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## Starting a Business: Feasibility Analysis

While there is no guarantee that a business idea will succeed, it is possible to assess whether a business idea is feasible.

Assessing the feasibility of your idea involves looking at the financial side of the business as well as considering aspects such as your market and competitors, location and premises, staffing requirements and legal issues. This analysis can form the basis of a feasibility study or report.

### What is a Feasibility Analysis?

Before committing money and time to a new product or service, a feasibility study is conducted to make a detailed assessment of how the idea can be successfully and profitably carried out. This investigation is a preliminary way of determining if a business idea is capable of being achieved, and can include an analysis of all possible solutions to a problem and a recommendation on the best solution to use.

A feasibility assessment is an aid to business decision making. It is the starting point in evaluating a business idea. Whether you are intending to start a new business, big or small, or you are already operating a business and are looking at avenues for growth or changes in your business operations, a feasibility assessment will help you to assess the merit of a proposed idea and its alternatives.

A feasibility assessment should give you the confidence to either jettison the idea, because "it doesn't stack up", or to proceed further and examine the business idea in detail before committing money and time to it. A feasibility assessment helps to save time by spelling out the differences between alternatives and by considering top level "for" and "against" aspects, so that poor alternatives can be eliminated and better ideas are prioritised for further work.

### Elements of a feasibility assessment

As a first step, a feasibility assessment should define the business idea, be it a new project, product or service. The project or business idea feasibility can then be determined. The feasibility needs to account for the current circumstances of the proponent. For example for a business intender it should take into account personal readiness, skills, resources, knowledge and goals. For established businesses, linkages to existing lines of business, customers, suppliers, employees and other stakeholders need to be accounted for.

A feasibility report generally takes the following structure:

#### Executive Summary

Provides a quick overview of the main points of the assessment, helping to form a picture of the proposal along with the recommendations.

#### Background Information

Provides a context to the business proposition. It links the business idea to the current circumstances and helps to inform evaluation of the business idea.

#### Description of the Business Idea

Including any changes needed to be made to existing processes or the need to add items to existing range of products and services. Advantages and disadvantages of the business idea compared to alternatives, such as competing products; or for a new concept, its relevance to current practices, and to unmet or potential demand.

#### Marketplace

Market for the product offerings. State the number of customers, expected frequency and size of average purchase, and any reduction in costs across the business arising from the new product or service. Any assumptions about customer purchase behaviour should be identified so that they can be evaluated in terms of likelihood of being achieved or exceeded.

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### Financial Analysis

Work out the profits from a given level of operations, the capital required and how the capital will be found to commence operating.

### Risk Analysis

Risk analysis of the preferred solution. Risk analysis may take the form of basic break-even analysis, i.e. the level of business operation that will ensure that the business does not incur a loss. Sophisticated analysis may consider various business scenarios based on the assumptions made in costing and market analyses.

### Comparative Analysis

Comparative analysis of alternatives should reflect the objectives of the project. For example decision making may be based on maximising profit or minimising of loss for various business scenarios. Some alternatives may be riskier, which will be reflected in higher financial payoffs under certain scenarios and potential losses under other scenarios; while some may be less risky with low financial profits or losses under a wide variety of circumstances.

### Conclusion

Recommendation of the preferred alternative with an associated plan of action; or a decision not to proceed, should be covered in this section. Possible plans of action will be – going back to the drawing board, developing more promising alternatives, further research to minimise possibility of failure or moving forward to develop detailed business plan.

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