

FEASIBILITY CHECKLIST FOR A NEW VENTURE

Perhaps the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business is determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates few ideas result in successful business ventures, even when introduced by well-established firms. Many entrepreneurs strike out on a business venture convinced of its merits, but they fail to evaluate its potential. This checklist should help you evaluate a business idea. It is designed to screen out ideas that are likely to fail before you invest extensive time, money, and effort in them.

Preliminary Analysis

You should realize your personal limitations and seek appropriate assistance where necessary (i.e., marketing, legal, financial). Few people have expertise in doing a feasibility study. A feasibility study involves gathering, and evaluating information by answering: "Should I go into business?"

Answering this question involves a preliminary assessment of both personal and project considerations. Financial statistics are available from most businesses, trade and industry associations, private companies, banks, universities, public libraries and government agencies.

General Personal Considerations

The first series of questions ask you to do self-introspection:

- Are your personality characteristics such that you can adapt to and enjoy small business ownership/management?
- Do you like to make your own decisions?
- Do you enjoy competition?
- Do you have willpower and self-discipline?
- Do you plan ahead and get things done on time?
- Can you take advice from others?
- Can you adapt to changing conditions?

The next series of questions stress the physical, emotional, and financial strains of a new business:

- Do you have the physical stamina and emotional strength to handle a business?
- Do you understand that owning your own business means working 12-16 hour days, maybe six days a week and holidays?
- Are you prepared to lower your standard of living for several months or years?
- Can you afford to lose your savings?

Specific Personal Considerations

- Do you know why you are considering this business opportunity?
- Do you know which skills and areas of expertise are critical to the success of your business?
- Do you possess these skills and know how to effectively utilize them?
- Can you find personnel who have the skills, abilities, and expertise you lack?
- Can you perform the feasibility study or have the time or money to do so?
- Will this business opportunity effectively meet your career aspirations?

General Project Description

- Describe the business you want to enter.
- List the products/services you want to sell/offer.
- Describe who will use your products or services.
- Why would someone buy your product/services?
- What kind of location do you need?
- List product/service suppliers.
- List your major competitors (who provide similar products or services).
- List the labor and staff you require to provide your products/service.

Requirements for Success

To determine whether your idea meets the basic requirements for a successful new project, you must answer one of the following question with a "yes":

- Does the product/service/business serve an under-served need?
- Does the product/service/business serve an existing market in which demand exceeds supply?
- Can the product/service/business compete with existing competition because of an "advantageous situation" i.e., better price, location, etc.?

Major Flaws

A "yes" response to these questions indicates the idea has little chance for success:

- Are there any causes (i.e., restrictions, monopolies or shortages) that make required factors of production unavailable (i.e., unreasonable cost, scarce skills, energy, equipment, technology, material, process, or personnel)?
- Are capital requirements for entry or continuing operations excessive?
- Are there any extraordinary circumstances that would make financing hard to obtain (i.e., bankruptcy or bad credit)?
- Are there potential detrimental environmental effects?
- Are there factors that prevent effective marketing?

Desired Income

The following questions should remind you that you must seek both a return on your investment in your own business as well as a reasonable salary for the time you spend in operating that business:

- How much income do you desire?
- Are you prepared to earn less in the first 1-3 years?
- What minimum amount of income do you require?
- What financial investment is required for your business?
- How much could you earn by investing this money?
- How much could you earn by working for someone else?
- Add the amounts in 5 and 6. If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income to be your own boss with only the prospects or more substantial profit/income in future years?
- What is the average return on investment for a business of your type?

Preliminary Income Statement

You need to know the business income and expenses. Show profit/loss and derive operating ratios on income statements:

- What is the normal markup in this line of business, i.e., the dollar difference between the cost of goods sold and sales, expressed as a percentage of sales?
- What is the average cost of goods sold percentage of sales?
- What is the average inventory turnover, i.e., the number of times the average inventory is sold each year?
- What is the average gross profit as a percentage of sales?
- What are the average expenses as a percentage of sales?
- What are the average expenses net profit as a percent of sales?
- Take the preceding figures and work backwards using a standard income statement format and determine the level of sales necessary to support your desired income level.
- From an objective, practical standpoint, is this level of sales, expenses and profit attainable?

Market Analysis

The primary objective of a market analysis is to arrive at a realistic projection of sales.

Customer Base

- Define the geographical areas from which you can realistically expect to draw customers.
- What is the makeup of population in these areas, average family size, age distribution and per capita income?
- What do you know about the population growth trend in these areas?
- What is the consumer's attitude, shopping/spending patterns of business?
- Is the price of your product or service important to your target market?
- Can you appeal to the entire market?
- If you appeal to only a portion of the market, is that segment enough to be profitable?

Competition

- Who are your major competitors and their strengths/weaknesses?
- Are you familiar with factors concerning your competitors' price structure, product lines (quality, breadth, width), location, source of supply, promotional activities and image from a consumer's viewpoint?
- Do you know of any new competitors or competitor's plan for expansion?
- Have any firms of your type gone out of business lately? If so, why?
- Do you know the sales , market share and profit levels of each competitor?
- Do you know whether the sales and market share and profits of each competitor are increasing, decreasing or stable?
- Can you compete with your competition?

Sales

- Determine the total sales volume in your market area.
- How accurate is your forecast of total sales? Is it based on concrete data?
- Is the estimated sales figure "normal" for your market area?
- Is the sale per square foot for your competitors above the normal average?
- Are there conditions or trends that could change your forecast of total sales?
- Do you plan to mark down products occasionally to eliminate inventories?
- If you do not carry over inventory, have you adequately considered the effect of mark-down in your pricing? (profit margin may be too low)
- How do you plan to advertise/promote your product/service?
- Forecast the total market share you can realistically expect--as a dollar amount and as a percentage of your market.
- Can you create enough competitive advantages to achieve the market share in your forecast of the previous question?
- Is your sales forecast greater than the sales amount needed to guarantee your minimum income?
- Are you optimistic/pessimistic in your forecast of sales?
- Are you willing to hire an expert to refine the sales forecast if needed?

Supply

- Can you make an itemized inventory list of operating supplies needed?
- Do you know the quantity, quality, price ranges, technical specifications and name/location of potential sources of supply?
- Do you know delivery schedule, credit terms and sales of each supplier?
- Do you know the risk of shortage for any critical materials or merchandise?
- Do you know if the price allows you to achieve an adequate markup?
- Do you know which supplies have an advantage relative to transportation costs?

Expenses

- Do you know your necessary expenses rent, wages, insurance, utilities, advertising and interest, etc.?
- Do you know which expenses are direct, indirect or fixed?
- Do you know how much overhead will be?
- Do you know how much selling expenses will be?

Miscellaneous

- Are you aware of the major risks associated with your product/business/service?
- Can you minimize these major risks or are they beyond your control?
- Can these risks bankrupt you?

Venture Feasibility

- Are there major questions remaining about your proposed venture?
- Do the above questions arise because of a lack of data, management skills, or a "fatal flaw" in your idea?
- Can you obtain the additional data and management skills needed or correct the "fatal flaw"?
- Are you aware that there is less than a 50-50 chance that you will be in business two years from now?