



FEASIBILITY STUDY

Before you begin to write a business plan you should conduct a feasibility study that will help you determine the probable success of your new business. The information will also be helpful once you do write the business plan.

There are three objectives that should be met by the feasibility study in order for the study to be of value. The first is to **learn more about your prospective customer's needs**. Once the needs of the customer are determined, the second objective is to clearly define the product or service that you wish to offer these customers. In other words, **find a need and fill it**. The third objective is to determine **how much revenue this product or service will generate**. A cash flow projection estimates the cash balance for the business on a month-to-month basis. Revenue and expense information is then incorporated in a cash flow projection, which gives you a financial measure of the feasibility of the venture.

It will be helpful to pose the following questions when determining what market research you need to do to meet the objectives of your feasibility study.

I. *Do prospective customers have a need for your product or service?*

- A. What segment of the population does your product or service appeal to?
- B. Are there enough people who want the product or service?
- C. What is the purchasing power of the population base?
- D. Will your chosen market continue to support your business?

II. *Will the business be able to compete?*

- A. Who are the competitors and how many are there?
- B. How well are the competitors doing?
- C. What are the strengths and weaknesses of the competitors?
- D. Where are the competitors located?
- E. What are the hours of operation of competitors?
- F. What advantages does your product or service provide?

III. *Is the proposed location of the business adequate?*

- A. How accessible is the location to the market population?
- B. What is the availability of labor in the area?
- C. What are the costs of obtaining, developing and maintaining the site?
- D. What are the current or future community developments?

Some basic market research needs to be performed in order to answer these questions with any degree of accuracy. There are primarily three types of research that can be utilized:

I. *Informal Research*

A. Canvassing

This can be done informally by simply approaching potential customers or clients and discussing their needs in regard to the product or service the new business will offer.

B. Observation

Observing current businesses and potential customers can be a very insightful way of gaining valuable information into the market.

C. Word of Mouth

Listening to people, such as potential suppliers, advisors and people, who are already in the business, is also a valuable tool.

II. *Secondary Data*

A. Newspaper articles

Newspaper articles on established businesses, current issues affecting business, statistical and demographic information.

B. Public filings

Annual reports, patents, copyrights, trademarks, business names.

C. Government agencies

Local, state and federal government agencies such as the SBA (Small Business Administration), Chamber of Commerce and U.S. Census Bureau.

D. Commercial publications

Telephone books (access information about who your potential competitors are through advertisements in the yellow pages and community information pages).

E. Trade journals

These journals specialize in issues and trends affecting different industries, as well as other current information.

F. Trade associations

The research departments at trade associations collect data on sales, expenses, shipments, stock turnover rates, bad debt losses, collection ratios, returns and allowances and net operating profits.

G. Public libraries

A wealth of information on various topics related to business including laws, industry and market information, trade publications, etc.

- H. Commercial banks and financial institutions
Information about economic factors influencing communities.
- I. Internet
Access current information on marketing opportunities and connect with various government agencies, businesses or sites for many of the sources listed above and more.

III. Primary Data – Surveys

Demographics, psychographics, geographic location, pricing, the most effective means of media for reaching your target market, household income, and if there is a need for your product can be determined through surveys.

- A. Personal interviews
Personal interviews with prospective customers are a great way to find out information about your product, competitors, pricing and the market.
- B. Telephone surveys
Telephone surveys are very similar to personal interviews but are more anonymous.
- C. Written questionnaires distributed by mail or by other means
Written questionnaires may be a more cost effective means of obtaining survey results, but response rates to unsolicited mailings are typically low.