

Understanding the Proof of Business Concept

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1.0 FEASIBILITY STUDIES VERSUS BUSINESS PLANS

Be sure you know what you want and what to expect when pursuing a new venture, business or project. A lot of time, resources and money can be saved in knowing what to do and the order in which to do it. A good rule of thumb is to never commission a business plan until a feasibility study has been completed first. A proof of business concept, also known as a feasibility study, is normally less than 20% of the cost of a business plan and although a feasibility study will not be anywhere close to the in-depth “nuts and bolts” view of a business plan, it will do exactly what the name implies. It will show if a project is feasible before any other steps are taken or major financial burden is incurred. There are very big differences between a feasibility study and a business plan.

1.1 Feasibility Studies

A feasibility study is designed to discover if a business or project is “feasible” or if it is not: *(In short, does the business or project warrant further investment of time, money and further study or is it a non-starter).* A feasibility study is a relatively inexpensive way to safeguard any wastage of further investment *(will it work or won't it)*. If a project is seen to be feasible from the results of the study, the next logical step is to commission a full business plan. Will the investment made in the feasibility study itself then be wasted? No. Because the research and information uncovered in the study will be of good use in the business planning stage and will also reduce the research time and therefore the cost of the business plan. On the other hand a business plan is designed to “plan” in advance how a business or project will be started, implemented and managed. Business plans are commissioned for one of three reasons: Reorganisation, investment/funding or a management blueprint for operation.

People never plan to fail, people only fail to plan! FEASIBILITY STUDIES demonstrate to a prospective project owner or investor that a given concept is financially viable and whether further study and/or a business plan is warranted. For a feasibility study, basic data is obtained through a series of queries, questions and meetings, wherein the client provides some of the research and other data and facts need to be gained from a variety of sources. The typical feasibility study contains, among other items, notes on financial projections, a general description of the business, general details describing how the company / project will be formed, managed and marketed, statements concerning the competition and a cash-flow projection based on averages. Further notes can be included as to general details of the project and revelations found during the research stage. The study will normally be completed quickly and in very general format compared to that of a business plan.

A feasibility study should answer five questions.

1. *Will it work or not?*
2. *Is it profitable or not?*
3. *What will it basically cost to fund or start?*
4. *Is it worth doing?*
5. *Is it worth commissioning a business plan?*

1.2 Business Plans

A business plan is a detailed road map for building a given company. A business plan contains all that the feasibility study has plus specific time-lines, detailed budgets with forecasts, letters of intent, resumes of staff, background, competition, strengths and weaknesses, work sheets (with full supporting references and notations) and appendices. Appendices should include copies of all documentation in relation to key analyses as well as plans that together represent the road map for company development.

A well-written business plan will show exactly what revenues can be expected and when to expect them, what overheads and expenses will need to be paid and exactly when they will be due. It will also show staffing levels and salaries along with costs of employment, sales levels with monthly and seasonal trends, setup costs, building/office costs, utility and telephone costs, legal, insurance and accounting costs, office furniture and supplies costs and a myriad of other costs and projections. However, while these costs and revenues form an important part of the required picture, a business plan will also need to demonstrate that all required plans are completed.

As such a business plan will feature information central to establishing a high degree of certainty in effective operation. Sections on demographics, sales and sales methods, objectives, expansion plans, contingency exercises, product/services market introductions, regulatory requirements, laws of City, State and Federal governments relating to the business or project and much more should be included. A well-written business plan can help maximize potential and minimize overheads, liabilities and risk associated with any project. People never plan to fail, they only fail to plan! **A feasibility study (proof of business concept) and a business plan are totally separate documents and each does a very specific job.** The costs associated with each are also completely different.

However a business plan may be developed that has as a component which includes key features and evidence supporting proof of the business concept.

2.0 DEVELOPING A SMALL & MEDIUM ENTERPRISE FEASIBILITY STUDY

A SME feasibility study (proof of business concept) is a formalised, written approach to evaluating your business idea. It should;

- Show you what facts and figures are needed to aid decision-making.
- Show whether or not your idea is viable.
- Allow you to discover and look at alternative approaches and solutions to putting your idea into practice.

The Study should be written by you, for you, in language and in terms you can relate to about your business idea. It should include the following content.

2.1 The Business Idea

How would you describe your business idea? What is it? Will it work? How is it different from existing businesses? Who will buy from you? Can you put your idea on paper?

It is not enough simply to say "A Service business" or "A coffee shop". Paint a picture of your business idea in words so that anyone reading this description knows exactly what you are talking about. To start your Feasibility Study - start with your business idea, on paper. Discuss it with others and adjust it as you obtain more information and ideas.

2.2 Profiles - Key People

It is not enough to have a good idea - you need people who can implement it. Who are they? Are they you, your partners, your family or any one else? Once you have identified these people you need to determine your/their skills and strengths and whether they help or hinder in the proposed venture?

Create a one-page resume of each key person. This is not merely a job history, but a picture of each key person, showing pertinent strengths, skills, experience, training and qualifications. It will reveal to you and any potential lender, supplier, partners or agent, the operational/management strengths (and weaknesses) of you and your team. It will also show you the need to acquire any missing skills you can identify.

2.3 Personal Objectives

Why do you want to go into business? Answer - To create wealth!

Remember: business is principally a means of allowing people to achieve the things they want in their private life, like a home, cars, holidays and a good lifestyle. You need to set personal objectives. Do you know what you want in your private life? Consider Short Term - say up to one year; Medium Term - one to three years; Long term - greater than three years.

You need to sort out life objectives and ensure that the business will not only assist you in generating wealth but also facilitate your life style.

2.4 The Market

Customers: You cannot sell to everyone. So, who are your potential customers? Make a List. Why will they buy from you?

Identify your Market Segments or groups: What knowledge do you have of your market segments or groups? How many are there? What will they buy? How often will they buy? What will be their average purchase?

Products & Services: Create a list showing the products / services you will be offering to each segment. Also look at how long it will take you to produce or procure them. Determine how much it will cost to buy or produce them and how much you can sell them for. **Suppliers:** Identify preferred and alternative suppliers on a list and show products /services / prices on this list. Collect catalogues and brochures to assist this study.

Competition: List your competitors and show their perceived strengths and weaknesses. For each main competitor, list two good points and two bad points. You need to understand why they are competition to your proposed business. Ask the Question: How can you attract their customers from them? Price is not the only answer.

Map: Obtain a map and on it define your market boundaries, location, competitors, suppliers, and demographic information on your market.

2.5 Your Business Overview

Location - Your site, is it rented, owned, or at home? Why locate there? What are the advantages and disadvantages?

3.0 *FUNCTION OF A FEASIBILITY PLAN – PROOF OF BUSINESS CONCEPT*

Feasibility plans help entrepreneurs - and their investors - judge whether a business concept is credible. The process of preparing a feasibility plan is a testing process - a validation process to determine what could go wrong and what needs to go right for an enterprise to root and grow. Preparing a feasibility plan requires a tremendous amount of research and thinking, which often lead to significant changes in the original idea. The good news is that the stronger the feasibility plan the easier the business plan is to write and the more likely it is that your business will receive financial support and succeed.

3.1 Feasibility Plan Narrative

The feasibility plan is not a formal document but it can be considered a structured formal commercial report. It is your first reality check. (The marketplace will be the real check.) As such, the plan should be very carefully thought through, extraordinarily well documented and clearly

written. A feasibility study (proof of business concept) can exist in its own right or be in part of whole a supporting document (appendix) for the formal business plan. Within a formal business plan many decisions or business models will be used and the justification for those actions must be clearly demonstrated and this is often achieved by being able to reference to findings of the original business concept feasibility study

A feasibility plan should at least touch on most issues included in the final business plan. The feasibility plan the focus is on getting the design right and testing its coherence, rather than on convincing investors and other partners to extend their support. Often the feasibility study's validity is demonstrated through a cost benefit analysis. A cost - benefit analysis is a relatively simple and widely used technique for deciding whether a business model or decision is financially viable. As its name suggests, to use the technique simply add up the value of the benefits of a course of action, and subtract the costs associated with it.

Accordingly, clarity and factual evidence are more important for the feasibility plan than a convincing business presentation.

4.0 FEASIBILITY STUDY (PROOF OF BUSINESS CONCEPT) OUTLINE

- Executive Summary
- Product or Service
- Technology
- Market Environment
- Competition
- Industry
- Business Model
- Marketing and Sales Strategy
- Production/Operating Requirements
- Management and Personnel Requirements
- Intellectual Property
- Regulations/Environmental Issues
- Critical Risk Factors
- Timing Considerations
- Financial Projections
 - Balance Sheet Projections
 - Income Statement Projections
 - Cash Flow Projections
 - Break-even Analysis
 - Cost Benefit Analysis
- Capital Requirements & Strategy
- Final Recommendation

4.1 Executive Summary

The Executive Summary is a summary of all key sections of the feasibility plan and should work as a separate, stand-alone document. Interested parties will read this section first, and often use this in conjunction with a glance at the financial section when deciding whether or not they read the rest of the plan. Key points to remember include.

- Write this document after the feasibility plan is completed.
- While the executive summary is written last, it is presented first.
- The executive summary should be no more than one page long.

4.2 Product/Service

- Describe the company's product or service in lay terms. Give product mix if the company will initially be focusing on more than one product.
- Describe how customers would use and buy the product or service. Give enough detail to help the reader judge the effectiveness of your marketing and positioning plans.
- Describe key components or raw materials that will be used in the product, how the company will source these and how available they are.
- Describe plans to test the product to ensure it works as planned and is sufficiently durable, rugged, secure, etc.(i.e. consumer product test, beta test with major company, etc.).
- Describe plans to upgrade product or expand product line.

4.3 Technology

- As necessary, provide further technical information about the product or service.
- Describe additional or ongoing research and development needs.
- Keep the description in lay terms and/or explain technical terms enough to be understood by business-savvy but not necessarily technology-savvy readers.

4.4 Market Environment

Target Market:

- Define and describe the target market(s). Distinguish between end users and customers.
- Be clear how end users and customers benefit, and how and why they would buy the product or service.

- What is the unmet need(s) your product or services fulfill so beautifully? And how big is the opportunity?

For *business-to-business* markets, include:

- The industry the target market is in, key players, frequency of product purchase, replacement needs vs. expansion, purchasing process (i.e. solicits bids, uses preferred vendor lists, goes through committee or multi-level approval process, etc.), likely length of the sales cycle.
- Estimates of market size, initial targeted geographic area, company's targeted market share.

For *business-to-consumer* markets, include:

- Demographic factors, such as income level, age range, gender, educational level, ethnicity.
- Psychographic factors.
- Relevant behavioral factors such as frequency of product purchase and shopping behaviour.

4.5 Competition

- Describe direct and indirect competition (as it pertains to the target markets only).
- For key competitors, give market share, resources, product and market focus, goals, strategies, strengths and weaknesses.
- List all key barriers to entry.
- Describe what is unique about the company's product/service compared to the competition. Make sure this is consistent with the unmet need of the target market(s).
- State how difficult it will be for competitors to copy the company's product/service.
- Describe how competitors will most likely react to the company's product launch and the company's response strategy. Include estimates of the time it might take a competitor to copy your product or service.

4.6 Industry

- Clearly define and describe the industry in which the company operates. Include the size, growth rate, and outlook. Define key industry segments and state where company fits in.
- Describe demand and supply factors and trends.

- Describe the larger forces that drive the market - innovation, cultural change, regulation, whatever.

4.7 Business Model

- Describe the company's business model. How will the company generate revenue (i.e. sell the product; charge licensing, subscription or advertising fees; earn commissions from e-commerce; etc.)? Will there be recurring revenue?
- Describe the model in enough detail to support financial projections presented later.

4.8 Marketing and Sales Strategy

- Lay out the basic marketing and sales strategies.
- Discuss any strategic partnership the company has or is planning to form. Do they provide critical market access or other resources? What are their rights and responsibilities?
- Describe the distribution strategy (sell direct to customers through sales force, direct mail, or Internet; sell through manufacturers' representatives, wholesalers, distributors, or retailers). Provide typical profit margin or markup expectations, commissions, and other expected compensation (co-op advertising, slotting fees, etc.)
- Describe the pricing strategy and justification. Include the expected gross profit margins.
- Describe typical payment terms for customers.
 - Customers: 60 days from invoice.
 - Vendors: 30 days from invoice.
- Other issues and their impact - e.g., warranties.
- Quantify the marketing budget for at least the first year.

4.9 Production/Operating Requirements

- Describe enough of how and where the company will manufacture, source or create and deliver the final product or service to be able to estimate costs.
 - For example, if production and storage will be in-house:
 - Give location, size, age, condition, and capacity of planned production and warehouse facilities and number of shifts planned.
 - Will space be owned or lease? Will renovations be required? At what cost?
 - How complex is the manufacturing process? Describe equipment needed and costs.

- If company will outsource production or distribute others' materials:
 - Describe supply sources. Are sources of supply readily available?
 - Outline the relevant contract terms, manufacturer's capacity, minimum order and tooling requirements, reputation, size or financial condition.
 - Describe the company's plan to protect its proprietary processes and trade secrets and to maintain quality control.
- If company is providing a service:
 - How will the service be designed? Delivered? Monitored and improved?
 - What partners will the company use? What will be the terms of the contract? Are there substitute partners?

4.10 Management and Personnel

- List the proposed key managers, titles, responsibilities, relevant background, experience, skills, costs.
- Sketch personnel requirements: what people will be needed now, in a year, in two years? Including skills and qualifications required and financial implications.

4.11 Intellectual Property

- Briefly describe patents, copyrights, and trademarks obtained and in process. Give all names that are on issued patents; summarize results of patent searches.
- If company is operating under a licensing agreement or patent assignment, give name of licensor/assignor, describe key terms (i.e. exclusivity, rights, responsibilities), and give termination or renewal date.
- If the business concept is a science (research orientated) business, the intellectual property is extremely important. The protocols in managing them, particularly at the initial planning stage are critical. For example, if a researcher has published their research findings in an industry journal or on the internet prior to ensuring intellectual ownership through copyright or patent, then the knowledge is considered in the open domain and therefore can not be considered restricted.
- Often business planning associated with intellectual property must occur prior to a business (science – research) concept being developed and validated so that the strength and ownership of the findings can be assured.

4.12 Regulations/Environmental Issues

Outline non-economic forces that might affect the prospects of the firm:

- Key government regulations and the company's plans for compliance.
- Any environmental problems on property, plans to address the problems, and cost.
- Waste disposal plans, if needed.
- Political stability, if applicable.
- Any other regulatory or political issues.

4.13 Critical Risk Factors

Describe critical risks faced by the firm (currently or in the future). Examples include internal characteristics, uniqueness, investment, external characteristics, sales growth, product availability, customer availability, technical obsolescence, etc. Be sure to describe how you will mitigate each risk.

4.14 Timing Considerations

Sketch the major events in life of venture by listing the timetable/deadlines for completion of phases of venture. Be sure to demonstrate the relationship of events and to keep the milestones, financial requirements, personnel requirements, etc consistent.

4.15 Financial Projections

Include a narrative highlighting key underlying assumptions and the logic governing your projections. Include financial history, if any (e.g. equity and debt), and likely financing stages, including information about funding sources and uses. Provide a page or two of footnotes for each financial spreadsheet attached explaining the assumptions behind each major line item. Some core components of this part of the report are listed below.

- Balance Sheet Projections
 - Three years, if possible.
 - Highlight inflows of capital.
- Income Statement Projections
 - Year 1: Monthly or quarterly.
 - Years 2 and 3: Annually
- Cash Flow Projections
 - Year 1: Monthly or quarterly.
 - Years 2 and 3: Annually
- Break-even Analysis

- When will the firm begin to turn a profit?
- Cost Benefit Analysis
 - Will the business provide a viable return on investment for the owner and/or the investors

4.16 Capital Requirements & Strategy

- How much equity will the firm need, and when?
- What sources might you tap?
- When will investors begin to see a return and at what rate?

4.17 Final Recommendation

Recommendations from the feasibility study regarding the viability of putting the business idea into practice should be honest, short and direct.

These recommendations are not usually a straight "yes" or "no", but rather "Yes, if" Or - "No, unless"

Possible Recommendation – “The proposed business of intensive farming of tuna within inland salt affected areas of the Great Southern region of Western Australia is a viable business concept, but has a number of significant limitations that will need to be mitigated within the formal business planning process.”

You use the feasibility study to consolidate an argument based on factual evidence and analysis to help justify your decision in relation to the core question:

"Will this business concept be viable?"

5.0 SOURCES OF HELP

To write your Feasibility Study, you need to go to others for help and information. Look at history to demonstrate the best approach or business model. Suggested sources are:

- **Business Enterprise Centres** - Information, business counselling, training workshops, research facilities, back up and support facilities, networking and publications.
- **Accountant** - Advise on all financial issues, assist in feasibility study, legal structure suggestions, assist in funding estimates, sourcing and applications, check books if buying an existing business.
- **Solicitor** - Contracts, leases, legal representation.
- **Bank** - Finance, information and support, leasing, advice on contracts, specialist services.
- **Business Advisers/Consultants** - Someone to talk to, specialist advice, mentoring, negotiations, training, back-up.
- **Trade Associations** - Membership and support, group deals, training, advice, research, industrial relations expertise, and networking.
- **Potential Suppliers** - Information, back up, promotional support, training, etc.
- **Sources Of Information** - Own Research, Government Departments, Information and publications available from many Departments including the Australian Bureau of Statistics - Local Council, Demographic reports, publications, studies, future plans for development
- **Competitors** - Check out your competition, their location, layout, advertising and service. This can be a great source for ideas – what are they doing right or wrong?

**REMEMBER THAT A FEASIBILITY STUDY WILL OFTEN
ACT AS A SUPPORTING DOCUMENT (FOUNDATION) FOR A
FORMAL BUSINESS PLAN**