

### **3.6 FEASIBILITY STUDY**

(A feasibility study is a preliminary study undertaken to determine and document a project's viability. The term feasibility study is also used to refer to the resulting document.) The results of this study are used to make a decision whether or not to proceed with the project. If it indeed leads to a project being approved, it will - before the real work of the proposed project starts - be used to ascertain the likelihood of the project's success. It is an analysis of possible alternative solutions to a problem and a recommendation on the best alternative. It, for example, can decide whether an order processing be carried out by a new system more efficiently than the previous one.

#### **Why Feasibility Study?**

(A feasibility studies main goal is to assess the economic viability of the proposed business. The feasibility study needs to answer the question: "Does the idea make economic sense?") The study should provide a thorough analysis of the business opportunity, including a look at all the possible roadblocks that may stand in the way of the cooperative's success. The outcome of the feasibility study will indicate whether or not to proceed with the proposed venture. If the results of the feasibility study are positive, then the cooperative can proceed to develop a business plan.

(If the results show that the project is not a sound business idea, then the project should not be pursued.) Although it is difficult to accept a feasibility study that shows these results, it is much better to find this out sooner rather than later, when more time and money would have been invested and lost.

It is tempting to overlook the need for a feasibility study. Often, the steering committee may face resistance from potential members on the need to do a feasibility study. Many people will feel that they know the proposed venture is a good idea, so why carry out a costly study just to prove what they already

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know? The feasibility study is important because it forces the NGC to put its ideas on paper and to assess whether or not those ideas are realistic. It also forces the NGC to begin formally evaluating which steps to take next.

The NGC's organizers will typically hire a consultant to conduct the feasibility study. Because the consultant is independent of the cooperative, he or she is in a better position to provide an objective analysis of the proposed venture. The consultant should have a good understanding of the industry as well as the new generation cooperative model of business. He or she should have previous experience in directly related work. To get an estimate of the costs of a feasibility study, prepare a rough outline of the work needed to be done. Contact several consultants and provide them with a copy of this rough draft to see what sort of estimates they give. When the time comes to hire a consultant, prepare a formal request for proposals that outlines the information that is needed and send this to several consultants.

It might be tempting to choose the lowest-cost consultant or a personal acquaintance of one of the NGC's organizers, but always remember that quality work is the most important factor when choosing a consultant. Make sure that the consultant can provide an independent assessment of the business opportunity. For instance, hiring an engineering firm or an equipment manufacturer to conduct market analysis may lead to biased results in favour of proceeding with the venture. Engineering firms and equipment manufacturers may have an incentive to show positive results so they can obtain contracts with the cooperative once it chooses to start up operations. Engineering firms and equipment manufacturers are needed in order to provide information about equipment requirements and costs, but an independent consultant should conduct the overall feasibility study.

A feasibility study should examine three main areas:

- market issues
- technical and organizational requirements
- financial overview)

## Market Issues

(The primary area that the feasibility study needs to address is potential market opportunities for the cooperative.) If an adequate level of demand does not exist for the product and the NGC does not know how to differentiate its product so that it can compete with established industry players, then the proposed venture should not be pursued.

Questions that need to be answered in this area of the feasibility study include :

- What type of industry is the NGC planning to enter? What are its primary features?
  - What are the possible target markets for the NGC's product? What demographic characteristics do they possess? How large are these markets? Where are they located? Is the market expected to grow in the future?
- Will the NGC be competing in a mature industry or a growth industry?
  - Who are the NGC's competitors in this market? How large are these competitors? How established are they? How do they price their goods? How will these competitors react to the entrance of the NGC?

- How will the NGC differentiate its product from those of its competitors? What are the competitors' strengths and weaknesses and how would the NGC compare against them? How does the NGC plan on gaining market share?
- What is the projected market share for the NGC?

Data that can help to answer these questions may be found in already-published information or through primary research activities such as market surveys conducted on behalf of the NGC. Relevant information may be found through various sources such as government statistical publications, trade journals, industry reports, or companies such as Dun & Bradstreet. The Internet has also opened up new routes to obtaining information.

The answers to market-related questions should help the NGC develop realistic estimates of the projected demand for the NGC's product for the first several years of operation. Based on this projected demand, the NGC can determine its anticipated level of business volume, which is needed in order to design the processing facilities. If the projected business volume is not large enough to justify a processing facility, then the project is not feasible.

## ✓ Technological and Organizational Requirements

( This area concerns the internal set-up of the cooperative. Questions to be answered in this area include: )

### Plant and equipment issues

- What type of equipment and technology will the business need to produce its product? (What are the costs involved?) This includes the initial purchase and installation costs of the equipment as well as the operational costs of running the equipment.
- (Who are the potential suppliers of this equipment? Where are they located? (What sort of service and warranties do they provide? ) How long will it take to acquire the equipment and begin operations?
- Based on its projected business volume, how much raw product will be required by the NGC? What are the quality specifications? Will the NGC have a sufficient membership base that can provide the raw materials?
- What are the possible locations for the NGC's facility? (What size of facility is needed?) What are the costs of the building? Does the proposed location have adequate access to infrastructures and services such as major highways, railways, and utilities? Will the NGC build its own facility, or purchase an existing location?
- Where will the facility be located relative to the NGC's customers? Who will be responsible for the transportation of goods between the facility and the market? (What is the transportation costs involved? )

### ✓ Managerial and organizational issues:

- Is the NGC organizational structure the right one for this business? How important are delivery contracts and a fixed source of supply to the success of the business?