



TenStep Supplemental Paper

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Feasibility Plans

What is a Feasibility Plan?

A feasibility plan presents the entrepreneur's business idea/venture to a prospective investor. It can also be used when a new project proposal is being presented to the management. A good feasibility plan tells the story of the business idea and the prospects that it holds for the company. It also projects to the investor the nature of tangible and intangible resources that are required to take the idea forward.

The Template for a Feasibility Plan

Executive Summary:

This is akin to a picture postcard of the entire proposal. The executive summary encapsulates the content of the entire feasibility study. The way this section is presented has a lot to do with whether the reader is going to take the venture seriously or not. The important element in the executive summary is explaining in a succinct manner the true purpose of the firm. Very often, this description is left hanging or is superficial.

Defining the Enterprise/Venture

- When was the company formed?
- Who is the owner?
- What sort of a company is it? (JV, Proprietorship, Family owned, etc.)
- What makes the business unique?

Product Description

- A description of the product or service that will be provided to consumers in terms of quality, customer value and pricing.
- What differentiates the product from those already available
- IPRs that the company possesses (if any)
- The current state / stage of product development

Market Description

- Quantitative and Qualitative estimates of the market size
- Forecasts and projections of market growth

The Entrepreneurial Team

A description of the expertise and skills of the management team

Cost and Financial Estimates

- A financial summary of the history of the company

TenStep Supplemental Paper

- Projections of cash flows, expenditure and estimated profits/losses over the next 3-5 year period.

When writing the business plan, the entrepreneur must ensure that goals are not stretched and over-optimistic. The quality of the plan is the first thing that is judged by most investors; therefore, resources have to be dedicated to preparing the plan. It cannot and should not be done hastily.

Investing Right

The way an entrepreneur invests and ploughs resources back into his establishment contributes to a sustaining competitive advantage. Investments into the firm fall under the following broad categories:

1. **Replacement and Modernization** - Investments that are made in plant and machinery with the intention of sustaining or even improving the current levels of production fall within this category. Investments made in replacing old machines or upgrading the quality of production are classic examples.
2. **Capacity Expansion** - If the product has a strong presence in the market and market size is projected to increase, SMEs can exercise the option to invest in the expansion of production capacities. Such investments can leverage existing competencies, such as expertise and technical know-how. Any upgradation in capacity can also lend itself to increased economies of scale.
3. **Vertical Integration** - Integration is of two types - backward integration and forward integration. Backward integration involves manufacturing the raw materials required for the product instead of sourcing it from a supplier. Forward integration is when a supplier of raw material starts manufacturing the finished product. Investments made in integration, besides adding a competitive advantage, also shrink the supply chain (consequently reducing costs).

Concentric Diversification

A soap manufacturer diversifying into the production of detergents is a good example of this form of investment. Expanding the product range when an opportunity presents itself allows an enterprise to leverage its existing supply chain, technical know-how and image to enter a new market. For many SMEs, this has proved to be a reliable route for expansion

Divestment

When an enterprise has multiple manufacturing units, not all of them may be profitable. If an entrepreneur sees a unit as being too expensive to operate, and as a loss in the long run, he can either sell the unit or close down operations. If the unit does not find a place in the future plans of the company, divestment is seen as an ideal option.

Summary

Based on the direction that the entrepreneur seeks to give to the company, he can opt for one or more of the above investment strategies. It needs to be reiterated that the decision



TenStep Supplemental Paper

has to take into consideration market projections and the optimum use of financial resources.