakes and miscalculations people make when launching 'inventions' and new products include:

- The need to be prepared to give 100% commitment (and even more) of their own efforts to make their new product successful.

The need to *listen* to what others have to say and to heed what is heard, and the need to do some basic market research before a proper feasibility study is undertaken.

- Before you go into production of a product, ask potential customers if they would buy it.
- Ask how the product might be improved.
- Find out what potential customers want to buy.
- In most cases what they want to buy is different from what you want to sell.

Do not assume that your product is a 'good product'.

Many people convince themselves that their product is a good product, then produce an untried and untested product in commercial quantities, without any market research.

These same people are often paranoid about often non existent 'competitors waiting to steal their ideas', and they then blame the world at large when no one will buy the product at consumer level, on their terms and conditions.

Do you understand the culture, cost structure, requirements and protocol of the industry you want to sell to?

The need to be aware of commercial reality.

- It is not unusual for a product to retail for 5 to 10 times the manufactured cost.
- In most cases a wholesaler and then a retailer, will make more profit on a product than the manufacturer.
- It may take months to be paid for your product / service.
- Do you understand how sales and marketing in the world of commerce functions, particularly in your niche market?
- Trade customers will expect trade discounts as well as various rebates and contributions from suppliers including co-operative advertising money.
- The apathy of business and the public in general, to change and new products.

Commercial Reality

- You must be aware of the need for market research and on going research and development. Research and development involved in most successful new products is in the order of 1 to 3 years. Last nights ‘good idea’ will require lots of development.
- The need for packaging, point of sale displays, an advertising budget and an integrated sales and marketing campaign.
- The need for products to meet government and industry regulations.
- Going into production of an unproven product without proper checking of manufacturing costs. This is a common occurrence and people launching new products get ‘friends and mates’ to make a batch of their product which is inevitably, way overpriced. A factor of 75% overpriced is not uncommon.
- The notion that the USA is a huge market, just waiting for my idea... Launch it successfully in Australia first.
- “If I sell to 10% of the population......”, is totally unrealistic - 0.5% to 1.0% is far more practical (and still a difficult) target.
- We are constantly amazed at the school teachers, technicians, firemen, publicans, and those from many other occupations who have tried to launch new products or services (and invariably failed) thinking they could outsell people with years of sales and marketing experience and contacts. One person recently could not even locate the phone number for the Patent Office, but was still convinced his invention would take the world by storm.
- A good analogy is, ‘could a specialist salesperson do your specialist job, such as putting out a fire?’
- Another example in our recent experience was a retrenched public servant who travelled to India twice to sell very expensive products. Needless to say no Feasibility Study was undertaken and worse still, no sales have been recorded. In this instance some basic feasibility would involve checking to see if any other Australian companies had ever done similar business in India. Further, was this particular product of any use to the target Indian consumers? In fact it was not!

Before Sir Richard Branson’s Virgin Blue airline commenced operations in Australia it spent $50,000 on a feasibility study after Brett Godfrey prepared a business plan.

What type of business do you have?

1. What type of business do you have?
2. What is the purpose of this business?
3. What is the key message or phrase to describe your business in one sentence?
4. What is your reason for being in this business?
5. What is your product or service?
6. Can you list three unique benefits of your product or service?
7. Do you have data sheets, brochures, diagrams, sketches, photographs, related press releases or other documentation about your product or service?
8. What is the product application?
9. What led you to develop your product?
10. Is this product or service used in connection with other products?
11. What are the top three objections your target market have to buying your product or service immediately?
12. When will your product be available?
13. Who is your target audience?
14. Who is your competition?
15. How is your product differentiated from that of your competition?
16. What is the pricing of your product versus your competition?
17. Are you making any special offers?
18. What plans do you have for advertising and promotions?
19. How will you finance company growth?
20. Do you have the management team needed to achieve your goals?

2

Preliminary Steps

Our thesaurus gives many meanings for the word feasibility including, achievable, capable, doable, possible, viable, within reach, well suited and workable.

All of these of course are important issues which your Feasibility Study should consider and determine.

A feasibility Study should cover the key operating areas of a business which will impact on the project under consideration, such as distribution, finance, human resources, information systems, marketing, production, purchasing and research and development.

We have provided a wide range of checklists and questionnaires which you may find useful in your preliminary feasibility planning steps.

These may assist you to focus on your personal ability as well as those of your organisation to make a commercial success of the project.

Any further pertinent checklists and questionnaires which you consider to be important to the success of your project can be added to your Feasibility Study.

Your Feasibility Study should assist you with determining the growth potential of your business, the level of competition, the set up and operational costs, the financial implications and the short and long term viability of the project.

Don't overlook the people factor in your Feasibility Study. The project may appear feasible from a numbers perspective, but can you and your people make a success of this project?

- Can you do it successfully and make it happen?
- Can you identify and manage your risks?
- Will the project meet your goals?
- Is it *really* feasible?

Legal issues

- Are there any legal requirements or issues we need to look at or attend to?
- Do we need a special shareholders agreement?
- What warranties will be required?
- Can we afford to meet these warranty obligations?
- Will we need to address any Trade Practices Act requirements?
- Are there any special insurance requirements?
- Are there any special licences we need to look at or obtain?
- Do we require any special contracts or is there a need to raise any contracts or contractual issues?

Registration of intellectual property

- Do we have any patents, copyrights, etc.?
- Do we have appropriate protection for our Intellectual property in place?

Corporate structure - current

- Is our current structure adequate and is it the correct structure for our needs?

Corporate structure - future

- Will our current structure serve our future needs?

Financial liabilities etc

- What possible liabilities and claims are outstanding and may occur?
- What guarantees are outstanding?
- What encumbrances are there on the business?

A Personal Feasibility Checklist - do you have what it takes?

Do you have what it takes? Try this simple quiz and see how you fare. It is generally accepted that a score of less than 100 will require some major personal development on your part, to cope with the demands of your business.

	High					***Low***
1. Do you enjoy making your own decisions?	5	4	3	2	1	0
2. Are you self reliant?	5	4	3	2	1	0
3. Do you relish competition?	5	4	3	2	1	0
4. Are you a self starter?	5	4	3	2	1	0
5. Do you have will power?	5	4	3	2	1	0
6. Can you build teams?	5	4	3	2	1	0
7. Do you plan?	5	4	3	2	1	0
8. Can you take advice?	5	4	3	2	1	0
9. Can you adapt to change?	5	4	3	2	1	0
10. Do you establish schedules of activities?	5	4	3	2	1	0
11. Do you keep to them?	5	4	3	2	1	0
12. Can you keep others to schedule?	5	4	3	2	1	0
13. Do you deal with complex issues well?	5	4	3	2	1	0
14. Can you deal with ambiguity?	5	4	3	2	1	0
15. Are you capable of adapting to change?	5	4	3	2	1	0
16. Can you work long hours?	5	4	3	2	1	0
17. Are you single minded?	5	4	3	2	1	0
18. Do you have the physical stamina to deal with the project?	5	4	3	2	1	0
19. Do you have the emotional strength and resilience to handle the strain?	5	4	3	2	1	0
20. Will you make sacrifices to achieve your goals?	5	4	3	2	1	0
21. Are you capable of identifying the skills needed for success?	5	4	3	2	1	0
22. Do you have them?	5	4	3	2	1	0
23. Can you fill in any gaps in your skills from elsewhere?	5	4	3	2	1	0
24. Can you deal with risk of failure?	5	4	3	2	1	0
25. Are you skilled at networking?	5	4	3	2	1	0
26. Can you keep your objectives in view despite distractions?	5	4	3	2	1	0
27. Do you know your goals?	5	4	3	2	1	0
28. Can you communicate them to others?	5	4	3	2	1	0
29. Can you handle several tasks at once?	5	4	3	2	1	0
30. Do you separate ***need to's*** from ***nice to's?***	5	4	3	2	1	0
TOTAL						

The underlying theme of this questionnaire is a series of propositions about individual enterprise. At the core lies a notion that the person is self reliant, and can make personal decisions, enjoys being self reliant and is not intimidated by competition. Alongside these ought to be the capacity to be a self starter. The enterprising individual does not wait for others to give a lead. This reflects a well formed and strong will. The attitudes and skills needed by entrepreneurs are seldom as glamorous or exciting as those seen in the movies or those portrayed in popular writing. There needs to be a willingness to roll the sleeves up, take on board the basics and understand the fundamentals.

Focus on your limited resources, which could include:

- People
- Skills
- Money
- Facilities
- Information
- Technology - can you utilise, demonstrate or supply technology that is at the cutting edge for your industry?
- The unique technical skills of you and your staff
- Time
- Patents, Copyrights, Trade Marks, Intellectual Property
- Intellect - can your organisation demonstrate superior intellect which will assist in making the project feasible
- Intellectual property - what patents. copyrights, licences, etc do you own, which could assist with making the project feasible?
- External expertise - do you have external providers of unique services who can be classed as a resource for your business?
- Your advertising agency, accountant, designer, consultant, media contacts or formal and informal business networks?
- Who will champion your cause?

In order to achieve optimum results in your market place

- What other resources will you require to make this project successful?
- Can you access those resources?
- Can you afford those resources?
- Can you access those resources through strategic alliances?

The Environmental Climate - Analysing the environment

The business and marketing environment comprises six major factors which may have an effect on your business or project, both currently and in the future:

1. Demographics
2. Economic conditions
3. Competition
4. Social and cultural forces
5. Political and legal forces
6. Technology

The environmental climate

It is not hard to identify current strategic planning programs that have been highly disrupted by a changing environmental climate.

In recent times the Asian currency crisis and the bitter wharf strike together with pollution, safety and consumerism concerns, can bring many such examples to mind. For the year 2000 two major issues of concern were the Y2K bug and the effect of the Olympic Games. The point is that the environment is constantly changing and those organisations which can adapt to change are the ones which enjoy long-run successes.

Analysis areas and questions

1) What are the relevant social, political, economic and technological trends?
2) How do you evaluate these trends?

Do they represent opportunities or problems?

Do you understand?

- Who your key customers are?
- What their real requirements are?
- What they use the product for?
- Its key benefits?
- Buying features your key customers consider important?

Are you aware of your competitors?

- Mission statement
- Strategies
- Goals and objectives
- Their current market position
- Any plans they may have for expansion or changes in operations
- Operating capacity
- Current compared to available capacity
- Their width of product range
- Their capabilities
- Any possible changes?

Analysing the Business Environment

The business environment of any organisation consists of many forces close to it, which affect its ability to serve its customers, such as other internal departments, channel members, suppliers, competitors and publics.

It also includes broader demographic economic, political, legal, technological, ecological, social and cultural forces. The organisation needs to consider all of these when developing its strategic plan.

Analysing the environment

- What are the main factors in the remote environment (Economic, Political, Technological, Legal, Social/cultural, Demographic) which will affect the industry?
- What will that effect be and when will it be felt?
- Is the industry profitable now?
- Is it likely to be profitable in the future?
- Which aspects of the industry have relative power or will develop power in the future?
- What strategic groups exist in the industry?
- What are the critical success factors required to be in the industry?
- What are the critical success factors required to lead the industry?
- What is the level of turbulence within the industry?
- What factors will push the industry towards being an international or global industry or prevent it from becoming international or global?

Analysis should include the:

- Threat of new entrants
- The relative power of suppliers to the industry
- The relative power of buyers from the industry
- The existence of substitutes

Research shows that industry profitability will be very high if:

- Entry to the industry is difficult
- There are many suppliers of small size whose contribution to the final product is not important
- There are many small buyers
- There are few substitutes
- There are few competitors, each of which is satisfied with its position in the market

Preliminary Action Items

1. Meet to discuss your competitors, their position, claims, etc., and what questions you should ask them when you call.
2. Contact them to obtain their literature and hear their sales pitch.
3. Grill their salespeople to find out everything about their perceived features, benefits, advantages... and how they sell their product against yours.
4. Document, word-for-word, their entire sales pitch, including everything they say about your business.
5. Organise and analyse their literature.
6. Search on-line databases for news clippings, articles, stories and other relevant data.
7. Contact your resellers and ask their opinions.
8. Develop a complete competitive matrix.
9. Meet with your sales and marketing people to brainstorm the optimum responses to all of your competitors' statements
10. Develop a full script of bullet-proof responses for all of your sales and marketing people to use. "I'm *glad* you asked *that* question. ...."
11. Organise and host a focus group of appropriate customers and prospects to solicit customer input.
12. Compare your strengths and weaknesses, from an objective perspective and according to your competitor's emphasis on your weaknesses.
13. Prioritise action items for your engineering or other groups to make product improvements.

Positioning

Positioning is the art of defining how your product/service should be perceived by your customers relative to their perception of your competitors' products.

How will a customer distinguish your product or service from those of your competitors?

Positioning is extremely valuable especially when you are not the market leader because you must establish the benefits of going with your lesser known product or service.

This worksheet will allow you to identify the prime benefits of your product/service as well as who would benefit by using it.

You can then summarise and refine this information to develop your product/service positioning statements.

Positioning activities

Determine product's position with respect to the following:

A. Category

- What is it?
- What does it do?

B. Class

- High-end
- Low-end

C. Features and benefits

- What's new, different, better, etc.?
- Who will buy this product?

D. Price

- What's the right price for this product?

Positioning

Customers will know they need my product/service because:

- Briefly describe specific selling features of your product.
- They don't know how to ....
- It costs too much to...............
- They waste too much time doing ....

My product/service meets the needs of:

- List the types of customers who could benefit from your product/service.
  A. Business owners, entrepreneurs, department managers
  B. Investors, bankers
  C. Lawyers, CPAs, consultants, etc.

These customers will benefit from my product/service because:

- List the key benefits of your product/service; be sure to list benefits and not just features.

A. Business owners, entrepreneurs, department manager, because...............

B. Investors, bankers, because ....

C. Lawyers, CPAs, consultants, because...............

Summarise the above information into your first drafts of your short and full product/service positioning statements

Short Product/Service Positioning Statement Draft:

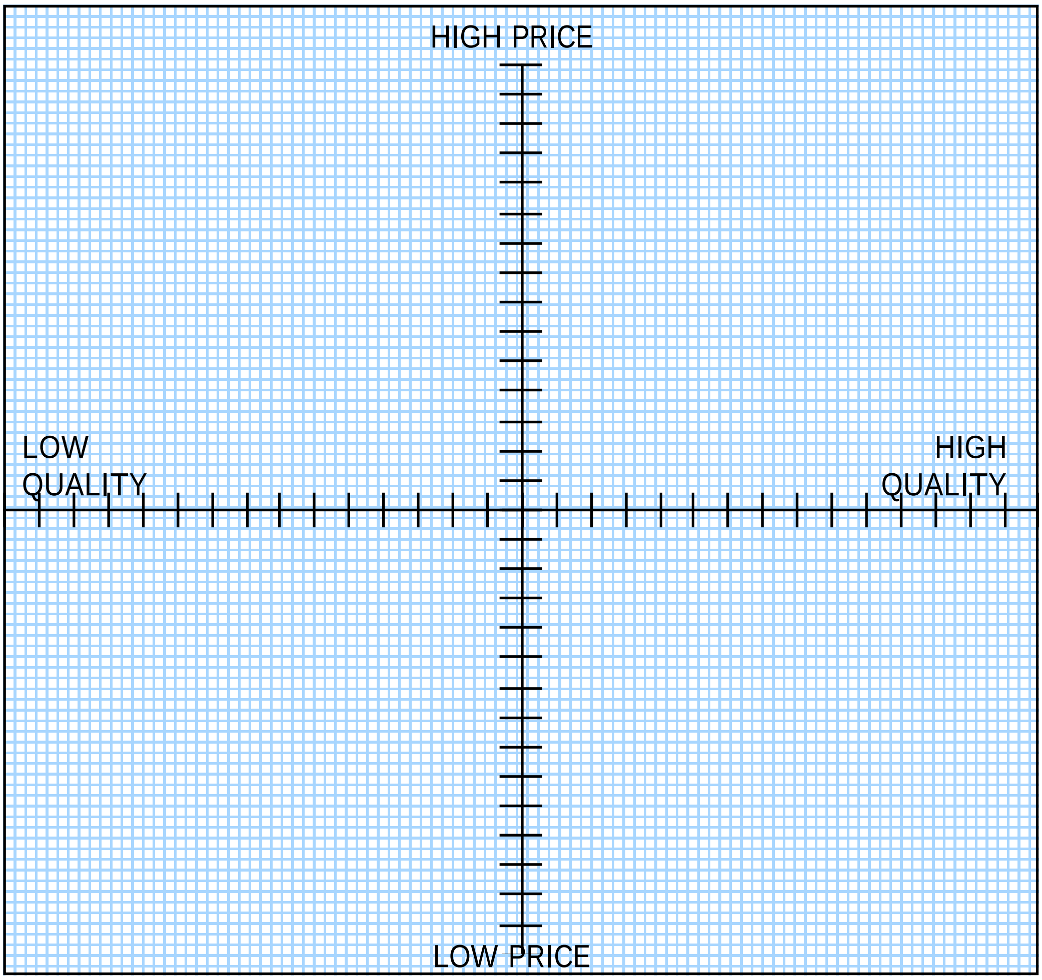
- For example:

Our product is an up to date and revised version of our well accepted model first released in ....

- or, model #3 is a proven, fully integrated software program which offers state of the art graphics, backed up by 24 hour service...............

Positioning

Where would you position your organisation and / or products?
Where would you like to be?
How do your customers perceive you?



A Feasibility Development Checklist

You can use this worksheet to assist you in defining the positioning and objectives for your product or service.

Positioning Goals

- Feedback from press
- Feedback from sales force
- Customer data from direct sales
- Vertical market(s) activity

Pricing goals

1. Determine the price where you can sell the most product and achieve maximum profits.

Measured by:

- Different price points
- Market research
- Competitive analysis

2. Maximise market share

Measured by:

- Competitive analysis
- Channel reports
- Formal market research

Naming Goals

Choose an effective name for your service or product

Measured by:

- Feedback from market research (target audience, influencers,

consultants)?

- Mocking references or inappropriate puns in press?
- Trademark or copyright problems?
- Translation problems?

A Feasibility Development Checklist

Research target audience

Strongly recommended, especially for new products. It is always a good idea to perform primary or secondary research in order to assist you in the proper positioning of your product or service. This research will help you get to know who your customers are and what they want from your product or services.

Create Product Positioning Statements

This worksheet will allow you to identify the prime benefits of your product as well as who would benefit by using it. You can then summarise and refine this information to develop your product positioning statements.

I. Customers will know they need my product because ...

Briefly describe specific selling features of your product.

II. My product meets the needs of ...

List the types of customers who could benefit from your product.

A.

B.

C.

III. These customers will benefit from my product because ....

List the key benefits of your product; be sure to list benefits and not just features.

A.

B.

C.

IV. Positioning Statement Drafts

Summarise the above information into your first drafts of your short and full product positioning statements.

A Feasibility Development Checklist

1. Determine product list price / recommended retail price

   ____

2. Develop a pricing model to establish price points for every price category.

   Compare your price for each category with your competitions' prices. (Avoid pricing too high or leaving money at the table.)

A. List price

- Unit ______________________________
- Multiple quantity ______________________________
- Volume purchase ______________________________
- Special versions ______________________________
- Special packaging ______________________________
- Limited function version ______________________________

B. Channel price

- Distributor ______________________________
- Reseller ______________________________

C. Promotional price ______________________________

- Competitive upgrade ______________________________
- Corporate evaluation copy ______________________________
- Industry courtesy ______________________________
- Dealer evaluation copy ______________________________
- Employee purchase ______________________________
- Internal use ______________________________

A Feasibility Development Checklist

1. Determine whether or not you need a new or different name.

A. New product or product line ____________
B. New module/edition ____________
C. Existing name is not working
- Name does not support product's position ____________
- Product has changed significantly ____________
- Name connotes antiquated or negative images ____________
- Product breadth changes-becomes a family or series ____________

2. Evaluate whether or not you are in a position to change name.

A. Do you have enough money to:
- Conduct adequate research ____________
- Change target audience awareness (advertising, direct mail, etc.) ____________

B. Do you have enough time to:
- Conduct formal market research ____________
- Obtain legal approval(s) ____________
- Change to sales force ____________

C. Does name have too much "in market" equity?
- Decide to keep third-party product name ____________

3. Naming process.

A. Decide if you need a new / different name
B. Determine if you will hire outside naming consultant
- How much will it cost?
- Do you have the time (e.g. 3-6 week process)?
- Requires contract and non-disclosure agreement in place?

C. Determine type of name you want
- There are three major conventions in naming product and or services.

Names may be either: • descriptive • suggestive • arbitrary

D. Conduct target audience research
- Formal-through consultants
- Informal-in-house

E. Run naming session

1. Brainstorm 2. Vote on names 3. Select up to 15 names

F. Select final name

G. Conduct legal research

H. Reserve name with Australian Patent and Trademark Office

I. Reserve name with international agencies

Understanding the market

In order to have a deeper understanding of the industry and to gain a better understanding of just how the particular market (i.e. the industry-buyer relationship) actually works, asking the following questions may assist:

What is the growth rate of the market?
- In total?
- By segments?
- In the past?
- Projected?

Who are the customers and potential customers?
- age?
- sex?
- family size?
- family life cycle?
- income?
- occupation?
- education?
- nationality?

What benefits are the customers and potential customers seeking?

What is the size of key market segments?
- By customer type?
- By distribution channel?
- By product differentiation?

Is the market cyclical or seasonal?

Is the market sensitive to :
- Cost variations?
- Service levels?
- Features?
- External factors?

- What is the minimum level of business for a business unit to be viable?

- What is the buyer decision process?

- How are prices set?
- Is it a stable industry or a ‘boom and bust’ industry?

Skills of the Firm

Product Market Strategic Options

Skills of the firm
The purpose of this section is to critically evaluate the organisation making the decision.
Here, we effectively place limits on what they are capable of accomplishing.

Analysis areas and questions

1) Do we have the skills and experience to perform the functions necessary to be in this business.
   a) Marketing skills
   b) Production skills
   c) Management skills
   d) Financial skills
   e) Research and development skills

2) How do our skills compare to our competitors?
   a) Production fit
   b) Marketing fit
   c) etc.

There are a number of product market strategic options from which you can choose to utilise:

Growth in existing product-markets - increasing the frequency of usage, quantity used and finding new applications for current users.

Related products for the existing market - develop new products related to current range, add product features and refinements, expand the product range, develop a new generation product, develop new products for the existing market.

Existing products into related markets - take existing products and find new markets for them by targeting new customer segments, expanding geographically.

Related products into related markets - e.g. News Corporation moving into movies.

Existing and related products into unrelated markets; unrelated products into existing and related markets - seldom used, though an example could be a state based bank specialising in the retail market moving into overseas markets.

Unrelated diversification - counter-seasonal diversification (e.g. tennis racquets/snow skis), counter-cyclical diversification.

Vertical integrated strategies - buying customers and suppliers.

Assessing Strategic Capabilities

A major issue in the assessment of capabilities is the question of objectivity.

Organisations usually are inclined to think that they have more capabilities than they really do, and are inclined to over rate their abilities.

Some methods of measuring capabilities are:

- Industry surveys
- Seeking information from overseas organisations in the same business
- Seeking information from overseas divisions of the parent company
- Comparing activities across different industries
- Reverse engineering
- Purchasing the competitors' product
- Visiting the competitors' premises, inquiring about the product and seeking quotes
- Talking to competitor employees
- Talking to customers and competitors' customers
- Using the checklist on the next page

Business Strategic Options

- Should the business grow, consolidate or downsize?
- Which generic strategy (low cost, differentiation, or focus) should the business adopt?
- What product and market strategic options should the business pursue?
- **Low cost** can be achieved by simple product design, no-frills product, cost control, location advantage, production innovation, purchasing cheap assets, experience.
- **Differentiation** can be achieved by product quality, product reliability, Patent protection, product features, product innovation, service levels, brand names, distribution channels.
- **Focus** can be achieved by a narrow product line, customer segmentation, geographic segmentation, focused functional capability.

Evaluating Capabilities v. Competitive Strengths

Enter your perception of your organisation's competitive strength relative to the most significant competitors in your industry [+5 represents the most competitive and -5 the least competitive]

Capability component	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5
Culture											
1] Values and attitudes											
2] Skills and knowledge											
3] Management of change											
4] Risk-taking											
5] Management by results											
6] Organisational learning											
Structure											
7] Organisational form											
8] Job definition											
9] Demands and incentives											
10] Information power structure											
11] Informal power											
12] Self-renewal											
Process and systems											
13] Informal decision making											
14] Decision-making system											
15] Environmental surveillance											
16] Problem/opportunity anticipation											
17] Problem prioritisation											
18] Information systems											
19] Planning system											
20] Implementation system											
21] Control system											
22] Management technology											
23] Computer application											
Human resource capacity											
24] Top management											
25] Middle management											
26] Supervising staff											
27] Staff											
Resources											
28] Financial											
29] Physical											
30] Technologies											
31] Products											
32] Credibility with clients											
33] Information											

Strategic Capabilities

What are your strategic capabilities?
What strategic capabilities does your organisation possess? Some examples:

IN DISTRIBUTION
- Next day deliveries
- Adequate stock levels and Efficient channels of distribution

IN FINANCE
- Tight debtor control and Strong cash management
- Good relations with creditors
- Access to adequate financial resources

IN HUMAN RESOURCES
- Strong recruitment skills and ability to attract key staff
- Viable and relevant training program
- Continual staff development
- Strong and developing company culture
- Effective rewards and motivation for workers

IN INFORMATION SYSTEMS
- Providing appropriate, timely and up to date financial and customer information
- User friendly
- Able to interact and integrate with other systems
- Continual development

IN MARKETING
- High or low product consistency and quality
- A wide or narrow product range
- Branding, Image, and Reputation
- Packaging to meet consumer and environmental expectations
- Skilled, committed sales force

IN PRODUCTION
- Up to date, state of the art facilities
- Facilities located close to labour skilled supply
- Facilities located close to markets
- Flexibility in production and lead times
- Highly productive labour force

IN PURCHASING
- Strong negotiating skills
- Strong supplier relationships

IN RESEARCH & DEVELOPMENT
- Continuous product design and improvement
- Differentiation between ‘me too’ products
- Continual process of innovation and protection of patents and trade marks

Identifying Organisational Culture

Identifying Organisational Culture on an individual basis involves and includes:

- levels of trust
- risk taking
- stress
- fears and anxieties
- social interaction
- factions and politics.

Organisational culture on an organisational basis involves and includes:

- the structure of reporting relationships
- company policy
- personnel practices
- work flow and work loads
- job design and management and supervisory styles.

Routines and rituals - do we operate by the manual?, are we punctual for meetings?, do we clean our own coffee cup?, do we follow customers after delivery?, what processes, techniques and customs do our training programs emphasise?

Symbols - such as logos, offices, cars, uniforms and dress standards or the type of language and terminology used, become a shorthand representation of the nature of the organisation.

Stories and myths - about activities, heroes, mavericks, and other personalities.

Leadership and power sources - are important drivers of choice in the organisation. Styles such as walk the talk, the open door policy, and autocratic behaviours set the patterns that others follow.

Control mechanisms - include the techniques and processes for recording, observing and rewarding people for inputs, actions and outputs in the organisation.

Organisational structure - defines the relationship between individuals and groups in the organisation.

The organisational culture that drives decision making and choice comprises the interaction of all of the above tangible and intangible elements of assumptions, atmosphere, mind sets, beliefs and behaviours that permeate the living organism of the enterprise.

The Process of Strategy Development

The Customer

Specify the objectives the business needs to achieve.

Analyse the existing external environment issues as they relate to the business.

- Ask, what business am I really in?
- Who are my potential and existing customers?
- What do they buy?
- Where do they buy the product?
- How, when and why do they buy the product?
- What are the key success factors in satisfying my clients?
- How will customer demand change over the life of the strategy?
- What are my competitors doing?

Forecast likely demand

- What external opportunities and threats exist which may impact on my business?
- Analyse the business - what do I have to offer and what is this worth?
- What advantages do I have over my competitors?
- What are my strengths and weaknesses?

The Customer

The business strategy must create value for the customer. There are two dimensions of value from a customer perspective:

1) Fitness for purpose

2) Convenience of access

Further we need to determine:

1) What are the benefits the customer desires, perceives and will pay for?

2) What value does the customer place on each of those benefits?

Feasibility and Planning

The following is a list to consider at the very beginning stages of planning a new project, business, product or service. If you complete an item place a check mark at the beginning of the item. If it does not apply to your situation, write “NA” at the beginning of the item. If there are other instructions for particular items, respond accordingly. If you discover/identify additional items to add to your checklist, type and insert them below as appropriate.

As you progress through the items of this checklist, you will be well on your way to realising whether and how to start your own business.

Checklist - Define and Plan the Business

Evaluate your motives and capabilities for starting/operating a business as follows:

Do you possess or have you shown.....(check Y or N)

Y__N__ A need to achieve results
Y__N__ A desire to seek new opportunities
Y__N__ A willingness to take risks
Y__N__ A high degree of energy
Y__N__ Ability to self-start, negotiate and make "deals"
Y__N__ A desire to set the central strategy of a business per to your own principles
Y__N__ A determination to get to the top ahead of others
Y__N__ The ability to motivate people and get along with others
Y__N__ Support from your family (parents/spouse)
Y__N__ Experience in many functions of business
Y__N__ Significant responsibility and leadership experience early in your career
Y__N__ Creative thinking
Y__N__ Ability to execute on ideas
Y__N__ Previous business training in school
Y__N__ Sound technical training
Y__N__ Interest in researching a proposed business concept
Y__N__ A solid role model or mentor
Y__N__ Savvy political skills within an organisation
Y__N__ An ability to adjust managerial style to suit the occasion
Y__N__ Special "off-the-job" management training
Y__N__ Integrity and honesty
Y__N__ Leadership ability
Y__N__ Diligence and perseverance
Y__N__ Self-control
Y__N__ Foresight and planning ability
Y__N__ Talent and a passion for a particular business activity
Y__N__ Ambition and solid work ethic
Y__N__ Intelligence and a mindset of continual learning
Y__N__ Effective communication skills
Y__N__ Sound decision-making abilities
Y__N__ Tolerance to allow others freedom to make (and learn from) mistakes
Y__N__ Ability to delegate effectively
Y__N__ Money saved to invest in a business

The more of the above qualities you honestly possess, the more likely it is that you can successfully start and run a business.

Try this simple feasibility test

Rate each item /10

Score

- Growth rate / potential
- Barriers to entry
- Competitor rivalry
- Buyer power
- Supplier power
- Substitutes
- Your personal skills

Add your score

and then calculate a %

Feasibility and Personal and Corporate Aims

PERSONAL AIMS

1) To create a job for your self.
2) To build a successful company and sell it with the aim of making $x.
3) To build and run a growth company.
4) To make a better living than working for wages.
5) To build a business / job for family members.

CORPORATE AIMS

BUSINESS

1) Commence with a wide range of services, but develop niche markets.
2) Commence with a small range of products with objective of growing into a market leader.
3) Provide a specialist service to defined industry groups.

GROWTH

1) Maximum growth and market penetration by retention of profits.
2) Open a national branch network and / or appoint dealers / distributors.
3) Controlled, ongoing steady growth and expansion of x% per annum.
4) Limit business size to limited number of customers and employees.

STAFF

1) Employ family and friends only.
2) Build a dedicated team of high quality performers, with emphasis on loyalty.
3) No staff, apart from occasional casual help or subcontractor.
4) Offer excellent pay and conditions for high achievers, with no room for poor performance.

CONSEQUENCES

BUSINESS

1) Eventually become a conglomerate, with growth by acquisition.
2) Retain specialist focus and build company by internal growth.
3) Remain small with little growth and local orientation.

GROWTH

1) Little growth due to narrow focus and local orientation.
2) Take many risks, with acceptance of high debt levels and possible equity dilution.
3) Take small, calculated risks to maintain / create conservative growth. Accept some external finance and shareholders.
4) Take minimal risks, with little borrowings or extra shareholders.

Your Competitors

You can use this checklist below, to know and understand who your competitors are, where you stand, and what to do about it.

The objectives are:

- **To have a complete, objective listing of competitors showing exactly where your business or proposed business stands.**
- **To have a complete script for your sales and marketing people to use to systematically defeat your competitors advantages, benefits, claims, features, and dirty tactics.**
- **To have a prioritised list of action items for your business department to help develop undoubtedly the best product in your industry.**

Action Items

1. Meet to discuss your competitors, their position, claims, etc., and what questions you should ask them when you call.
2. Contact them to obtain their literature and hear their sales pitch.
3. Talk to their salespeople to find out everything about their perceived features, benefits and advantages. Find out how they sell their product against yours.
4. Document, word-for-word, their entire sales pitch, including everything they say about you and your competitors.
5. Organise and analyse their literature.
6. Search on-line databases for news clippings, articles, stories and other relevant data.
7. Contact your (potential) resellers and ask their opinions.
8. Develop a complete competitive matrix.
9. Meet with your top sales and marketing people to brainstorm the optimum responses to all of our competitors' statements
10. Develop a full script of bullet-proof responses for all of your sales and marketing people to use. "I'm glad you asked that question. . ."
11. Organise and host a focus group of appropriate customers and prospects to solicit customer input.
12. Compare your strengths and weaknesses, from an objective perspective and according to your competitor's emphasis on our weaknesses.
13. Prioritise action items for your business group to make product improvements.

Your Competitors

Intensity of Competition

Make comparisons with the list below, to know and understand the intensity of competition in your industry, where you stand, and what you will do about it.

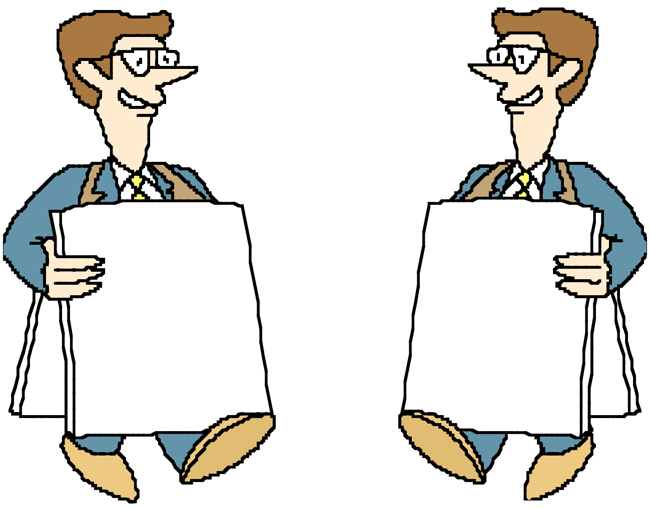
1) **Intensity of rivalry among existing competitors** - price wars, competitive advertising campaigns, new product releases, improved customer service and warranties.

2) **Threat of new entrants** - new competition usually brings new vigour, new resources, a strong desire to gain market share.

3) **Bargaining power of buyers** - buyers compete with the industry by attempting to drive down prices, by demanding concessions, insisting on higher quality, additional services, payment terms and playing off suppliers against each other.

4) **Bargaining power of suppliers** - suppliers can impact on an industry by raising or threatening to raise prices or by reducing the quality or availability of goods or services.

5) **Pressure from substitute products or services** - the degree to which there are clear alternatives to the offered products or services puts a ceiling on the prices that an organisation can set.



A Product-Idea Rating Device
Do you have what it takes?

Product success requirements	(A) Relative weight	(B) Company competence level 0.0 0.1 0.2 0.3 0.4 0.5 0.6 0.7 0.8 0.9 1.0	Rating (A x B)
Company personality and goodwill	0.20		
Marketing	0.20		
Research and development	0.20		
Personnel	0.15		
Finance	0.10		
Production	0.05		
Location and facilities	0.05		
Purchasing and supplies	0.05		
TOTAL	**1.00**		

Rating scale : 0.00 - 0.40 poor, 0.41 - 0.75 fair, 0.76 - 1.00 good.
Present minimum acceptance rate: 0.70

Many organisations require their staff to evaluate new product ideas using some type of ‘standard format’ for later review by a committee.

This rating form can be used to address these issues.

The first column lists factors required for a successful launch of the product to the marketplace. The next column shows ‘weighting factors’ which management may apply to various issues. Thus management believes marketing competence will be very important (0.20), and purchasing and supplies competence will be of minor importance.

The next task is to rate the organisation’s degree of competence on each factor on a scale from 0.0 to 1.0.

The final step is to multiply the relative importance of the success requirements by the corresponding levels of organisational competence to obtain a single overall rating of the organisation’s ability to carry this product successfully to the market place.

Goal Setting - Some examples

AREA	MEASURE	STANDARD- TARGET- GOAL
Finance	Profitability	30% profit margin
	Overhead expenses	Less than 20% of sales
	Advertising expenses	Within range of 6% - 9% of sales
Sales	Sales revenue	$100,000 per month
	New customers	45 per month
	Lost customers	No more than 5 per month
	New products	Launch at least 3 per year
	Market share	14% within 3 years
Employee relations	Absenteeism	No more than 5% a week
	Employee turnover	No more than 10% a year
	Industrial relations	No disputes involving senior management (all disputes to be settled in the originating area)
Customer relations/ goodwill	Degree of satisfaction	No complaints

New Product Development

	YES	NO
1. Has the product been in development for a year?		
2. Does your company currently make a similar product?		
3. Does your company currently sell to a related customer market?		
4. Is the R&D at least one third of the product budget?		
5. Will the product be test marketed for at least 6 months?		
6. Will the advertising budget be at least 5% of anticipated sales?		
7. Will a recognised brand name be on the product?		
8. Does the person in charge have a private secretary?		
9. Would the company take a loss for the first year?		
10. Does the company need the product more than it wants it?		
11. Have 3 samples of advertising copy been developed?		
12. Is the product really new, as opposed to improved?		
13. Can the decision to buy it be made by only one person?		
14. Is the product made in fewer than 5 versions?		
15. Does the development team have a working code name?		
16. Will the product need service and repair?		
17. Will the CEO see the product leader without an appointment?		
18. Did the project leader make a go of the last two projects?		
19. Will the product be on the market for more than X years?		
20. Would the project leader quit and take the item with him if the company refused to back it?		

SCORING

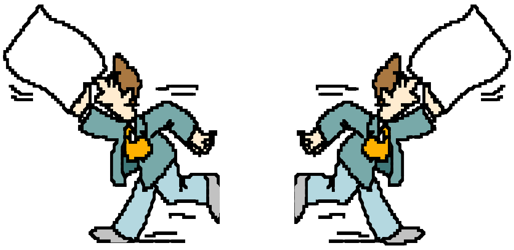
YES answers to 11 or more, the idea should succeed.
YES answers between 8 - 10, the idea is borderline.
YES answers less than 8 times, look into a chicken shop.
YES answers less than 6 times, you couldn't run a chicken shop.

Feasibility and Planning for a New Business

1. Consider starting out as a sole proprietorship or simple partnership.
2. Evaluate your opportunities and ideas.
3. Determine if your business will be consulting, retailing, product sales, a combination of these, or an untraditional type of business.
4. Determine whether to develop your own business, buy an existing business, or buy a franchise.
5. Write an initial outline of your business concept.
6. If you need to protect your product or service idea, write your outline as a Disclosure Letter, detailing the work and research you have done to date, date it and have it notarised. Store it in a safe place.
7. For further protection, keep a journal of your initial activities toward developing your idea into a viable product or service for your business.
8. Choose and define your business vision/purpose (in 25 words or less).
9. Define general markets to be reached.
10. Define initial product or service to be offered.
11. Estimate start-up costs of the business.
12. Identify your current resources and the sources of funding available to you.
13. Get an idea of how much credit you can obtain from your potential suppliers.
14. Determine what resources and/or expertise you don't have and outline possibilities for filling these gaps.
15. Decide on what you want out of the business now and in the future.

If you continue to feel motivated about creating your business, after you have gone through this initial section of the checklist, begin the details of the business building process.

SWOT Analysis (Strengths, Weaknesses, Opportunities, Threats) - what to look for



INTERNAL

Strengths	Weaknesses
Adequate financial resources?	No clear strategic direction?
Good competitive skills?	Obsolete facilities?
Well thought of by customers?	Poor profitability?
Cost advantages?	Lack of managerial depth or talent?
Product/service innovation abilities?	Absence of key skills or competencies?
Proven management?	Too narrow a product service/line?
Acknowledged market leader?	Below average marketing skills?
Access to economies of scale?	Insufficient funds?
Barriers to entry?	Poor knowledge of competitors?

EXTERNAL

Opportunities	Threats
Serve additional customer groups?	Entry of new competitors?
Enter new markets or segments?	Rising demand for substitute products or services?
Expand product/service line to meet broader range of customer needs?	Slow market growth or market decline?
Diversify into related products or services?	Adverse government policies?
Add complimentary products or services?	Growing competitive pressures?
Faster market growth?	Changing customer needs and tastes?
Favourable currency movements?	Unfavourable currency movements?
Adopt new technology?	Technology obsolescence?

SWOT Analysis

Write your own SWOT analysis, (strengths, weaknesses, opportunities and threats) using this matrix:

STRENGTHS **MAINTAINING THESE STRENGTHS** What can I do to maintain these strengths?	**WEAKNESSES** **OVERCOMING THESE WEAKNESSES** What should I do to overcome these weaknesses?
OPPORTUNITIES **TAKING ADVANTAGE OF THESE OPPORTUNITIES** What can I do to take advantage of these opportunities?	**THREATS** **OVERCOMING THESE THREATS** What can I do to overcome these threats?

What does it take to run a successful business?

THE TELSTRA SMALL BUSINESS AWARDS competition asks the following questions of organisations wishing to enter.
Will these issues be important to the feasibility of your business, product or service?

1) BUSINESS GROWTH and PERFORMANCE

- Describe how you plan future growth and development.
- What is your strategy to achieve your business objectives.
- Outline the key actions you are taking to achieve this plan.
- How do you monitor your business performance against these objectives.
- How do you identify market opportunities and threats.

2) CUSTOMER SERVICE

- Describe what steps you have taken to deliver first class customer service to your clients.
- Describe what research you have done in assessing customer needs.

3) MANAGEMENT INFORMATION SYSTEMS

- What information do you source to make day-to-day business decisions?
- How regularly do you source this information?

4) FINANCIAL PERFORMANCE

- What controls are in place to manage your business' financials?
- Describe the financial performance of your business in terms of revenues and / or profits for the last 2 or more years.

5) STAFF DEVELOPMENT

- Describe the process by which you evaluate the performance of your staff.
- Describe the process by which you assess the career development of your staff.
- Describe the involvement of staff in developing your business plan and operational decision making.
- What role does staff training and development play in your business.

6) RELATIONSHIPS WITH SUPPLIERS

- What initiatives have you taken to improve relations with your suppliers and what type of supplier agreements do have in place.

7) BUSINESS STRENGTHS

- What are the 3 key strengths that make your business successful.

Feasibility and Marketing

The four Ps of Marketing offer a wide range of strategies.

By using these four P's - PRODUCT, PLACE, PRICE and PROMOTION, countless different marketing strategies can be formulated to gain sales, consumer interest, market share and market acceptance for new products.

For instance a new product may have high QUALITY, no discount off the LIST PRICE, lots of PUBLICITY, and be widely available from hundreds of LOCATIONS.

In contrast, your competitor's new product may have a strong BRAND NAME, a large discount off the LIST PRICE, utilise lots of PERSONAL SELLING in lieu of PUBLICITY, and be available from just a few LOCATIONS.

A successful marketing strategy needs four things:

1. **A market focus**
2. **A differentiated position**
3. **An added value for the customer**
4. **A consistent branding**

Marketing Options

The marketing process involves four distinctive steps:

1. Identifying and analysing market opportunities
2. Segmenting and selecting target markets
3. Developing a marketing mix strategy
4. Designing and implementing marketing management control systems.

Seven step market segmentation

1) Name the broad product market
2) List potential customer's needs
3) Form 'homogeneous' submarkets (i.e. narrow product markets)
4) Identify the determining dimensions
5) Name (nick name) the possible product markets
6) Evaluate why the product market segments behave as they do
7) Estimate the size of each product market segment

Innovation and your Organisation

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	No opinion
	4	3	2	1	0	?
1. We have a good track record of innovation by comparison with our competitors and industry						
2. Our management style does not impede the introduction and development of new products or processes						
3. In this organisation, the forces which favour the preservation of the status quo are balanced by enthusiasm						
4. It is generally accepted in the organisation that there is outstanding creative talent in its ranks						
5. There are influential people in the organisation who support new ideas entirely on their merits						
6. The management control over activities is not an inhibiting factor for progress						
7. There are efficient mechanisms for the flow of information necessary for managers to carry out their jobs						
8. The organisation is attempting to stimulate creative thinking through its training programs						
9. Entrepreneurship is encouraged						
10. There is a positive attitude and no defeatism where new ideas are concerned						
TOTAL						

When you identify the highest scoring items, this will point to the areas where your organisation is strongest in managing innovative performance.

Low scores will suggest weaknesses

Considerations.................. Possible actions................

Differentiation

What characteristics do fast growing companies usually possess?

- **They usually possess the advantage of a sharp focus on the market needs they satisfy**
- **A strong branding of what they believe in and what they do**

Distribution

- ☐ Will you have a warehouse close to your customers?
- ☐ Or in an area to take advantage of labour or supply costs?
- ☐ Will you have a warehouse in each capital city?
- ☐ Or operate from just one location with an 1800 phone number, listed in each state directory, and ship overnight for next day delivery.
- ☐ Will you contract out your warehousing and delivery completely and focus on the core business issues.

What are the best new-age enterprises doing to differentiate themselves?

1. Focusing on single industries rather than diversification or being a conglomerate.
2. Outsourcing non-core activities and functions.
3. Getting rid of hard assets from their balance sheets (land, buildings and equipment, plus stock and debtors) by means of securitisation, operating leases, just-in-time stock levels and factoring.
4. Pursuing intellectual property through research and development.
5. Aggressively globalising their new-age service industries and utilities.
6. Leading first and managing second.
7. Forming strategic alliances, networking and franchising.
8. Positioning their business as majors, niches or ultra-niches.

Feasibility and Strategic Opportunities

According to the well known American business writer Peter Drucker, any organisation when contemplating its business strategies, must:

- Decide on what opportunities it wants to pursue
- What risks it wants to take
- What risks it is willing to accept
- Decide on its scope and structure

Decide on its balance between:

- **specialisation**
- **diversification**
- **integration.**
- Decide between time and money, between building its own or 'buying' - i.e. using sale of a business, merger, acquisition or joint venture to attain its goals.
- Decide on an organisational structure appropriate to its economic realities, its opportunities and its program for performance.

A business has to try to minimise risks, but if its behaviour is governed by the attempt to escape risk, it will end up by taking the greatest and least rational risk of all - *the risk of doing nothing.*

What opportunities are available should emerge from the analyses of the economic dimensions in the business.

They must be looked at in their totality, sorted out and classified.

There are three kinds of strategic opportunities:

1. **Additive**
   Additive more fully exploits already existing resources, without changing the character of the business; e.g. an extension of an existing product line into a new and growing market.
2. **Complimentary**
   Complimentary changes the structure of the business and offers something new which, when combined with the existing business, results in a new total, larger than the sum of the parts.
3. **Breakthrough**
   Breakthrough changes the fundamental economic characteristics and capacity of the business. Breakthrough opportunities require great effort, the employment of excellent resources, and major spending on research and development.

Feasibility and Strategy

Conventional thinking has that there are four different approaches to strategic planning:

1) Reactive, or planning through the rear view mirror
2) Inactive, or ‘going with the flow’
3) Preactive, or planning for the future
4) Proactive, or designing the future and making it happen

KEY GROWTH STRATEGIES

- **Expansion of volume** - increasing sales to a single new market or in existing markets
- **Geographic dispersion** - creating branches (or franchises etc.) around the country or around the world
- **Vertical integration** - staying in the same business but developing or acquiring related functions
- **Product or service diversification** - moving into new businesses to utilise existing resources

GRAND STRATEGIES

Many business texts identify a number of strategic thrusts that organisations should consider in creating a market position and competitive edge.
These grand strategies can be summarised:

1) Concentration on existing products or services
2) Market/product development
3) Concentration on innovation/technology
4) Vertical / horizontal integration
5) Development of joint ventures
6) Diversification
7) Retrenchment / turn around, primarily through cost reduction
8) Divestment or liquidation

Which strategies should you adapt?

Business Warfare Strategies

Dominance - dominate your corporate niche

Product emphasis - be product/service orientated

Distinctiveness / Uniqueness - be different from others

Focus / Coherence - strive for strategic focus and / or tightness

High profile CEO - have a committed leader

Employee focus/opportunity - satisfy/fulfil your personnel

Efficient innovation - optimise new products, services and methods

External perception - really know the industry and market environment

Growth/profits trade-off - weigh top line with bottom line (growth v. profit)

Flexibility/opportunism - change direction and move/adapt quickly

Military leaders over hundreds of years have devised and used strategies which can be linked to business strategies:

1) **Leading** - without good leadership where will we go? The leader needs to imbue the entire organisation with the desire to dominate its markets.
2) **Maintaining your objective; adjusting your plan** - focus on winning
3) **Concentrating greater strength at the decisive point** - constantly developing distinctive competencies
4) **Taking the offensive and maintaining mobility** - taking a range of aggressive actions against competitors and being defensive
5) **Following the course of least resistance** - finding the competitors weaknesses and exploiting them
6) **Achieving security** - anticipate the competitor’s plan and hide one’s own
7) **Making certain all personnel play their role** - a small dedicated army can conquer a much larger dispirited one - remember the war in Vietnam?

Feasibility and Functional Strategies

Your Feasibility Study should consider and establish the types of businesses the company will operate in together with its objectives for each.

Then within each business unit more detailed planning will need to occur. The major functional departments such as:

- Accounting
- Finance
- Human Resources
- Marketing
- Purchasing
- Sales

will need to work together to accomplish strategic objectives.

Managers of each of these areas will need to determine the best way of achieving strategic objectives.

A very important point to remember is that businesses exist to create customers and make profits.

Feasibility and Strategic Options

- **Should the business grow, consolidate or downsize?**
- Which generic strategy (**low cost, differentiation, or focus**) should the business adopt?
- What product and market strategic options should the business pursue?
- **Low cost** can be achieved by simple product design, no-frills product, cost control, location advantage, production innovation, purchasing cheap assets, experience.
- **Differentiation** can be achieved by product quality, product reliability, Patent protection, product features, product innovation, service levels, brand names, distribution channels.
- **Focus** can be achieved by a narrow product line, customer segmentation, geographic segmentation, focused functional capability.

Feasibility and Functional Strategies

Strategic control
Experienced managers will tell you that invariably there are many surprises which are bound to occur during the implementation of any action plan.
A control process should be used to evaluate the results of the action plan and to enable corrective action to be taken if necessary.

Set specific goals
• What do we want to achieve?

Measure performance
• What is happening?

Evaluate performance
• Why is it happening?

Take corrective action
• What should we do about it?

Operating control involves checking outgoing performance against the strategic plan and taking appropriate action.

Strategic control involves looking at whether the organisation's basic strategies are well matched to its opportunities.

Strategic Material Management
When developing your strategic plan you may wish to consider the effects of trends in these areas of strategic materials management.

Upgraded Purchasing
Several functions can be combined, e.g. Purchasing, Stock control and Production scheduling to create dynamics and synergy.

Centralised Purchasing
Head office may be able buy larger quantities for all of the divisions, with attendant savings. This might include the co-ordination of specialist analysts, salespeople, and back up services to better service clients.

Long term contracts
Many customers want to place long term contracts with suppliers willing to provide superior quality and service, often using EDI (electronic data exchange).

Just-In-Time production Systems
Including innovative manufacturing concepts such as early supplier involvement, value analysis, total quality management and flexible manufacturing.

Pricing and Service Strategies

Most organisations have pricing strategies in place to ensure that decision making by their sales staff is consistent.

The Sales department will often be involved in various areas of setting pricing strategies - Product, Distribution, Pricing.

Pricing strategies may be set to take into account and reflect pricing:

- Relative to competition
- Relative to costs
- Uniformity of prices for different customers
- List prices
- Discounts
- Geographical pricing
- Price leadership
- Product line pricing
- Competitive bidding policy

Some strategy options for service related issues may be:

- Non existent service
- Slow service
- Fast service
- Efficient service
- Polite service
- Surly service
- Worse than industry standards
- Comparable with industry standards
- Superior to industry standards
- No after sales service
- Limited after sales service
- Strong after sales service
- No complaint handling
- Apathetic complaint handling
- Caring and prompt complaint handling

Barriers to Entry

What barriers to entry are there in the market place which we are investigating?

In any industry, five competitive forces dictate the rules of competition:

1. **Barriers to entry**. Factors such as economies of scale, brand identity and capital requirements determine how easy or hard it is for new competitors to enter an industry. Many industries have dominant players who may make it extremely difficult for new players to enter. Some industries have a key supplier. If this key supplier will not supply their product to you, you may be doomed to failure.
2. **Threats of substitutes**. Factors such as switching costs and buyer loyalty determine the degree to which customers are likely to switch their business to a competitor.
3. **Bargaining power of buyers**. Factors such as a buyer's volume, buyer information and the availability of substitute products determine the amount of influence that buyers will have in an industry.
4. **Bargaining power of suppliers**. Factors such as the degree of supplier concentration and the availability of substitute inputs determine the power that suppliers will have over firms in the industry.
5. **Rivalry among existing competitors**. Factors such as industry growth and product differences determine how intense rivalry will be among firms in the industry.

Strategic Alliances

Strategic alliances are a joining of forces, a combination of resources.

Both parties should benefit from the co-operative aspects of an alliance.

You may be able to utilise the extensive resources or distribution range of a larger business.

In turn, your business may be able to provide special personalised service or have a unique skill or product that the other business can use.

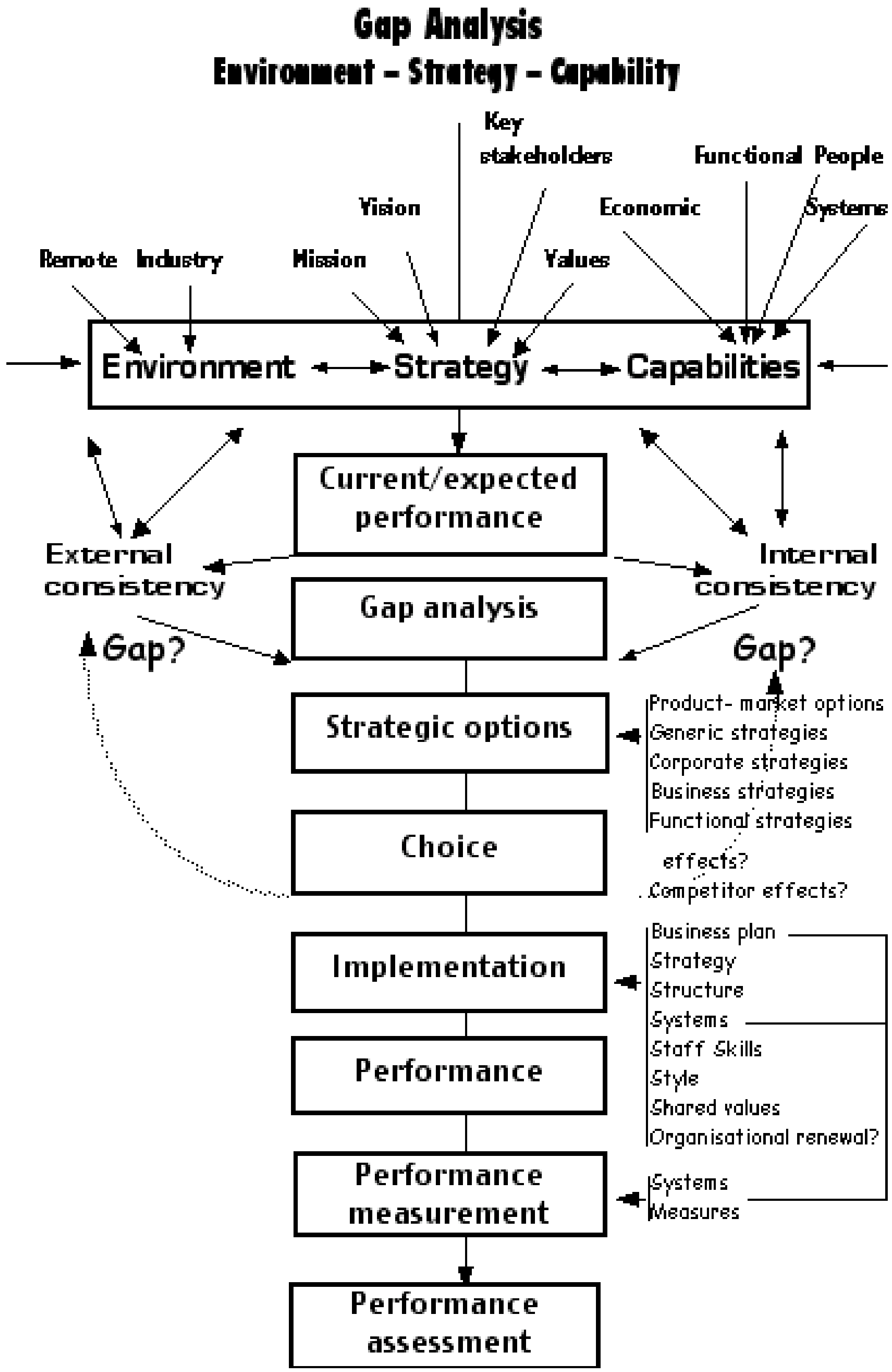
Often the way to strengthen your own success is by building on the success of others. An alliance might be an agreement to cross-promote.

You might join forces to advertise or distribute product. First and foremost an alliance is a relationship. This relationship must be nurtured and there must be benefits for both parties for it to continue successfully.

Gap analysis

Gap analysis involves determining what gaps the organisation has in respect of:

- The gap between the capabilities of the organisation and its strategies
- The gap between the organisation's resources (time, money, people, etc) and its strategic aims
- The gap between its current market position and achieving its strategic aims successfully
- The gap between what the organisation currently is and what it wants to be
- Where the organisation wants to go and where it currently is
- The fit between the organisation's strategy and its business environment
- The organisation's performance compared with its key stakeholders expectations
- The gap between internal and external perceptions of the organisation
- The gap between the organisation's business strategies and its strategic capabilities
- **What does the organisation need to do to sell itself as a responsible provider of its products or services to fill the role in the market place in which it perceives itself?**
- **Gap analysis**, while highlighting deficiencies in the organisation, will also reveal many competitive strengths and opportunities
- See the next page for a *Gap Analysis* diagram


Gap Analysis
Environment – Strategy – Capability
Key stakeholders
Functional
People
Vision
Economic
Systems
Remote
Industry
Mission
Values
Environment
Strategy
Capabilities
Current/expected performance
External consistency
Internal consistency
Gap analysis
Gap?
Gap?
Strategic options
Product- market options
Generic strategies
Corporate strategies
Business strategies
Functional strategies
Choice
effects?
Competitor effects?
Implementation
Business plan
Strategy
Structure
Systems
Staff Skills
Style
Shared values
Organisational renewal?
Performance
Performance measurement
Systems
Measures
Performance assessment

Risk Management

Business risk is the threat that an event or action will adversely affect an organisations ability to achieve its business objectives and execute its strategies successfully. It arises as much from the likelihood that something good will not happen as it does from the threat that something bad will happen. Business risks are pervasive and inter-related and the action or interaction of individuals within an organisation may have a profound influence on the organisations risk profile.
A failure to control risk can have a dramatic impact on organisations and all their constituencies.

Research conducted by various authoritative bodies suggests that it is very important for organisations to adopt an integrated approach to managing business risks.
An integrated approach embraces the idea that business risk management is a continuous and organisation wide effort and should be a never ending process, rather than a series of independent activities.

Some suggestions for Risk Management:

1) Develop a common organisation wide business risk language - this allows communication across functions and up and down reporting channels.
2) Develop an effective organisational control structure - this helps the organisation learn how to anticipate critical business risks and adapt business control processes to avoid or minimise those risks.

3) Create a process view - business processes are those activities that cut across functions and departments and deliver essential products and services to the customer. Effective business process controls executed by managers and employees who are most knowledgeable of these processes, can reduce risks to an acceptable level.

Four key success factors for successful implementation of an integrated approach to managing risk are:

1. **Executive leadership**
2. **Ownership**
3. **Commitment**
4. **Enabling frameworks for continuous process improvement.**

Each organisation has its own unique moving target of constantly changing business risks and should consider its objectives, strategies, culture, values and financial strength when designing its business risk management process.

Risk Management - Types of Risk

There are two types of risk: speculative and pure risk.

A distinction should be made, because only one of these types is insurable.

Speculative risk refers to exposures that involve the chance of gain or loss. Betting on a horse race is an example of speculative risk, because in a wager, you will either win or lose.

Business is a speculation. The proprietor may lose the investment through competition, new inventions, or inefficient management.

Or the proprietor may make a profit. The buyer of wheat may sell it at a loss or a gain, depending on the circumstances.

Make a point of considering adequate insurance for all aspects of your project.

Pure risk involves only a chance of loss. Here an uncertainty exists about whether destruction will occur.

Some examples of pure risk are loss of property or well-being, through fire, flood, windstorm, total disability or accident.

If the destruction never occurs, there will be no loss. Most pure risks are insurable, whereas speculative risks are not.

Some everyday business risks to be aware of are:

- Price fixing, such as occurs with retail price maintenance
- Untruthful advertising or making false statements or claims
- When providing credit you should carry out a company or personal name search, on companies or people who may be able to harm your business. You can also minimise risk by asking your debtors for a personal guarantee.

SYSTEMATIC RISK

- Risk associated with the economy and security market
- Risk due to changes in purchasing power, (e.g. inflation)
- Risk due to changes in interest rates
- Risk due to changes in politics
- Risk due to changes in investor psychology

UNSYSTEMATIC RISK

- Individual company or industry risk
- Unique risks due to individual firm's financial situation, managerial, practices, susceptibility to fraud etc.

Feasibility of a New Product or Business

OPPORTUNITIES	THREATS
Expand your customer base more clients	**Reduce your customer base - less clients**
☐ Natural growth	Natural attrition
☐ An improved economy	A worsening economy
☐ Increased prosperity	Reduced prosperity
☐ Population shifts - positive	Population shifts - negative
Improved customer access	**Reduced, more difficult customer access**
☐ Increased range of products	Decreased range of products
☐ Easier to purchase	Harder to purchase
☐ New, improved marketing	Old, worsening marketing
☐ Improved service and contact	Decreased, worsening service and contact
Increased appeal of your products	**Decreased appeal of your products**
☐ Advantages over competitors	Disadvantages over competitors
☐ Market leadership	Loss of market credibility
☐ Other methods of convincing	Competitors better methods of convincing
Exploit competitors shortcomings	**New strategies from competitors**
☐ Opportunities for increased market share	Price wars
☐ Competitors are moribund	Slow or no reaction to new strategies
☐ Competitors do not respond to new strategies	New technology

Some Feasibility Acronyms

AIDA Attention, interest, desire, action
AQL Acceptable quality level
AS Australian Standard

CAD Computer aided design
CAM Computer aided manufacturing
C & F Cost and freight
CBT Competency based training
CEO Chief Executive Officer
CIF Cost, insurance and freight
CPM Critical path method

EDI Electronic data input

FAS Free alongside ship
FIS Free into store
FMCS Fast moving consumer goods
FOB Free on board
FOW Free on wharf

GM General Manager

HRM Human resource management
HRPD Human Resource Planning and Development

IT Information technology

JIT Just in time manufacturing

Kaizen Japanese concept of continuing improvement in all aspects of a persons home and work life.

KISS Keep it simple, stupid

LTU Long term unemployed

MBO Management by objectives
MD Managing Director
MIS Management (or Marketing) information system)
MIT Managing information technology
MRP Materials resource planning

OC Operating characteristic
OEM Original equipment manufacture

PDCA Plan, do, check, act
PERT Programme,evaluation and review technique
POS Point of sale

QA Quality assurance
QAE Quality assurance engineering
QBS Queen bee syndrome
QCS Quality customer service
QIS Quality information system
QM Quality management
QWG Quality workshop group
QWL Quality of work life

R & D Research and development
RDO Rostered day off
RHIP Rank has its privileges
ROI Return on investment
RPL Recognition of prior learning
RRP Recommended retail price

SBU Strategic business unit
SPC Statistical process control
SWOT Strength, weaknesses, opportunities, threats (analysis)

TQM Total quality management

USP Unique selling point

VAM Value adding manufacture
VAM-M Value adding management manufacture

VSP Voluntary separation package
WIIFM What's in it for me?

Analysis areas and questions

1. How do buyers (consumers and industrial) currently go about buying existing products or services? Describe the main types of behaviour patterns and attitudes.
   a) Number of stores shopped or industrial sources considered.
   b) Degree of overt information seeking.
   c) Degree of brand awareness and loyalty.
   d) Location of product category decision - home or point of sale.
   e) Location of brand decision - home or point of sale.
   f) Sources of product information and current awareness and knowledge levels.
   g) Who makes the purchase decision - male, female, adult, child, purchasing agent, buying committee, etc.
   h) Who influences the decision maker?
   i) Individual or group decision (e.g. confectionery versus computers)
   j) Duration of the decision process (repeat, infrequent, or new purchase decision)
   k) Buyer's interest, personal involvement or excitement regarding the purchase (e.g. hairpins v. holiday)
   l) Risk or uncertainty of negative purchase outcome - high, medium or low (e.g. specialised machinery v. hacksaw blades, pencil v. hair colouring)
   m) Functional v. psychological considerations (electric drill v. new dress)
   n) Time of consumption (sweets v. dining room furniture)

   Basically we are attempting to determine the *who, what, where, when, why, and how* of the purchase decision.

You can use the above analysis is to ask what are the implications for Feasibility Studies.

2. Can the market be meaningfully segmented or broken into several homogeneous groups with respect to "what they want" and "how they buy"?

   Criteria
   a) Age
   b) Family life cycle
   c) Geographic location
   d) Heavy v. light users
   e) Nature of the buying process
   f) Product usage

Nature of competition

Stage of product life cycle

The purpose of this section is to evaluate the present and future structure of competition.
The key is to understand how the buyer evaluates products or services relative to his or her needs.

Analysis areas and questions

1) What is the present and future structure of competition?
a. Number of competitors - e.g. 5 v. 2,000
b. Market shares
c. Financial resources
d. Marketing resources and skills
e. Production resources and skills
2) What are the current marketing programs of established competitors? Why are they successful or unsuccessful?
3) Is there an opportunity for another competitor? Why?
4) What are the anticipated retaliatory moves of competitors? Can they neutralise different marketing programs you might develop?

Note: Failure to correctly identify demand and competition is one common reason for unprofitable projects.

Stage of product life cycle

The purpose of this section is to make explicit assumptions about where a product is in its life cycle.
This is important because the effectiveness of particular marketing variables may vary by stages of the life cycle.

Analysis areas and questions

1) In what stage of the life cycle is the product category?
   a. What is the chronological age of the product category? (Younger is more favourable than older)
   b. What is the state of the consumers' knowledge of the product category? (more complete the knowledge - more unfavourable?)

2) What market characteristics support your stage of life cycle evaluation?

Top 20 Questions

These Top 20 Questions are what most people will ask you about your business so they can be used in addressing feasibility issues.

You should have the answers to these questions readily available when seeking a loan or investors for your new venture.

Some of these answers may be appropriate to include in your summary document.

1. What type of business do you have?
2. What is the purpose of this business?
3. What is the key message or phrase to describe your business in one sentence?
4. What is your reason for starting your own business?
5. What is your product or service?
6. Can you list three unique benefits of your product?
7. Do you have data sheets, brochures, diagrams, sketches, photographs, related press releases or other documentation about your product/service?
8. What is the product application?
9. What led you to develop your product?
10. Is this product or service used in connection with other products?
11. List the top three objections to buying your product/service immediately?
12. When will your product be available?
13. Who is your target audience?
14. Who is your competition?
15. How is your product differentiated from that of your competition?
16. What is the pricing of your product versus your competition?
17. Are you making any special offers?
18. What plans do you have for advertising and promotions?
19. How will you finance company growth?
20. Do you have the management team needed to achieve your goals?

Analysing your Competitive Position

Description	Your Area	Major Competitors	Potential Competitors
Percentage of market share			
Dollar basis			
Volume basis			
Change in market share (increasing/decreasing)			
Estimated market share			
Dollar basis			
Volume basis			
Who is the price leader			
Indicate high, average or low			
Forward/backward integration			
Financial characteristics that relate to competitive success			
Profitability (high - low)			
Cash availability (high - low)			
Others			
Percentage of sales accounted for by new products in last 3 years			
Product mix (broad - narrow)			
Percentage of sales accounted for by products assessed by customers as:			
Superior			
Equivalent			
Inferior			
Degree of customer concentration (few - many)			
Strength of corporate/brand name (strong - weak)			
Operating cost position (favourable - unfavourable)			
Financial performance compared to competitors - Higher, lower			
Stock turnover			
Debt to equity ratio			
Cash flow			
Market performance compared to competitors			
Higher, equivalent, lower			
Advertising expenditure as ratio of sales			
R&D expenditure as percentage of sales			
Pre-tax earnings as percentage of sales			
Gross profit margins			
Technological innovation (strong - weak)			
Product development (strong - weak)			
Percentage of business from domestic			
Percentage from non-domestic sales			
Critical ingredients for success			
Quality / Reputation / Service / Brand name			

Analysing the Market Strengths of your Competitors

Use this matrix to track and record the business and marketing skills and capabilities of your potential competitors.

Write a simple one word description in each area which best describes your competitors ability.

Competitive Indicators	Major competitors A	B	C	D	E	Business Area
Market position						
General trend in market position						
Profitability (low, average, high)						
Financial strength (low, average, high)						
Product mix (broad, narrow)						
Technological capability (strong, weak, average)						
Cost outlook (favourable, unfavourable)						
Quality (good, satisfactory)						
Product development (good, satisfactory, minimal)						

3

Finance and Money

Will it Show a Profit?

Financial planning

Making a profit and generating an appropriate return on investment is the ultimate goal for most people or organisations investigating the feasibility of any project.

On the following pages we show a number of formats and templates for recording financial details.

Your computer may already have some pre-formatted financial charts in its programs.

You can also create your own financial records by formatting a spread sheet or using commercially available programs.

Take great care in calculating budgets, profit margins and annual profits. Check and re-check your financial hypothesis. Make a point of listing your assumptions on your spread sheet, such as sales are based on ...., assumes no changes in interest rates, etc.

Always calculate best case and worse case scenarios. Most people tend to be far too optimistic when formulating sales budgets and far too conservative when formulating cost and expense budgets.

Make a point of obtaining written quotes from key contractors and suppliers which are critical to your feasibility.

Financial Resources of the Firm

Analysis areas and questions

1) Do we have the funds to effectively support the project?
2) Where are the funds coming from and when will they be available?

Problems and opportunities

Here we prepare a definite listing of key problems and opportunities identified from the situation analysis which relate to the specific issues or decision questions faced by management.

- Key problem areas
- Key opportunities

A. Objectives defined

1. Target market segments identified
2. Volume to be sold (dollars or units)
3. Profit analysis (contribution analysis, break-even analysis, ROI, etc)

B. Marketing mix/program decisions

1. Product decisions
   a. Develop new products
   b. Change current products
   c. Add or drop product from range
   d. Product positioning
   e. Branding (national, private, secondary)

2. Distribution decisions

a. Intensity of distribution (intensive to exclusive)
b. Multiple channels
c. Types of wholesalers and retailers (discounters, etc)
d. Degree of channel directiveness

3. Promotion decisions

a. Mix of personal selling, advertising, dealer incentives and sales promotions
b. Branding - family v. individual
c. Budget
d. Message
e. Media

4. Price decisions

a. Price level (above, same or below)
b. Price variation (discount structure, geographic,)
c. Margins
d. Administration of price level
e. Price leadership

Note: The above four decision areas involve specific strategy issues which together form a marketing program. The key to effective marketing decision making is to evaluate alternative marketing programs using information from the situation analysis. The pros and cons for each alternative should be presented and discussed.

Pricing Strategies

Most organisations have pricing strategies in place to ensure that decision making by their sales staff is consistent.

The Sales department will often be involved in various areas of setting pricing strategies - Product, Distribution, Pricing.

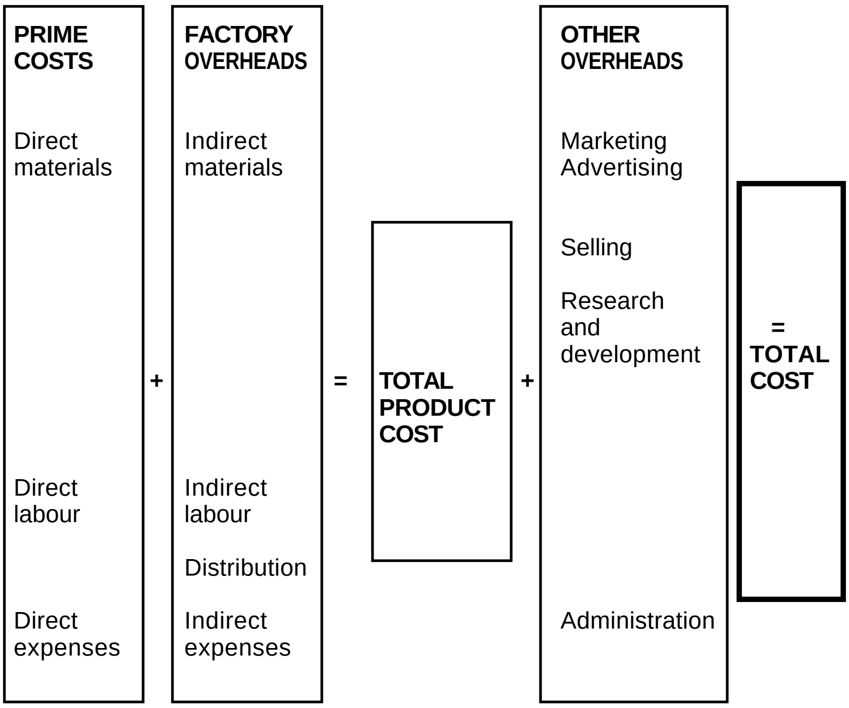
Pricing strategies may be set to take into account and reflect pricing:

- Relative to competition
- Relative to costs
- Uniformity of prices for different customers
- List prices
- Discounts
- Geographical pricing
- Price leadership
- Product line pricing
- Competitive bidding policy
- You should also be able to set three levels of prices for different quality products or services:
  1. Budget price
  2. Standard price
  3. Premium price

How can I value a project?

1. Use a number of valuation models to value the project - one day you might need to prove in court how and why you arrived at your figure.
2. Values can be built up from components such as real estate, plant, fixtures, stock, work-in-progress and debtors, as well as ratio analysis.
3. The after-tax payback period is another method (as a guide, less then two years indicates a good project, two to five years is average, and over five years questionable). Others are Discounted Cash Flow and Internal Rate of Return. Also use and compare these with grassroots benchmarks.
4. A business might be sold on a broken-up basis.
5. Up to date accounts are a must.
6. Owner’s wages must be treated separately to owner’s profits.
7. Most buyers expect returns of at least 15% on their investment.
8. Good businesses should easily pass sensitivity analysis, such as a 20% drop in sales.
9. Be wary of projects which receive most of their turnover from just a few clients, or businesses which lack firm supply agreements.

Contributions to Total Cost



Getting Paid

Most people in business would generally agree that getting paid is one of the most difficult problems that they face in business, whether small or large.

Expected and traditional payment terms are, and have been for a long time ‘net 30 days’.

Even this term is misunderstood and misused by many people.

The usual definition of net 30 days is generally accepted as being that any goods purchased during a calendar month are due for payment at the end of the next calendar month - i.e. on the 30th day of the next month.

To explain further, if goods invoiced for $100 were purchased on the 9th of March, on a net 30 day account, the invoice would be due for payment on the 30th April.

Any goods purchased on, say the 1st of April, would be due for payment on the last day of May.

Thus it follows that the earlier in the month goods are purchased, the longer the interest free credit terms available. And, if you are a buyer, the longer you will have to sell or use the goods before they are due for payment.

Purchase goods or services on the 1st of the month and you receive 60 days of interest free credit. Purchase on the last day of the month and you receive only 30 days of interest free credit.

Many companies place orders well in advance - e.g. for delivery on the first day of the month to maximise the use of interest free credit facilities.

Anybody who has business experience soon realises that this system of ‘net 30 days’, is frequently abused and payment of accounts often drags out to 60 and 90 days and more!

If this money is owed to you, it is costing you money to fund these debtors.

Can you afford your customer’s
payment terms?

Getting Paid

Can your business improve its cash flow and reduce the bank overdraft by?

Accepting payment by credit cards - even Government departments are able to pay by credit card. The small fee for instant payment is surely a better alternative than waiting for and chasing money. You cannot use money you do not have!

Selling on a Cash on Delivery basis? If you offered a settlement discount for cash would more people pay C.O.D.?

Instead of 30 day accounts can you sell on 7 day or 10 day accounts, and enforce this policy by diplomatic follow up?

Asking for a deposit, before you proceed with any work or orders?

Asking for a deposit and regular progress payments, with final payment on the day of completion or final delivery?

Accepting lay-buys? The customer pays a deposit and makes regular payments while you hold the goods pending final payment.

Asking for payment up front for your goods or services?

Selling Gift Vouchers to help your cash flow?

Offer or tailor your goods and services in such a manner that customers readily agree to some of the above suggestions to benefit your cash flow?

Factoring your accounts. Factoring is widely used by both large and small companies. As a guide, a Factoring company, for a fee, will advance around 80% of the face value of an invoice within days of the invoice being raised. Various companies offer different terms and conditions.

Think about ways your business can justify asking for improved and quicker payments from your customers.

Are your competitors
better at collecting payments
from debtors than you?

Break Even Analysis

CALCULATING THE BREAK EVEN POINT

Business managers can calculate their break even point - that is, the point at which the business stops running at loss and begins making a profit - by a simple calculation, as follows:

Sales at break even point

$$= \frac{\text{Total fixed costs}}{\text{Profit margin as a \%}}$$

or

$$= \frac{\text{Total fixed costs}}{\text{Unit price of product being sold - variable cost per unit}}$$

To calculate the sales required to earn a nominated amount:
Sales to earn a profit of $ x

$$= \frac{\text{Total fixed costs + Profit required}}{\text{Profit margin as a \%}}$$

MANUFACTURING BREAK EVEN

$$= \frac{\text{Total fixed costs}}{\text{Price of product being sold - variable cost}}$$

Stock turn over

Measures the number of times per year you sell and replace stock. It is important to consider this ratio when starting a business. Stock turn over will vary for different businesses. Businesses selling fresh produce would be expected to turn their stock over very often, while some one such as a jeweller or antique dealer might only turn stock twice a year.

$$= \frac{\text{Sales}}{\text{Average stock at cost}}$$

or

$$= \frac{\text{Cost of goods sold}}{\text{Average stock at cost}}$$

Feasibility Ratios

Collection period

This measures the average age of your accounts receivable, and is an excellent test which often surprises many businesses.

The lower the number, the safer the receivables is the usual measure for comparison.

Instead of collecting money could you be paid at the time of sale by credit card?

AVERAGE COLLECTION PERIOD

$$= \frac{\text{Receivables}}{\text{Sales per day}}$$

PROFIT ON SALES

$$= \frac{\text{Net profit after taxes}}{\text{Sales}}$$

RETURN ON TOTAL ASSETS

$$= \frac{\text{Net profit after taxes}}{\text{Total assets}}$$

RETURN ON INVESTMENT or SHAREHOLDERS FUNDS

$$= \frac{\text{Net profit after taxes}}{\text{Investment or Shareholders Funds}}$$

Research shows that industry profitability will be very high if:

- Entry to the industry is difficult
- There are many suppliers of small size whose contribution to the final product is not important
- There are many small buyers
- There are few substitutes
- There are few competitors, each of which is satisfied with its position in the market

Feasibility and Stock Levels

Your Feasibility Study should address the amount of stock and materials that you will need on hand to service your prospective clients and their future needs.

The ideal situation is to have the correct amount of the correct goods, in the correct place at the correct time, to make a sale and earn a profit.

Companies hold inventory (stock) for a number of reasons:

- To maximise sales opportunities
- To ensure an uninterrupted flow of operations
- Variable lead time for imported material
- Varying demand - seasonal etc.
- Inadequate information or poor planning.

By having inventory (stock), costs are incurred:

- Cost of placing an order
- Cost of handling material
- Storage costs, rent, taxes, insurance, shrinkage, obsolescence, capital costs.

What quantities should a MANUFACTURER order? - A formula:

$$\sqrt{\frac{2 \times R \times S}{C \times K}}$$

Where:

R = annual demand S = set up cost, wages for machine setters etc.
C = manufactured cost per unit K = overdraft interest rate in decimals (10% = .1)

What quantities should a WHOLESALER or RETAILER order? - A formula:

$$U \times (B + L) - (P + O)$$

Where:

U = average monthly usage B = time between re-order in months
L = lead time in months P = stock on hand above safety level
O = stock on order, but not delivered

The cost of running out of stock

- Idle production line
- Customer dissatisfaction
- A lost sale if the customer buys elsewhere
- A lost customer
- Over investment in stock is a waste of funds.
- Work in progress is also classified as stock on hand.
- By lessening inventory the money released could be used to reduce your overdraft, or pay off a loan, reduce insurance, depreciation and obsolescence.

Profit, Loss, Discounts

Profit or Loss

A business may buy goods from a supplier such as a manufacturer or a wholesaler.

- The amount of money the business pays to any of the suppliers for the purchase of an article is called its cost price (CP) to the retailer.
- The amount for which the business sells that article is the selling price (SP) to the business.
- The difference between the selling price (SP) and the cost price (CP) is the profit (P) or loss (L).
- Profit is the term used when the selling price is greater than the cost price.
- Loss refers to the opposite situation when the selling price is less than the cost price.

Discounts

L = list price
R = rate of discount (expressed as a fraction)
D = amount of discount
DP = discount price or net price

The rate of discount is $\mathbf{R} = \dfrac{D}{L}$

To express the rate of discount as a percentage: multiply R by 100

The actual discount may be found by: $D = R \times L$

The discount price (or net price) is: $DP = L - D$

Profit and Loss

SP = selling price
CP = cost price
P = actual profit
L = actual loss

P_S = profit rate (or mark up rate) expressed as a fraction of selling price

P_C = profit rate (or mark up rate) expressed as fraction of cost price

L_S = loss rate (or mark down rate) expressed as fraction of selling price

L_C = loss rate (or mark down rate) expressed as fraction of cost price

The following relationships hold:

$$P = SP - CP$$

$$L = CP - SP$$

$$P_S = \frac{P}{SP} \qquad P_C = \frac{P}{CP}$$

A Budget and Basic Record Keeping

Monthly (or daily, weekly, annual) budget and deviation

	Budget for month	Actual for month	Deviation for month
Sales			
Less - Cost of goods			
Gross profit on sales			
Less-Operating expenses			
Sales commissions			
Advertising			
Wages			
Power			
P.A.Y.E. tax			
Sales tax			
Super-annuation			
Workcover			
Office supplies			
Insurance			
Maintenance			
Legal & Accounting			
Deliveries			
Licenses			
Telephone			
Depreciation			
Interest			
Others			
Total expenses			
Net profit or loss			
Income Tax			
Net profit after Tax			

How much money will you need?

Instead of just going by 'gut feel' it is essential that projected funding requirements be carefully considered and costed.

Here is a simple table to assist with the process.

ITEM	**$ $ $**
• Working capital	
• Capital works	
• New equipment	
• Research & Development	
• Business infrastructure	
• Staff recruitment	
• Staff training	
• Export research	
• Export marketing	
• Establishing distribution networks	
• Protection of intellectual property rights	
• Development of intellectual property rights	
• Others	
• .	
• .	
• .	
• .	
TOTAL	

Forecast - Sales and Profits

Prepared by______________________ For ______________________

	Jan Feb Mar Apr May Jun Jul Aug Sep etc
SALES	
Less-cost of goods sold	
Opening stock	
Plus purchases	
Less closing stock	
Cost of sales	
Total cost of goods sold	
GROSS PROFIT ON SALES	
LESS EXPENSES	
WAGES	
SUPER-ANNUATION	
WORKCOVER	
RENT	
REPAIRS	
TELEPHONE	
ELECTRICITY	
WATER	
RATES	
STATIONERY	
ADVERTISING	
INSURANCE	
STAFF AMENITIES	
LOAN REPAYMENTS	
TOTAL EXPENSES	
OPERATING PROFIT	
ACCUMULATIVE LOAN BALANCE	

Sales Income Forecast for

Prepared by____________________

ASSUMPTIONS
- Bank loan of $xxx in place
- Cost of goods is based on last years cost of 70% of sale price, excluding GST
- Others

	JAN FEB MAR	APR MAY JUN	JUL AUG SEP	etc
Working days % of SALES TOTAL SALES INCOME Product 1 Product 2 Product 3 COST OF GOODS GROSS PROFIT				
LESS EXPENSES Accountancy Advertising Bank charges Computer costs Consulting fees Filing fees Freight / cartage Heat, light, power Insurance Loan repayment Plant & equipment Leasing - other Motor vehicle Packaging Postage Printing/stationery Shop set up & Rent Repairs/car park Replacements Subscriptions Sundry expenses Telephone Trade shows Travel Wages Workcover/super Directors fees				
TOTAL EXPENSES NET PROFIT				

Price Cutting Guide

This guide may be useful when diagnosing your business.
It shows the percentage increase in sales necessary to break even after a price cut.

PERCENTAGE PRICE CUT	PRESENT GROSS PROFIT MARGIN (%) - [LIST LESS]															
	10	15	20	25	30	33	35	40	45	50	55	60	65	70	75	80
5	100%	50%	33%	25%	20%	18%	17%	14%	13%	11%	10%	9%	8%	8%	7%	7%
10		200%	100%	67%	50%	43%	40%	33%	29%	25%	22%	20%	18%	17%	15%	14%
15			300%	150%	100%	83%	75%	60%	50%	43%	38%	33%	30%	27%	25%	23%
20				400%	200%	154%	133%	100%	80%	67%	57%	50%	44%	40%	36%	33%
25					500%	313%	250%	167%	125%	100%	83%	71%	63%	56%	50%	45%
30							600%	300%	200%	150%	120%	100%	86%	75%	67%	60%
33								471%	275%	194%	150%	122%	103%	89%	79%	70%
35								700%	350%	233%	175%	140%	117%	100%	88%	78%
40									800%	400%	267%	200%	160%	133%	114%	100%
45										900%	450%	300%	225%	180%	150%	129%
50												500%	333%	250%	200%	167%

4

Writing Your Feasibility Study

The following pages contain a suggested format or template with a number of headings and sub-headings which can be used as a basis for writing your Feasibility Study.

Some of these headings may not apply to all Feasibility Studies depending on the type of project and the depth of research and information required.

These headings are suggestions only and you may find it necessary or prudent to add other headings.

Remember that your Feasibility Study should investigate all pertinent details as they apply to your particular project.

In most Feasibility studies of course, profit is the driving force for the study. Always look for and consider other factors, especially unexpected ones, which might affect the profit and feasibility of your project.

Many new projects which have passed countless feasibility studies have been sunk by unexpected events such as flood. fire, burglary, changes in legislation, plague, demographic shifts, an inability recruit and/or keep suitable staff, the failure of a major customer, seasonal demands, health scares, product recalls due to poor quality, withdrawal of financial support, weather, new technology and poor management to list but a few. Even worse we could throw in incompetence and downright dishonesty.

Think about some of the projects you are aware of which failed and try to understand why they failed.

Your Feasibility Study needs to identify all the potential barriers and hazards to the success of the project.

Establish the Scope of the Feasibility Study

- State exactly what the project is and what it is intended to achieve - its objectives
- The aims, goals and objectives of pursuing the opportunity

GOALS should be

S pecific

M easurable

A ttainable

R ealistic

T ime based

Vision/mission statement

- Vision - where do you see this opportunity taking you?
- Situation analysis, history and background of the product/service, industry and the organisation

Performance Objectives Expected

- A profit margin of .....
- An annual profit of .....
- Return on investment (R.O.I.) of .....
- Market share of .....
- An average sale of $ .....
- Units sold .....
- A life span of .....
- Create a specific number of jobs .....
- Others .....

Identify the statutory and mandatory requirements

- Government
- Trade Practices Act
- Industry
- The target public

The Business Environment / Forces

- What environmental forces or institutions are there outside the organisation which have the potential to affect the organisation's performance in relation to the feasibility of the project under consideration?
- The general environment includes everything outside the organisation, such as economic factors, political conditions, the social surrounds, competition, demographics and technological factors. It encompasses conditions that may affect the organisation but whose relevance is not clear.

Market Research

The Market

- Is it a stable industry or a boom and bust industry?
- Market opportunities
- Current market penetration
- Current market segments
- Estimation of customers and revenues
- Projected growth in each market segment
- Review what is currently on the market
- Is geographic location important?

You may choose to use the SWOT analysis from page 47 or you can write and include a new SWOT analysis, (strengths, weaknesses, opportunities and threats) in your Feasibility Study using this matrix:

STRENGTHS **MAINTAINING THESE STRENGTHS** What should I do to maintain these strengths?	**WEAKNESSES** **OVERCOMING THESE WEAKNESSES** What can I do to overcome these weaknesses?
OPPORTUNITIES **TAKING ADVANTAGE OF THESE OPPORTUNITIES** What can I do to take advantage of these opportunities?	**THREATS** **OVERCOMING THESE THREATS** What can I do to overcome these threats?

Resources and Competencies

What resources and competencies are critical to the success of this project?

- Money?
- Human resources and skills?
- Time?
- Technology?
- Others?

SEGMENTATION- A SEVEN STEP APPROACH

1) Name the broad product market
2) List potential customer's needs
3) Form 'homogeneous' submarkets (i.e. narrow product markets)
4) Identify the determining dimensions
5) Name (nick name) the possible product markets
6) Evaluate why the product market segments behave as they do
7) Estimate the size of each product market segment

Customer Profile and Demographics

Segment your potential markets using demographic bases such as:

- Urban - Rural population
- Age
- Sex
- Family life-cycle
- Religion
- Ethnic background
- Education
- Occupation

Your Product, Service or Project

- How does your product, service or project measure up?
- Technological capability - strong, weak, average?
- Cost outlook - favourable, unfavourable?
- Quality - good, satisfactory?
- Product development - good, satisfactory, minimal?

Pricing

Your pricing strategies should take into account and reflect pricing:

- Relative to competition
- Relative to costs
- Industry mark up and discount requirements
- Uniformity of prices for different customers
- List prices
- Discounts
- Geographical pricing
- Price leadership
- Product line pricing
- Competitive bidding policy

You should also be able to set three levels of prices for different quality products or services, which may give you entry to more than one market segment, as well providing profit opportunities:

1. **Budget price**
2. **Standard price**
3. **Premium price**

Stock Levels

- Will your potential customers expect you to carry large quantities of stock?
- Will they expect Just-In-Time Deliveries (J.I.T.)?
- How much back up stock will you be expected to carry?
- What if that stock becomes redundant?
- Can you carry no stock and manufacture to order, or manufacture to customer's schedules?
- How many stock turns will you achieve per annum?
- What will be the value of your stock in hand?
- Can you afford to carry this much stock?

Differentiation

Can you differentiate your project by the creation of unique features to distinguish your product from the competition?
The perception of the product created by the differentiation can be such that the unique features not only insulate the product from a competitive challenge but also create such a brand loyalty that a level of price insensitivity develops in consumers enabling higher margins to be charged.

Product differentiation can take many forms:

- CUSTOMER SERVICE
- DESIGN
- DISTRIBUTION
- DURABILITY
- EXCLUSIVITY
- IMAGE
- PACKAGING
- QUALITY
- RELIABILITY
- TASTE
- TECHNOLOGY
- VALUE

Quality

- Is quality and/or quality management an issue in the feasibility process?
- Is quality adequate?
- Does quality meet the required standards?
- Is quality leadership an issue?
- Will quality issues provide opportunities to improve income through superior fitness for use?
- Will quality issues result in potential field troubles - failures, complaints, returns, a poor image with customers, suppliers, the public, or other groups of outsiders?

Determination of competitive advantage

What unique:

- Skills
- Qualifications
- Experience
- Others - will you bring to this project?

Benchmarking

- How will this project compare and stack up against worlds best practice?
- Can you set world's best practice?
- Can you set new industry benchmarks?
- Possible quality benchmarks include:
  - The specification
  - Customer desires
  - Competition
  - Best in our industry
  - Best in any industry
- Ask questions such as:
  a) Is the competitor better? If so, how much better? Why are they better?
  b) If they are better, why are they better?
  c) How can we learn from them?
  d) How can we apply what we have learned?

Critical success factors

What factors are critical to the success of this project?

- ☐ External finance
- ☐ Internal finance
- ☐ Distribution
- ☐ Price
- ☐ Payment terms
- ☐ Deliveries
- ☐ Product range
- ☐ Technical competence
- ☐ Strategic alliances
- ☐ Others

Do any of these items affect the feasibility of your project?

- ☐ **Barriers to entry**
  Factors such as economies of scale, brand identity and capital requirements determine how easy or hard it is for new competitors to enter an industry. Many industries have dominant players who may make it extremely difficult for new players to enter. Some industries have a key supplier. If this key supplier will not supply their product to you, you may be doomed to failure.

- ☐ **Threats of substitutes**
  Factors such as switching costs and buyer loyalty determine the degree to which customers are likely to switch their business to a competitor.

- ☐ **Bargaining power of buyers**
  Factors such as a buyer's volume, buyer information and the availability of substitute products, determine the amount of influence that buyers will have in an industry.

- ☐ **Bargaining power of suppliers**
  Factors such as the degree of supplier concentration and the availability of substitute inputs determine the power that suppliers will have over firms in the industry.

- ☐ **Rivalry among existing competitors**
  Factors such as industry growth and product differences determine how intense rivalry will be among firms in the industry.

Key Suppliers - Purchasing

- Will key industry suppliers supply you?
- Can you afford their terms?
- Can you access their most favourable price structures?
- Are your potential suppliers reliable?
- Will they commit to the success of your project?
- Do you have more than one supplier that you can fall back on?
- Are their payment terms suitable?
- Is their quality of consistently acceptable standards?
- Can you rely on their deliveries?
- Do they have a potential conflict of interest?
- Can their staff be relied on in a crisis?

Risk Management

- What risks are there?
- These risks may be many and varied - anything from new competitors, changing demographics, war, terrorism and interest rate fluctuations.
- Can you minimise them?
- How?

Definition of proposed operations / management structure and management methods

- Is the current company structure suitable?
- Do you or should you have a Pty Ltd company?
- Which business management methods are most suitable?
- M.B.O.
- J.I.T.

Industry Analysis

- Do you understand the industry your project is in?
- What trends are there in this industry?
- Is it a growth industry or a mature industry?
- Will the key players in the industry talk you?

Sensitivity Analysis

- What if sales drop off?
- What could possibly cause sales to drop?
- What if interest rates increase?
- What market factors is our project sensitive to?

Advertising

- What type of advertising does your industry use?
- Is advertising critical to success?
- Do your customers expect subsidised advertising?
- What percentage of sales will you need to spend on advertising?
- Can you afford to advertise?
- Can you set new industry standards?

Export development

- Does your project have export potential?
- To what countries?
- Can you afford the export development costs?

Can you create value for customers?

- By selecting markets where you can excel?
- By presenting a moving target to competitors by continually improving your position?
- By utilising:
- Innovation
- Quality
- Cost reduction

Break even analysis

- How much do you need to sell before you break even?
- How long will that take?

People and staff

- Will you be comfortable working with the proposed project team?
- Are the proposed team competent to carry out the project?
- What special and unique skills, qualifications and experience do they bring to the project?
- What new staff will you need to recruit?
- Do you trust the team members implicitly?
- Should you be carrying our probity checks on any of the project team members.

Legal Issues

Miscellaneous legal issues

- Are there any legal requirements or issues we need to look at or attend to?
- Do we need a special shareholders agreement?
- What warranties will be required?
- Can we afford to meet these warranty obligations?
- Will we need to address any Trade Practices Act requirements?
- Are there any special insurance requirements?
- Are there any special licences we need to look at or obtain?
- Do we require any special contracts or is there a need to raise any contracts or contractual issues?

Registration of Intellectual Property

- Do we have any patents, copyrights, etc.?
- Do we have appropriate protection for our Intellectual Property in place?

Corporate structure - current

- Is our current structure adequate and is it the correct structure for our needs?

Corporate structure - future

- Will our current structure serve our future needs?

Financial liabilities etc

- What possible liabilities and claims are outstanding and may occur?
- What guarantees are outstanding?
- What encumbrances are there on the business?

Analyse Other Organisations in your Industry

Analysis or diagnose other similar organisations with similar projects to yours.
Do they have any of the problems below?

- Low morale
- Poor work quality
- Neglect of equipment
- Low productivity
- Conflicts and tensions that polarise people and groups
- Misunderstandings and communication failures
- Disruptions of work flows between groups
- Tasks falling between the cracks
- Frequent delays and crises
- Red tape and wasteful overlapping of responsibilities
- Missed opportunities (e.g. failure of a marketing campaign)
- Lack of innovation and new ideas
- Dissatisfaction with the organisation among powerful external groups, major clients, and supervisory bodies (e.g. boards of directors)
- Inability to adjust to changing external conditions (e.g. technologies, markets)
- Other problems

Feasibility for Operating Areas

Will your existing operational areas match and/or enhance the feasibility of the project?
Are these areas critical to the success of your project?

Some suggestions:

IN DISTRIBUTION
- Next day deliveries
- Adequate stock levels
- Efficient channels of distribution

IN FINANCE
- Tight debtor control
- Strong cash management
- Good relations with creditors
- Access to adequate financial resources

IN HUMAN RESOURCES
- Strong recruitment skills and ability to attract key staff
- Viable and relevant training program
- Continual staff development
- Strong and developing company culture
- Effective rewards and motivation for workers
- Will your existing staff support and compliment the project?
- What new staff will you need to recruit?

IN INFORMATION SYSTEMS
- Providing appropriate, timely and up to date financial and customer information
- User friendly
- Able to interact and integrate with other systems
- Continual development

IN MARKETING
- High or low product consistency and quality
- A wide or narrow product range
- Branding, Image, and Reputation
- Packaging to meet consumer and environmental expectations
- Skilled, committed sales force

IN PRODUCTION
- Up to date, state of the art facilities
- Facilities located close to labour skilled supply
- Facilities located close to markets
- Flexibility in production and lead times
- Highly productive labour force

IN PURCHASING
- Strong negotiating skills
- Strong supplier relationships

IN RESEARCH & DEVELOPMENT
- Continuous product design and improvement
- Differentiation between ‘me too’ products
- Continual process of innovation and protection of patents and trade marks
- Sustainable competitive advantage

IN LEADERSHIP and MANAGEMENT
- Can you enhance the feasibility of the project with strong management and leadership skills - Planning, Leading, Organising and Controlling?
- Will you bring flair and creativity to the project?
- Can you bring a generous measure of promotional skills to the project?

Finance and projected cash flows

- What are the initial costs involved?
- Where will the money come from?
- How much will the money cost us?
- The pay back period - how long before the project starts making money?
- What Return on Investment will the project show?
- Report on the cost benefits of the project
- By taking on this project, what other projects will we miss out on or forfeit?
- The time frames
- Sales budgets and projections
  - Where will sales come from?

    It is common business practice to prepare sales forecasts at least one year in advance.

    Forecasting sales can assist you with cash flow, levels of stock (it is bad business to run out of stock or to have too much stock) and staff levels.

    When you are setting your sales budget you will need to take into account:

    The number of working days per month is a key factor.

    Some months can have five more working days than other months.

    Other factors such as the weather, seasonal demand for the product, public and school holidays, rostered days off and long weekends can effect sales of consumer and, particularly industrial items.
- Prepare detailed cash flow statements
- Prepare detailed cost budgets
- Prepare any other financial statements which you consider relevant

Further development of the Feasibility Study

Should you:

- Prepare a Business Plan?
- Prepare a Marketing Plan?
- Obtain second and even third opinions?

Due Diligence

- Are there any other due diligence issues you should be investigating for your project?
- Have you done adequate checks to guard against dishonesty, genuine mistakes, incompetence, flawed information and flawed assumptions?
- Are there any probity checks you should be conducting in regard to your associates in this project?
- Will you be comfortable working with the proposed project team?

Summarise your findings and make a recommendation.

- Should the project proceed?
- Should the project be shelved?
- Should the project be re-vistited at a later date?
- Develop an action plan for the project to proceed

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