What is a Feasibility Study?

Ag Decision Maker
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File C5-65

As addressed in *Information File C5-64*, When to Do and How to Use a Feasibility Study, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-64.pdf, the growth and recognition of project management during the last few years has raised the need for feasibility studies. Quickly stated, a feasibility study is the initial design stage to any project or plan. As the name implies, a feasibility study is an analysis into the viability of an idea.

Feasibility studies help answer the essential question, "should we proceed with the proposed idea?" The objective study may be completed in conjunction with a SWOT planning process, which looks at the strengths, weaknesses, opportunities, and threats that may be present externally (the environment) or internally (resources). Feasibility studies help determine:

a) does the company possess the required resources or technologies; and
b) does the proposal offer a reasonable return vs. risk from the investment.

Feasibility studies can be used in many ways but primarily focus on proposed business ventures. Farmers and others with a business idea should conduct a feasibility study to determine the viability of their idea before proceeding and incurring upfront development costs. Determining early that a business idea will not work saves time, money and heartache later.

A **feasible** operating change or business restructure is one where the business will generate adequate cash-flow and profits to withstand (a) the short-term risks it will encounter, and (b) remain viable in the long-term to meet the goals of the owner/founders. The venture might be an investment start-up or the purchase/expansion of an existing business, beyond its present business footprint or enterprise.

Information File C5-66, Feasibility Study Outline, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-66.pdf is provided to give you guidance on how to proceed with the study and what to include. Also, *Information File C5-64*, When to Do and How to Use a Feasibility Study, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-64.pdf will help you through the process and help you get the most out of your study.

A feasibility study is only one step in the business idea assessment and business development process (*Information File C5-02*, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-02.pdf). Reviewing this process and reading the information below will help put the role of the feasibility study in perspective.

Contents of a Feasibility Study

The most-common feasibility study should include the following sections:

- An Executive Summary
- Description of Product or Service
- Technology Considerations
- Product or Service Marketplace
- Identification of Specific Market
- Marketing Strategy
- Organization Structure
- Schedule
- Financial Projections

Companies should be careful to NOT blindly follow feasibility templates. A well-designed feasibility study is one that is focused upon and centered on the business organization.

Types of Feasibility Studies

- Technical – hardware and software; existing or new; staffing skills
- Financial – initial and future stakeholder investors; ROI benchmarks

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- Market- industry type; marketing characteristics; market growth; competition environment; sales projections
- Organization- structure; legal; management team's competency

Typical Steps to a Feasibility Study

1. Preliminary Analysis

To efficiently evaluate alternatives, a pre-feasibility study is often conducted after discussing a series of business ideas or scenarios. This pre-feasibility study helps to "frame" and "flesh-out" specific business scenarios, with only **some** studied more in-depth. It is not unusual that during this preliminary analysis, the number of business alternatives under consideration is reduced from the initial starting point.

During this first step to the feasibility process you may investigate a variety of ways to organize the business and/or to position the product in the marketplace. It is like an exploratory journey and you may take several paths before you reach your destination. Just because the initial analysis is negative does not mean that the proposal does not have merit. Sometimes limitations or flaws in the proposal can be corrected.

If the findings lead you to proceed with the feasibility study, your work may have resolved some basic issues. A consultant may help you with the pre-feasibility study, but you should be involved. This is an opportunity for you to understand the issues of business development.

2. Market Assessment

A market assessment may be conducted that will help determine the viability of a proposed product or service in the marketplace. The market assessment will also help to identify demand in the market, and at what price. If no opportunities are found, there may be no reason to proceed further with the feasibility study. If opportunities are found, the market assessment can give focus and direction in the construction of business scenarios to investigate in the feasibility study. A market assessment will provide much of the information for the marketing feasibility section of the feasibility study.

3. Organizational Structures

This step in the feasibility analysis pertains to organization. Staffing requirements, including management and labor alignment are studied. How many workers are needed for how long? What other resources will be needed?

4. Financial Controls

It is important to formalize an opening day balance sheet. In this step, first efforts at projected revenues and expenses are attempted.

5. Points of Vulnerability

Factors that are internal to the project and represent vulnerability to the project's short-term or long-term steps should be reviewed and analyzed. These points then can be controlled or otherwise eliminated.

6. Results and Conclusions

The conclusions of the feasibility study should outline in-depth the various scenarios examined. The project leaders need to carefully examine the feasibility study and challenge its underlying assumptions. This is the time to be skeptical.

Don't expect one alternative to "jump off the page" as being the best scenario. Feasibility studies do not suddenly become positive or negative. As you accumulate information and investigate alternatives, neither a positive nor negative outcome may emerge. The decision of whether to proceed is often not clear cut. Major stumbling blocks may emerge that negate the project. Sometimes these weaknesses can be overcome. Rarely does the analysis come out overwhelmingly positive. The study will help you assess the trade-off between the risks and rewards of moving forward with the business project.

Remember, it is not the purpose of the feasibility study or the role of the consultant to decide whether or not to proceed with a business plan. It is the role of the project leaders to make this decision, using information from the feasibility study and input from consultants.

7. Go/No-Go Decision

The go/no-go decision is one of the most critical in business development. It is the point of no return. Once you have definitely decided to pursue a business scenario, there is usually no turning back. The feasibility study will be a major information source in making this decision. This indicates the importance of a properly developed feasibility study.

Feasibility Study vs. Business Plan

A **feasibility study** is not a **business plan**. The separate roles of the feasibility study and the business plan are frequently misunderstood. The feasibility study provides an investigating function. It addresses the question of "Is this a viable business venture?" The business plan provides a planning function. The business plan outlines the actions needed to take the proposal from "idea" to "reality." *Information File C5-68*, Writing a Business Plan, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-68.pdf, offers more discussion of the drafting a business plan.

The feasibility study outlines and analyzes several alternatives or methods of achieving business success. The feasibility study helps to narrow the scope of the project to identify the best business scenario(s). The business plan deals with only one alternative or scenario. The feasibility study helps to narrow the scope of the project to identify and define two or three scenarios or alternatives. The person or business conducting the feasibility study may work with the group to identify the "best" alternative for their situation. This becomes the basis for the business plan.

The feasibility study is conducted before the business plan. A business plan is prepared only after the business venture has been deemed to be feasible. If a proposed business venture is considered to be feasible, a business plan is usually constructed next that provides a "road-map" of how the business will be created and developed. The business plan provides the "blueprint" for project implementation. If the venture is deemed not to be feasible, efforts may be made to correct its deficiencies, other alternatives may be explored, or the idea is dropped.

Reasons to Do or Not to Do a Feasibility Study

Project leaders may find themselves under pressure to skip the "feasibility analysis" step and go directly to building a business. Individuals from within and outside of the project may push to skip this step. Reasons given for not doing a feasibility analysis include:

- We know it's feasible. An existing business is already doing it.
- Why do another feasibility study when one was done just a few years ago?
- Feasibility studies are just a way for consultants to make money.
- The market analysis has already been done by the business that is going to sell us the equipment.
- Why not just hire a general manager who can do the study?
- Feasibility studies are a waste of time. We need to buy the building, tie up the site and bid on the equipment.

The reasons given above should not dissuade you from conducting a meaningful and accurate feasibility study. Once decisions have been made about proceeding with a proposed business, they are often very difficult to change. You may need to live with these decisions for a long time.

Conducting a feasibility study is a good business practice. If you examine successful businesses, you will find that they did not go into a new business venture without first thoroughly examining all of the issues and assessing the probability of business success.

The following are other reasons to conduct a feasibility study.

- Gives focus to the project and outline alternatives.
- Narrows business alternatives
- Identifies new opportunities through the investigative process.
- Identifies reasons not to proceed.
- Enhances the probability of success by addressing and mitigating factors early on that could affect the project.
- Provides quality information for decision making.
- Provides documentation that the business venture was thoroughly investigated.
- Helps in securing funding from lending institutions and other monetary sources.
- Helps to attract equity investment.

For more information, see *Information File C5-64*, When to Do and How to Use a Feasibility Study, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-64.pdf, which offers further discussion into the decision to do or not do a feasibility study.

The feasibility study is a critical step in the business assessment process. If properly conducted, it may be the best investment you ever made.

For more information on feasibility and business plans, visit the Ag Decision Maker website, www.extension.iastate.edu/agdm/vdstart.html.

Note: this publication is for informational purposes only, the authors do not conduct or assist with feasibility studies.

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