When to Do and How to Use a Feasibility Study

Ag Decision Maker
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Growth and recognition of project management have changed significantly in the last few years. With that outlook, comes the need for a feasibility study.

The feasibility study investigates the viability of a potential business venture, namely: (a) is the project worth the investment; or (b) is the project not doable, because it won't show profits, or requires too many resources that prevent an organization from using elsewhere. In recent years, it has become increasingly common to conduct a preliminary feasibility study in front of a full trial.

Conducting a feasibility study is always beneficial to the project, as it gives a clearer picture of the proposed project. For instance, some of key benefits from conducting a feasibility study are:

- Improves project team focus
- Identifies new opportunities
- Provides valuable information for the "go/no go" decision
- Narrows the business alternatives
- Identifies the valid reason(s) to undertake the project
- Enhances the success rate through evaluating multiple parameters
- Aids decision-making on the project
- Identifies reasons to not proceed

Answering the following questions will help guide you through a feasibility study process. By using these as a guide, it will help you move through the process efficiently while helping you get the most out of the analysis. *Information File C5-65*, [What is a Feasibility Study](www.extension.iastate.edu/agdm/wholefarm/pdf/c5-65.pdf), www.extension.iastate.edu/agdm/wholefarm/pdf/c5-65.pdf, helps you understanding the concept of a feasibility study and how it is used in the business development process. *Information File C5-66*, [Feasibility Study Outline](www.extension.iastate.edu/agdm/wholefarm/pdf/c5-66.pdf), www.extension.iastate.edu/agdm/wholefarm/pdf/c5-66.pdf, provides you with a framework for creating your feasibility analysis. You also need to understand how a feasibility study fits into the overall business development process.

Likely to succeed?

The term "feasible" describes an action or event that has uncertainty risks, e.g. probable, likely, possible, etc. A feasibility study is the total of the actions - specific, focused. A feasibility study is an investigative tool and is not the same as a business plan, though a well-done business plan (the call to action) should include many answers from the feasibility study.

The feasibility study is an in-depth process to determine factors that will lead to a project's success or failure and addresses:

- Technical feasibility
- Legal
- Operational feasibility
- Realistic project timeline
- Economic feasibility

When to do a study?

The importance of a feasibility study is based upon the organization's desire to "get it right," before committing business resources, time and budget. A feasibility study might uncover new ideas that may completely change a project's scope. The decision to conduct a feasibility study should not be taken lightly. It is an expensive and time consuming process. However, not doing a feasibility analysis can be even more expensive in terms of the poor decisions you may make from not conducting the proper analysis. To help you understand when to conduct a feasibility study, you may want to review *Information File C5-02*, [Idea Assessment and Business Development Process](www.extension.iastate.edu/agdm/wholefarm/pdf/c5-02.pdf), www.extension.iastate.edu/agdm/wholefarm/pdf/c5-02.pdf.

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You need to be far enough along in the deliberation process of your business idea to make the best use of a feasibility study. You need to have a clearly defined outline of one or more alternative business models or scenarios that you want to explore. And you want to have conducted sufficient initial investigation of these alternatives to determine if they have the potential of being viable. You don't want to spend your feasibility money investigating ideas that you can determine are not feasible by just making a few phone calls.

This means that you will need to have already done much of the early investigation and exploration of your business idea before you schedule a full-blown study. This early investigation or pre-feasibility analysis can be done by members of your committee or with the help of a consultant. You may start by doing a marketing study to determine if the business idea has market viability. If it does not, you have saved time and money by not commissioning a comprehensive feasibility study. If the idea has market viability, you can move forward with the feasibility analysis and use the market analysis in the feasibility study.

Who will conduct the analysis?

If you plan to do a feasibility study, you will want to strongly consider hiring a consultant to conduct the study. Names of business consultants are contained in the AgMRC Value-Added Directory of Consultants and Service Providers, www.agmrc.org/directories-state-resources/agmrc-directories. This directory only provides you with the names of consultants. You are responsible for choosing the proper consultant to fit your needs. Time and money spent in choosing and using a good consultant is an important investment that will pay dividends later. For help in choosing which consultant to hire, refer to *Information File C5-60*, Selecting a Consultant, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-60.pdf.

The cost of a feasibility study can vary greatly depending on the depth and breadth of the study. A high quality, in-depth study can cost as much as $100,000, although the cost is usually significantly less. When selecting a consultant for a feasibility study, it is often recommended that you send a Request for Proposals (RFP) to prospective consultants, outlining what you want done. A consultant can respond to an RFP by describing how the study will be conducted, what questions will be answered by the study, a time-line for completing the analysis and how much it will cost. When selecting a consultant from among those responding to the RFP, first identify which ones provide the type and quality of answers needed to adequately assess your business idea. Then select the consultant who can provide the required analysis for the least cost.

Consultants often feel pressured to tell you what you want to hear. Farm groups usually are excited about a business prospect and, without realizing it, indirectly influence the consultant to tell them what they want to hear – "the proposal is a good idea." So, communicate to the consultant that you want an accurate assessment of the feasibility of the venture.

As part of the feasibility study, some projects also require the following constraints to be analyzed:

- Internal project: technology, budget, resources
- Internal corporate: operating, financial, marketing
- External: logistics, environment, law or regulations

How will you monitor the progress of the study?

Hiring a consultant does not negate your responsibility for ensuring that the feasibility study is conducted properly. You need to be engaged in the project and the evaluation process, understand the issues involved, question the basic assumptions used in the study, and challenge the conclusions of the study.

A project committee or a small group of members can to be selected to work with the consultant. They function as the liaison between the consultant and the organization to ensure that the study progresses, consistent with the project's objectives. To adequately perform these duties, they must have a thorough understanding of the project. They must also understand the purpose of the study and be knowledgeable of the provisions of the consulting contract. The project committee will:

- Represent the project needs and interests to the consultant.
- Review and clarify what is needed from the consultant.
- Monitor the work of the consultant.
- Provide periodic reports to the project committee.

How to accept or reject the study?

The day of reckoning is when it is time to evaluate everything that has been uncovered, compile a list and present it to the relevant stakeholders that addresses all feasibility questions.

The consultant will provide the committee with a draft of a final report. Before you start discussing the conclusions of the study and what impact they have on the viability of your project, you must first review the study to determine if it is accurate, relevant and complete. It is not uncommon for the project committee to reject the draft of the report and ask for further clarification and analysis.

The study is only as strong as its weakest part. It takes a mistake in only one part of the study to sink the business venture. So, before you accept the study results you should determine that it:

- Is understandable and easy to read
- Addresses all of the relevant issues and questions
- Lists and discusses all of the underlying assumptions of the project analysis
- Meets the expectations of the project committee
- Is logically consistent within sections and among sections
- Is thoroughly researched using good research techniques
- Contains all of the relevant information
- Meets the conditions of the consulting contract

It is important that you meet this "due diligence" requirement because investors and others may question your procedures and decisions during this period if the business venture eventually fails. You may want to discuss this with your attorney to make sure the proper safeguards are in place.

How to use the study results?

Once the stakeholders give the green light, the execution phase begins. The purpose of the feasibility study is to provide you with the information needed to determine if the proposed business venture is viable. However, it will probably not provide you with a magic answer.

Carefully assess the conclusions of the study and decide if the proposed business venture has sufficient merit to move forward.

If ever there is a time for unemotional, rational and logical thinking, it is now. Mistakes at this step may be with you for a long time. Common mistakes made by groups at this stage are:

1. The committee members have already made up their minds and rationalize the study results to fit their decision.
2. Because project committee members tend to be action oriented rather than deliberators, they become restless to move forward with the project and gloss over important aspects of the study.
3. Because of the importance of the decision and the lack of clear direction from the feasibility analysis, committee members find they cannot bring themselves to make a decision. Rather, they continually seek more information.

4. The committee members become confused by the array of information presented to them and pressure their consultants and others to give definitive answers of whether to move forward with the project. When committee members respond to questions pertaining to why they moved forward with a project by replying, “our consultants said it would work,” are abdicating their decision-making responsibility.

For more information on feasibility and business plans, visit the Ag Decision Maker website, www.extension.iastate.edu/agdm/vdstart.html.

Note: this publication is for informational purposes only, the authors do not conduct or assist with feasibility studies.

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