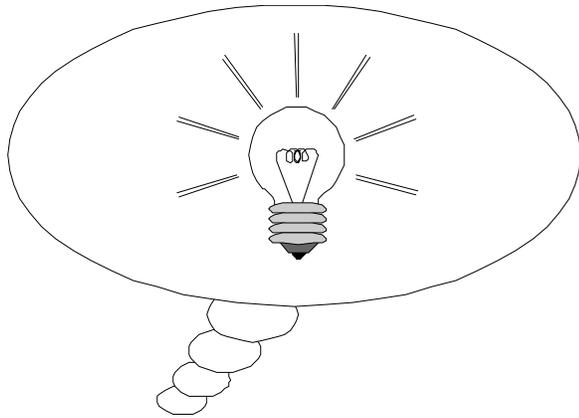


THE FEASIBILITY STUDY :



WILL IT WORK?

**EXPLORING THE POTENTIAL
OF YOUR
NEW OR EXPANDING ENTERPRISE**

A Publication
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Catholic Campaign for Human Development
United States Conference of Catholic Bishops
Community Economic Development Program
Business Development Initiative

THE FEASIBILITY STUDY: WILL IT WORK?

EXPLORING THE POTENTIAL OF YOUR NEW OR EXPANDING ENTERPRISE

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You've got a great idea—but will it work? Every new business deserves a careful analysis of its prospects for survival, *before* time, energy, and capital are invested. This preparatory thinking affords the opportunity to evaluate the likelihood of success and to refine your proposed approach, perhaps deciding to develop a different business, in a different location, or with a different specialty product. You may even determine that the best choice is to *not* start this business at all: a most important finding that represents a more enlightened decision, based on the information gathered, rather than failure.

I. BUSINESS DESCRIPTION

“Every man has the right to work, to a chance to develop his qualities and his personality in the exercise of his profession, to equitable remuneration which will enable him and his family ‘to lead a worthy life on the material, social, cultural and spiritual level’ and to assistance in case of need arising from sickness or age.”

Pope Paul VI, *Octogesima Adveniens* (14), 1971

Product/Service

As an introduction to your feasibility study, begin by fully describing the proposed enterprise under exploration. This description should include the name, type, and size of the business. Further, it should characterize its industry or sector, and the services or products that it will deliver. Finally, it will identify its customer market, both by geographic location and other characteristics.



Construction



Janitorial Services



Home Health Care



Package
Delivery



Catering

EXAMPLES: You are opening a bakery, but what kind will it be, in products and customers?

The **Sweet Shop** is a small retail bakery, specializing in handmade pastry and gourmet dessert items. As a newcomer to the food service industry, the Sweet Shop will primarily serve the walk-in trade of residents and shoppers in the North Berkshire neighborhood.

The **Bread Man** is a high volume, wholesale bakery specializing in whole grain breads and related products; following its experience as a retail bread producer, this expanding food service enterprise will target the additional market of restaurants, institutions (schools and hospitals), and retail outlets (health food and cooperative groceries) across the metropolitan region.

Or you may be thinking of a cleaning service, but there are different markets and services for different types of cleaning operations.

Maid for You is a personal service company providing residential cleaning to a citywide customer base. Offering flexible packages and schedules, the company contracts with busy households for periodic or seasonal cleaning including dusting, vacuuming, kitchen and bath sanitizing, and floor washing.

Acme Cleaning is the largest industrial cleaner in the region, specializing in commercial kitchen and food production sites. Acme provides off-hour (nightly or weekly) cleaning and sanitizing to meet inspection standards of the state and city Departments of Health and serves conventional and fast food restaurants, hospitals, banquet halls, catering firms, and school cafeterias.

Ownership Structure

Most businesses assisted by the Catholic Campaign for Human Development are different from conventional ownership models: they are usually not sole proprietorships or for-profit corporations. Instead, they are community-owned or worker-owned, in a deliberate effort to give employees a direct stake in the future success of their enterprises. This assures that the sharing of future profits includes those who provide the labor, not just those who provide the capital.

As part of the business's feasibility study, the impact of ownership on overall operations and profitability should be explored. The ownership and management structure may provide an advantage or may be completely transparent to customers. In any event, the products and services offered by the business enterprise will still need to compete successfully on the basis of availability, convenience, price and quality.

- Is the business a print shop, a food cooperative, a janitorial company, a caterer, a laundromat, a building construction firm, a barbershop, or lawn maintenance provider [examples only]?
- Is it considered in the wholesale, retail, service, warehousing, or transportation sector?
- Is it part of the agriculture, food service, personal services, building trades, commercial support or other industry?
- Is the business expected to be micro, small, growing, or large in eventual size?
- Is its product hand-made clothing, fresh produce, tarts and scones, or ethnic foods? Is its service children's day care, archival storage, basic banking, landscaping and tree pruning, or commercial janitorial [examples only]?
- Is its market local, regional or national? Is it a limited or unlimited market?
- Do you expect to serve individual customers or other businesses?
- How does the proposed ownership structure make a difference in the products or services you offer?
- How does the ownership structure affect quality quantity timeliness or customer satisfaction?

It is clear that recognition of the proper position of labor and the worker in the production process demands various adaptations in the sphere of the right to ownership of the means of production.

Pope John Paul II
Laborem Exercens (14), 1981

II. INDUSTRY AND MARKET ANALYSIS

The next step is to describe your business's "environment," including its location, its industry, its customers, and its competition. This analysis will help you refine the proposed business and increase its likelihood of success, because it enhances your understanding of the factors that influence your business performance.

The Industry and Business Climate

Describe the overall business climate in your market area, for all businesses, and specifically within your industry. This should include trends for the future in order to evaluate your opportunities in the next year and beyond. In short, you want to be sure that you are offering the right product/service in the right place.

- What are the national, regional and local trends in your industry? And in your location, are other businesses starting, failing, leaving, closing, growing?
- Are prices for raw materials or supplies in your industry rising, falling or static? What about prices that can be charged to customers?
- Are opportunities for your growth and success increasing? Why? Will this change or continue?
- Is yours a tried and true product? Or an experimental venture?
- What are the relative costs of doing business in this location?
- Are taxes higher or lower here than elsewhere nearby? Are there special fees for the commercial district? Do customers have to pay higher sales tax here?



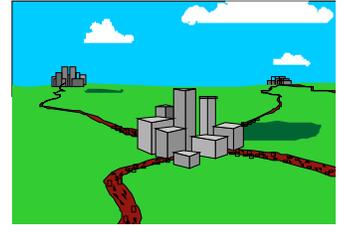
Information Sources

- # Chamber of Commerce
- # Census of Business / Industry
(www.census.gov)
- # Local College/University and their Small Business Development Center (SBDC)
- # Local government (city, county, regional, state) development or financing entities (economic development authorities, housing finance agencies)
- # Local newspaper archives
- # Minority Business Investment Companies (MBICs) and Minority Business Development Centers (MBDCs)
- # Business Associations (such as downtown business owners or a state trade association)



The Market Area

Identify the jurisdictions you serve (states, counties, cities, neighborhoods, census tracts) and create a map showing them within their next larger context (the entire city, county, state, region). Characterize the area's general reputation and level of activity at different times. Perhaps it is a popular tourist area that is busy in the summer but dead in the winter. Perhaps it is a small commercial area in a neighborhood used only by area residents who walk to the stores.



- Where is the business itself located? Is it near its customers? Is it near its employees? Is it near transportation (for your delivery of supplies and customer access) and needed services?
- What are your market boundaries (*where* are your customers)?
- How big or small is the market area? Does this introduce a problem such as how far you can deliver a pizza or how far your customers will drive to visit you?
- How many people live there? Work there? Shop there? Visit there? Travel through there?
- How does your market compare to and relate to its neighbors? Why?
- Are adjacent areas integrated, sharing resources? Is there crossover—people working in one area and living in the other? Or is your market isolated, cut off beyond a mountain, or next to an international boundary?

Information Sources

- # Local street maps, census maps
- # Citywide or regional maps
- # Mapping software
- # U.S. Decennial Census and intermediate projections (Government Printing Office publications, city/county agencies, and www.census.gov)
- # Local government (city, county, regional) planning agencies
- # Local or regional charitable agency coalitions (United Way and others)



Your Customers

Whether your customers are individuals or other businesses, this market research will clarify how your business can best serve them. In any case, you need to be able to identify who your

Know your customers!

customers are, how many there are, what they want (that you can provide), and how you might reach them, especially if they are being served by someone else already. In short, you need to be as certain as possible that there are enough customers out there who want what you are selling and are willing to pay what you are going to charge. Otherwise, your business will not survive.

- Who will buy your product or service?
- How many prospective customers are there in your market?
- What factors influence their purchasing decisions? Quality? Appearance? Price? Lifestyle? Status? Necessity?
- What level of income is required for such a purchase? Or what size business needs the products/services of your business?
- What do your customers need or want? How do you know this?
- How much are they willing or able to pay? How do you know?
- Is the demand (or need) for this product or service likely to increase or decrease in the future?
- How many customers do you need to succeed?



Information Sources

- # Market surveys (ASK your prospective customers directly)
- # Focus groups (group meetings / discussions)
- # Industry publications
- # www.marketingtools.com



The Competition

Prior to embarking upon any business enterprise, it is wise to determine whether your product or service is filling a “gap” in the market, or is going to compete with existing providers. These other providers may have more experience, larger and loyal customer bases, lower costs of production, and lower prices. On the other hand, they may have dissatisfied customers, poor quality products, slow service, and be afraid to try new technology, or just not exist, period. Your feasibility study should examine *their* businesses and *their* customers and determine how to respond.



- Who else in your market area offers the same thing you do? Or anything similar (perhaps cheaper or lower quality, or more expensive, or only to certain people)? List everyone!
- What is their degree of expertise and competence? How well known are they? What is their marketing capability?
- Do they do it better or not as well as you would? How and why? Do they offer a better price? More choices? Longer hours? Quicker response time?
- How well are they doing at their business? Struggling or growing? What is their share of the existing market? Are they retiring or closing soon?
- Who are their current customers? Why might customers switch to you?
- Do they have customers that provide a safety net (like a multi-year contract with the city)? Can you think of any such relationships that will help you weather the ups and downs?
- What do other businesses charge for services or products comparable to yours? Do they have limitations that makes yours a better deal for customers? Are they too far away? Do they have limited services or hours? Are they sold out, full, at or beyond capacity?
- What is special about you—your ownership, your quality service, your pricing? What are the critical factors for success in this business? cost? quality? both? other?



Information Sources

- # Door-to-door, windshield or walking surveys
- # Telephone book
- # Personal contact (mailed surveys, door-to-door interviews)
- # Sample shoppers
- # Focus groups (community group discussions)
- # Talking to neighbors, customers, shoppers, visitors, banks, other businesses
- # Specialized industry publications (contractors, restaurant owners, retailers, etc.)
- # Dun & Bradstreet

III. SALES / EXECUTION STRATEGY

Your sales and delivery strategy includes at least three components. First are your marketing efforts, the continued promotion of your products and services in order to find and create new customers (and help them find you!). Second is the need to monitor your overall performance, how well you deliver what you promise to customers. Quality control and customer satisfaction are essential to keeping the customers you have reached through marketing. Finally, your competitive advantage over other companies in your marketplace will determine, in the long run, whether you survive or not.

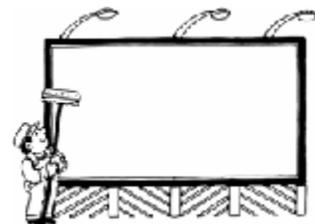


- How will you reach your customers and convince them to buy from you? Who can help you with marketing, advertising, outreach, promotion?
- What will the costs of these sales efforts be? How do low- or no-cost methods (like word-of-mouth) compare in effectiveness to more expensive approaches (such as billboards, radio ads, door-to-door fliers)?
- How can you ensure consistent, timely performance, keeping your promises to customers? Have you arranged for sufficient supplies, staff, and time?
- How will you know if customers are satisfied? Will you ask for references, track referrals, call back to ask directly?
- Who must you rely on (for support, expertise, inventory, supplies) in order to succeed? How can you assure they will be there, and provide what you need?
- Are there skilled personnel available locally in order for you to succeed? Can you find and train the people you need?
- Who will be pleased with your enterprise and support it? Who will be threatened by your efforts and make your success more difficult?
- What is your experience in this business? Where or how can you gather more expertise in producing or delivering your service?



Information Sources

- #Small Business Development Centers
- #local banks
- #community college business programs
- #business trade associations
- #similar businesses in other market areas
- #vendors and contractors to similar businesses
- #retired professionals



V. FINANCIAL PROJECTIONS

Obviously, in order to survive, a business needs to collect more from its customers than it costs to deliver its product or service. These costs include all that you must expend to create and deliver your product or service (such as equipment and furnishings, supplies and inventory, rent and phone calls). A business prices its services to cover *all* of its costs (see categories below) *and* provide a profit—a little extra that helps a business grow, covers unexpected difficulties, and builds the value of the enterprise. Appropriate pricing of your product, as well as your expected volume of customers, determines revenues and profits.

Start-Up Costs

The first step is determining your start-up costs—the amount you’ll spend on one-time-only purchases *before* you can even open your doors or solicit your first customer. Start-up costs may include a delivery truck; equipment (machinery, commercial ovens); furnishings (desks, display cases, baking pans); a telephone, computer and cash register; leasehold improvements for a warehouse or storefront; and legal and incorporation fees. Your initial “investment” of equity or working capital in your business will pay for these start-up items.



Fixed Costs & Overhead

Next, evaluate those expenses your business will incur just having its “doors” open, regardless of whether you produce anything, sell anything, or have any customers. These are your fixed costs, sometimes called overhead. Fixed costs may include: rent, utilities, property and liability insurance, advertising, and employee training.



If you do not have sufficient equity or working capital to cover your start-up costs and fixed costs for the first few months, you may need to get a loan: financing from a bank or special program that offers small business credit. The interest and loan fees also become part of your overhead.

In addition, some of the start-up costs discussed previously are not just one-time-only expenses. That delivery truck will wear out and that cash register will become obsolete, and both will need to be replaced eventually (sooner rather than later if they're purchased used). When figuring your fixed expenses, be sure to include depreciation on those assets to account for their eventual replacement.

Product/Service Pricing (Variable Costs)

Finally, you should establish a price for your product or service based on your costs: the direct cost of production, and your fixed or overhead expenses. Direct production costs include raw materials and supplies, labor, and personnel expenses (including payroll taxes). Then, add enough to help cover your overhead and a little more for a profit.



$$\text{Raw Material} + \text{Labor} + \text{Overhead} + \text{Profit} = \text{Price}$$

- How much will you need to pay for business space and its associated expenses (like utilities, insurance, janitorial services)?
- What will it cost for equipment, supplies, inventory, transportation?
- Do you have equity—money of your own—to invest and pay for these expenses?
- How many people will you hire or employ? And at what pay scale (have you determined what other employers of similar people offer)?
- What will it cost for initial and continuing training? How often will you have to replace an employee, and retrain a new one?
- What will you charge for each “unit” of sales: each hour of labor, each item sold, each service provided? Do you offer volume discounts, long-term contract discounts? Have you compared your prices to the competition?

Cash Flow: Break Even?

The basic components of cash flow are expenses and income. Expenses flow *out* and income flows *in* as your business operates, but not always with income outpacing expenses during each time period. If expenses will be greater than income for any period, you may need to borrow money to cover the difference.



For example, you may need to pay your employees each week but your biggest customers don't pay *you* until thirty days after they've been invoiced for a month of services. As a new business, your suppliers may require prepayment for materials, while you will not receive income from those items until they have been sold to a customer, which may be months from now. Rent must be paid monthly, but some of your customers will delay payments to you for 90 days or more. And, of course, you likely had to purchase equipment, inventory and other costly items just to open your doors. That inventory does not generate revenue until it is sold to a customer.

Working capital is the money used to cover *outbound* cash flows not covered by *inbound* revenues—and a shortage of working capital can cause serious problems with business startups, expansions, and general survival. Projecting cash flows can help you determine your need for working capital and, perhaps, your need for a working capital loan, or a loan secured by equipment or inventory. Cash flows for an entire operating period (typically a full year) ideally should “break even” or be positive, with more money having flowed in than out, including any cost of borrowing. Determining actual profit, of course, requires a balance sheet to account for assets and liabilities, as well as revenues and expenses. Determining actual profit may, in fact, require the assistance of a professional experienced in this type of analysis.



- How many do you have to sell in order to cover your costs to break even during operations?
- How many do you have to sell to make a profit? How many do you have to sell to be able to grow?
- How many customers do you expect each week, month, quarter?
- How much "profit" can you net from each sale?
- Will you have to pay your suppliers, or your staff, before you receive payment from your customers? How will you cover this potentially negative cash flow?
- Do you have working capital to start? Will you need to borrow money to start or expand this business?
- What will it cost (interest rates and fees) to borrow funds? Are you sufficiently creditworthy to borrow?

Sample Cash Flow Projection						
	Start-Up	Month 1	Month 2	Month 3		Month 12
Cash on Hand	\$5,000	\$0	\$0	\$3,400		\$15,800
+ Cash Receipts	0	0	6,000	6,000		9,000
+ Loan Draws	4,000	2,600	0	0		0
Total Cash	\$9,000	\$2,600	\$6,000	\$9,400		\$24,800
- Production/ Supplies	8,000	0	0	1,000		1,000
- Payroll	0	1,200	1,200	1,200		1,800
- Overhead	1,000	1,000	1,000	1,000		1,000
- Loan Payments	0	400	400	400		0
Balance	\$0	\$0	\$3,400	\$5,800		\$21,000

V. GO? OR NO GO?

Now that you have researched and analyzed all the facts related to your business and its potential for success, it's time to make a decision: Is it a "Go" or a "No Go?"



It is useful to remember that it can be extremely valuable to determine at this point that the business as planned *isn't* viable. The purpose of the feasibility study was, of course, to prevent costly mistakes, and you may have just prevented one.



Business is neither a game nor a gamble, but does have inherent risks. At risk is our time, our reputations, our money, other people's money, and other people's lives (their jobs, businesses, quality of life). Our smartest choice is to become informed, so that we make an educated choice about that risk.

- What is your likelihood of success at this venture?
- What is the potential cost of failure?
- What modifications should be made in the original idea?

For businesses being created by nonprofit organizations...

- What is the likelihood that this business enterprise will help further your overall mission? Or is it a distraction that could damage your other program efforts?
- Will it indeed create jobs? Or provide a critical service in your community? Will it make a necessary product (like heating fuel) more affordable?
- Will it bring other businesses into the neighborhood? Or support your other "community development" projects? Or improve the quality of life for low income people here?

The Final Feasibility Test

Would you invest your own savings in this business?

Would you make a loan to this business?

"Finally, development must not be understood solely in economic terms, but in a way that is fully human. It is not only a question of raising all people to the level currently enjoyed by the richest countries, but rather of building up a more decent life through united labor, of concretely enhancing every individual's dignity and creativity, as well as his capacity to respond to his personal vocation, and thus to God's call."

Pope John Paul II, *Centesimus Annus* (29). 1991