

## University of Wisconsin Center for Cooperatives

### What is a Feasibility Study?

A feasibility study is designed to provide an overview of the primary issues related to a business idea. The purpose is to identify any “make or break” issues that would prevent your business from being successful in the marketplace. In other words, a feasibility study determines whether the business idea makes sense.

A thorough feasibility analysis provides a lot of information necessary for the business plan. For example, a good market analysis is necessary in order to determine the project’s feasibility. This information provides the basis for the market section of the business plan.

Because putting together a business plan is a significant investment of time and money, you want to make sure that there are no major roadblocks facing your business idea before you make that investment. *Identifying such roadblocks is the purpose of a feasibility study.*

A feasibility study looks at three major areas:

- a. Market issues
- b. Organizational/technical issues
- c. Financial issues

Again, this is meant to be a “first cut” look at these issues. For example, a feasibility study should not do in-depth long-term financial projections, but it should do a basic break-even analysis to see how much revenue would be necessary to meet your operating expenses.

### Conducting a Feasibility Study

As noted above, the feasibility study is organized into three major sections (market analysis, organizational/technical analysis, and financial analysis). Each section below discusses the key questions which must be addressed in the plan.

#### **Market analysis begins by asking:**

- What, precisely is the market?  
The more specific you can be, the better.
- Is the market growing, shrinking, or staying the same?
- Is it worth your while? Is the market you’ve identified big enough to make it worth the time?

**Eric S. Siegel**

*Information generated in one part of the plan will reveal the need for more information on another part of the plan or answer questions that may have been left open in another section.*

**William R. Osgood**  
*Basics of Successful Business Planning*

*The purpose of market analysis is to thoroughly acquaint yourself with all aspects of your market so that you can formulate a plan to capture a share of it.*

**Harold J. McLaughlin**  
*Building Your Business Plan*

## **1. Market Analysis Research**

The key questions that should be answered in the Market Analysis section of the feasibility study are presented below. In nearly all cases, research is required in order to obtain enough information to answer the questions. See p. 7 of this chapter for techniques for conducting market research. If these questions cannot be answered adequately, the project is not feasible.

- a. What is the current or projected demand for your proposed products or services? In other words, how many units can you reasonably expect to sell each month?
- b. What are the target markets for this product or service? What demographic characteristics do these potential customers have in common? How many of them are there?
- c. What is the projected supply in your area of the products or services needed for your project?
- d. What competition exists in this market? Can you establish a market niche which will enable you to compete effectively with others providing this product or service?
- e. Is the location of your proposed business or project likely to affect its success? If so, is the identified site the most appropriate one available?

The market analysis should be conducted first because it is critical to the success of the business. If you cannot substantiate through research that adequate demand for your product or service exists, or if you cannot obtain sufficient quantity to meet expected demand, then your project is not feasible. You should not continue to the next step in the feasibility study.

*One...major reason for business failure is incompatibility of goals among owners. This often leads to a breakdown of communication and conflict about use of resources.*

**Harold MC Laughlin**  
*Building Your Business Plan*

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## **2. Key Organizational and Technological Issues**

Once market issues have been addressed, it is time to take a look at key organizational and technology issues that are relevant to your project.

### **Organizational Issues**

Key questions to answer include:

a. What organizational structure is the right one for your project?

Remember that cooperatives are not the best form of legal business structure for every project. Review [Chapter 3](#) of this Manual to help you evaluate this.

b. Who will serve on the board of directors? What are their qualifications?

c. What qualifications are needed to manage this business?

d. Who will manage the business (if possible)?

e. What other staffing needs does the co-op have? How do you expect staffing needs to change over the next 2-3 years?

Because all subsequent decisions depend on the organization's legal business structure, the first question is critical and should be answered before you continue with the feasibility analysis. It is an important question and may take some research. Don't hesitate to call on a qualified attorney or other advisor if necessary.

While you need not know the answers to all the other questions in order for the business to be feasible, they must all be satisfactorily answered before you begin operations. This is a good time to begin the process of identifying appropriate individuals for the board, management and other staff positions, and to think carefully about what qualifications are necessary to manage this business.

### **Technological Issues**

The cost and availability of technology may be of critical importance to the feasibility of a project, or it may not be an issue at all.

For example, a service organization, such as a child care center, will have a few equipment and other technology-related issues to address. A manufacturing enterprise, on the other hand, may have a number of complex technology questions to analyze in order to determine whether or not the business is feasible.

Key questions to answer include:

- a. What are the technology needs for the proposed business?
- b. What other equipment does your proposed business need?
- c. Where will you obtain this technology and equipment?
- d. When can you get the necessary equipment?

How does your ability to obtain this technology and equipment affect your start-up timeline?

- e. How much will the equipment and technology cost?

Keep in mind that technology doesn't necessarily mean complex machinery; if your business simply needs a personal computer, printer, and fax machine, those are your technological needs.

However, making wise decisions on even simple purchases such as office machines may require some research. Obviously there are numerous types of personal computers on the market. You may want to check Consumer Reports for their recommendations, do some comparative shopping, and ask acquaintances about their experiences with different companies. Your cost estimates (question #e) will get plugged into your financial projections.

Naturally, the more complex the technology you need, the more research that will be required to make good decisions about it. Don't skimp on this foot work; you may regret it.

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### **3. Financial Issues**

Once your analyses of marketing, organizational and technology issues have been completed, the third and final step of a feasibility analysis is to take a look at key financial issues. Answer the following questions as well as you can at this point and identify key issues that will require additional research.

Note that some of the questions below -- specifically revenue projections -- are directly based on your market analysis (the first step in the feasibility study), in which you estimated the number of units of product or service you could sell. If you didn't do that part of the feasibility study thoroughly, you won't be able to do the financial analysis adequately.

- a. Start-Up Costs: These are the costs incurred in starting up a new business, including “capital goods” such as land, buildings, equipment, etc. The business may have to borrow money from a lending institution to cover these costs.
- b. Operating Costs: These are the ongoing costs, such as rent, utilities, and wages that are incurred in the everyday operation of a business. The total should include interest and principle payments on any debt for start-up costs.
- c. Revenue Projections: How will you price your goods or services? Assess what the estimated monthly revenue will be.
- d. Sources of Financing: If your proposed business will need to borrow money from a bank or other lending institution, you may need to research potential lending sources.
- e. Profitability Analysis: This is the “bottom line” for the proposed business. Given the costs and revenue analyses above, will your business bring in enough revenue to cover operating expenses? Will it break even, lose money or make a profit? Is there anything you can do to improve the bottom line?

## Conclusion

Your feasibility study should give you a clear idea whether the proposed co-op is a sound business idea. Some techniques for conducting the Market Analysis part of the feasibility study are presented on the following pages.

### **FEASIBILITY STUDY** **Table of Contents**

The following is a Table of Contents for an actual feasibility study conducted by the authors. It is presented here as an example of a study that generally follows the guidelines presented in this chapter. Please see [Appendix F](#) for excerpts from additional feasibility studies.

- I. Introduction and Scope of Study
- II. Market Analysis
  - A. Domestic Market Profile
  - B. Overseas Market Potential
  - C. Target Market
  - D. Overall Market Feasibility

### III. Producer Survey and Supply Analysis

- A. Review & Analysis of Survey Results
- B. Supply Outlook

### IV. Organization & Technology Analysis

- A. Organizational Capacity Analysis
- B. Technology & Equipment Needs
- C. Operational Scenarios

### V. Transportation and Processing Analysis

- A. Map of Producer Locations
- B. Supply Outlook

### VI. Financial Analysis

- A. Financial Summary and Feasibility
- B. Assumptions

### VII. Overall Feasibility Evaluation

- A. Summary and Conclusions
- B. Recommendations

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## Conducting Market Research

Now that you know what questions to ask, exactly how do you go about answering them? This section will explain some of the techniques used to conduct the market analysis research recommended as the first step in a feasibility study. This section reviews the key questions from Step 1 of the feasibility study instructions (p. 4 of this chapter), providing guidelines on how to answer each.

Don't think of market research as highly sophisticated, expensive and complicated. It can be very much a do-it yourself thing.

Market analysis results in information about the market potential, which provide the basis for accurate sales forecasts and your marketing strategy. Its basic components include:

- an estimate of the size of the market for the product/service;
- projected market share;
- information about your target market; and
- analysis of the competition.

Market research involves activities designed to obtain data about the market, and falls into two main categories:

- primary research is that which collects new data through market surveys and other field research -- specific studies that are conducted on behalf of your company; and
- secondary research includes gathering pre-existing information from published sources.

In addition to conducting research, it is valid to rely somewhat on your own opinions and observations, especially if they have to do with your local community. No one knows a community like the people who've spent their lives there. However, it is important to back up your opinions with data and research. Don't rely solely on your gut feelings; they're probably not enough to go to the bank with. Resist the temptation to only look for data that confirms your opinions!

All this information goes into estimating the sales your company will achieve during its first few years of operation. The rest of the feasibility study and business plan is built upon these estimates. Because it is one of the principal tools for determining whether the business will work, it is worth making an investment in market research. The quality of information in the market analysis is dependent on the amount of energy that went into obtaining it!

You need to be as specific as possible about the dimensions (size, trends) of the opportunity your business faces. Since a new business doesn't have a track record, your research must be thorough to enable you to make realistic sales estimates.

## MARKET RESEARCH

- Have a need and a market been clearly identified?
- Has a clear, persuasive case been made as to how sales will be generated?
- Does this section serve as a sound basis for the implementation of a marketing strategy?

**Eric S. Siegel, et. al.**

*The Ernst & Young Business Plan Guide*

It is beyond the scope of this Manual to cover the entire subject of market research. A good book on this subject is *Practical Marketing Research* by Jeffrey L. Pope, published by the American Management Association.

*Cooperatives only work when they are market-driven... [You must] ensure that accurate market projections precede other development steps.*

Madison Principles

## Existing Demand Adequate?

In the Market Analysis section of the feasibility study, we suggested that you determine whether adequate demand exists for your proposed co-op's products/services. How do you figure this out?

Much of this information can be obtained through secondary research. A lot of the information you need is available to the public, from government statistics, computerized data bases, and the Yellow Pages. And of course the Internet is a potential source of information. Many public libraries now have access to the Internet, if you don't. A lot of information exists out there; the best place to start is your local library. Talk to the research librarian!

Remember that the government collects a lot of information about you and others. Use your imagination to find the information you need. The U.S. Industry Outlook, for example, provides an economic and market overview of hundreds of industries. Other sources for industry information are in the sidebar below.

### Obtain Industry information from:

- Dun & Bradstreet: 800-552-3867
- Moody's Manual of Investments
- Standard & Poor's 800-437-3528
- Value Line 800-654-0508

Figures can be obtained for average sales in many industries (except for entirely new products). Robert Morris & Associates publishes an annual survey of major industries, organized by Standard Industry Classification (SIC) number. Using this book, you can look up the average sales of companies in each SIC category.

For example, if you plan to open a convenience store, you can find the annual sales, net margin, and lots of other financial information about retail convenience stores. These can be a very useful starting place for your sales estimates. Use them with some caution, however, as your sales will probably fall below those of more established businesses.

There is a national or regional association for almost every industry under the sun. Your public library may have a Directory of Associations in which you can look up the appropriate industry group. These groups are often a wealth of information, some of it free. Call them and explain you are considering going into this field, and ask for any information they may have available. If possible, get their membership list. The members of the association are doing exactly what you want to do, and many of them will be glad to talk to you (with the exception of the ones who will be your local direct competitors). If the association requires that you join in order to get their information, do so. It could be the best money you ever spent.

## HELP WITH MARKET RESEARCH

Note that a local business school or small business development center can help guide you in conducting your own market research. College students may be a good source of labor for conducting telephone or other type of interviews.

### Target Markets

- What are the target markets for this product or service?
- What demographic characteristics do these potential customers have in common?
- How many customers are there in your target market?
- How many units of your product or services is each customer likely to buy monthly?

### Target Markets

Identifying a target market allows you to focus your efforts on marketing to a distinct class of customers. This is also called market segmentation. It is the act of dividing a large potential market into smaller groups, which are more easily approached.

One of the advantages you gain from targeting a particular niche is the ability to respond quickly when customer tastes and needs change. In order to serve your customers, you have to know who they are, where they live, what their behavioral characteristics are.

Describe your target market in terms of:

- Geographic Characteristics. Do your customers live primarily in a certain area or region?
- Demographic Characteristics. (Age, sex, family status, education, income, class, occupation, education; and, if relevant, religion and race.)
- Psychographic Characteristics. (Life style, personality types; attitudes; interests, and buying motives.)

For example, a manufacturer of educational computer games might identify its target market as primarily at-home users, with a secondary market segment of schools. Then the manufacturer would describe each target market in terms of its typical demographics (household income, education, family status, and using

habits). Their description might read something like this: *The typical buyer in our target market is married, living in a two-income household with an average of two children, has a college education, is employed as a professional, and has at least one personal computer at home. They buy our computer games to provide educational, yet fun experiences for their children.*

If you find that you have more than one target market, you should discuss the relative importance of these target market segments. Do the in-home users generate a higher margin than the small businesses? Is the market among small businesses growing faster than that of home users? Will this relative importance change over the next few years?

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*Customers are natural allies, worthy of products that are safe, wholesome and priced fairly.*

**Bill Patrie**

North Dakota Assn. of  
Rural Electric Co-ops

## **Projected Supply**

What is the projected supply in your area of the products or services needed for your proposed business?

This question should be a little easier to answer than the demand questions. Your projected supply is the amount you can obtain of the goods or the amount of the service(s) you can provide, within a given time period. Limitations on this will include your manufacturing capacity, suppliers' ability to provide raw materials to you, and your personnel (how many services can your staff realistically provide in one month?).

Many cooperatives obtain supply information directly from the co-op's potential membership through a survey (surveys are also useful for collecting information about the co-ops potential customers). Please see [Appendix E](#) for information about how to conduct a survey.

## **What About the Competition**

- What competition exists in this market?
- Can you establish a market niche which will enable you to compete effectively with others providing this product or service?
- How much is your competition charging for similar product?

## Competition Analysis

Identify your 3-4 leading competitors and specifically explain why your company will be able to compete effectively with them. Be as realistic and as specific as possible; stay away from generalizations about your competition. Try to find out what market share each one has of the market. Also write up an assessment of their strengths and weaknesses; and how your product or service stacks up against each.

How crowded is the market? If your market is already crowded with competitors, what market share would be available to a new company? If the overall market is growing, then you may be able to capture part of the new market.

*Competitors are not enemies, they do not need to be defeated.  
Alliances are possible with competitors.*

**Bill Patrie**

North Dakota Assn. of  
Rural Electric Co-ops

## Conclusion

Feasibility studies require a lot of hard work, and the market analysis research is the most difficult part of the process. We hope the questions we've identified above and the guidelines for answering them are helpful.

Excerpts from actual feasibility studies are provided in [Appendix F](#).

If the study indicates that your business idea is feasible, the next step is a business plan. The business plan continues the analysis you've begun at a deeper and more complex level, building on the foundation created by the feasibility study.

The following chapter provides an outline of a complete business plan.

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