The Feasibility Study Process

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Objective

• An understanding of the process involved in a cooperative feasibility analysis
• Factors for selecting consultants
• Differences between feasibility studies and business plans.
The Project Cycle

1. IDENTIFICATION: preliminary idea creation, planning, pre-feasibility studies

2. DELIBERATION: refining ideas, feasibility studies, decision to proceed with project

3. IMPLEMENTATION: securing capital, construction, obtaining permits, hiring management
The Project Cycle

cont.

4. OPERATION: mobilization of manpower equipment and materials to carry out plan

5. EVALUATION: Determine what worked and what did not work
Decisions to Make

1. Conduct the feasibility study or not.
2. Who conducts the study.
3. How to review the study.
4. Accept or reject the study once made.
5. Implement the study once accepted.
Why do a Feasibility Study?
Questions to Answer Before Initiating a Feasibility Study

1. What is the need for the project?
2. What is the membership base and volume of product?
3. What is the market size and competitive environment?
4. What are the organizational needs for the project to succeed?
Clients of the Study

• Feasibility studies serve both internal and external audiences
• This can include both members and financiers
What is Feasibility Study?

- Analytical tool
- Project planning
- Assembles the whole project
- Uses scenarios to assess risk
- Provides project evaluation
Feasibility Analysis

THE ART OF

“WHAT IF?”
Scenario Analysis

“IF THIS… THEN WHAT?”
Scenarios Which Alter the Study

• Product volume
• Equity capital
• Product prices
• Cash collection & disbursement schedule
• Facility efficiency / labor requirement
What a Feasibility Study is Not

• Academic research
• Idea generator
• Business plan
• Financial approval game
• What decides if a project will be successful
Characteristics for Selecting a Consultant

- Experience conducting feasibility studies.
- Knowledge of the industry.
- Understand cooperatives.
- Listen to the groups’ ideas.
- Work closely with the contact members of the group.
Characteristics for Selecting a Consultant

- Accept reasonable revisions to the submitted study.
- Accomplish the study within an agreed upon timeline.
- Work within the budget designated by the group.
Consultant Evaluation Criteria

- Previous experience (0-20) ______
- Understand cooperatives (0-20) ______
- Qualifications of principal researchers (0-20) ______
- Reasonableness of cost (0-15) ______
Consultant Evaluation Criteria

- Proposed interaction with steering committee or board (0-10) ______
- Verbal presentation/communication skills (0-15) ______
- Miscellaneous/ intangible (0-10) ______
- Total Score 100 ______
The Study Document
What to Look For

• Comprehensive
• Bring the pieces of work together
• Readability
  – ease of reading
  – good organization
• Referenced and well documented
Financial Data and Projections

• What to Accomplish
  – Funding request
  – Financial statements
  – Pro forma’s
  – Assumptions
Assumptions and Financial Statements

• Where is the project heading
• Resolve information deficiencies
• Formalize the process
The Critical Risks and Problems

• What to present
  – Major problems to overcome
  – Time critical factors
  – Evaluation of risks
    • internal to project
    • external to project
  – Worst case scenario
Review of the Study

• Does it permit planners to make decisions?
• Reasonableness of assumptions
• Accuracy
• Readability
  – language used
  – good organization
  – impression
Review of the Study

• Professional in organization and presentation
  – table of contents
  – page numbers
  – details in appendixes
  – assumptions are documented
  – section and sub headings
  – reference page for tables and charts
Review of the Study

• Puts boundaries on potential membership and volume, giving a firm basis for planning.
• Clarifies the proposed plan.
•Permits adaptations of the plan to meet the available resources.
• Focus on the two key-ingredients--financing and patronage (volume).
Accept or Reject the Study

• Does it present the group’s idea for the project?
• Does it fulfill the work expectations?
  – This does not mean necessarily recommendation or support for the idea
  – a negative recommendation can be valuable
• Conclusions & recommendations
  – Did the consultant bring all of the pieces together?
  – Are the key recommendations
    • logical?
    • easy to follow methodology to conclusion?
Implement the Project?

The study does not decide on whether to proceed or not, the group does.

- Why not implement a positive feasibility study?
  - The situation has worsened
  - Risks perceived as too high
  - Requires too much volume, size, capital
- Why to implement a negative feasibility study
  - The situation has improved
  - Found a partner to share risks
  - Resolved technical limitations
What is a Business Plan?

- An implementation and action strategy for the business
- Deeper analysis and planning
- Builds on the foundation of the feasibility plan
Feasibility Study vs. Business Plan

• Plan is later in process
  – Technology is known
  – More specific details
  – Has the “nuts and bolts”
Feasibility Study vs. Business Plan

- *Feasibility study* is an *independent* analysis of a business opportunity or lack of an opportunity.

- *Business plan* is *your plan* for the operation of a business.

- A feasibility study creates the framework used for a business plan.