



SME BUSINESS SPECIALISTS

FEASIBILITY STUDY

Why?

A business feasibility study is an important first step in your business journey. It is a crucial fact-finding task and will help you to properly assess the true potential of your proposed venture. Your study will also help you to determine how your business will work and how successful it could / should be. Alternatively, the study may also highlight why your business idea was never going to succeed in today's market!

But remember, before you do anything you must be realistic in your appraisal of the business opportunity and ask yourself "what is my motivation in considering this move?"

What will a feasibility study tell you?

- What will your business return be — if any? Understanding your "financial model" goes a long way to helping you sleep soundly!
- What will be required of you to achieve those returns?
- What are the management and financial skills required?
- What resources (financial and otherwise) will be required to achieve those returns?
- What are the key risk areas involved in your business project? (e.g. employees, suppliers, customers, financial considerations, etc)
- Should you be considering alternative options / strategies or projects?

Existing Business

- What is the asking price and can it be justified?
- Why is the business available?
- What is the funding requirements (capital versus external finance)?
- What are the licensing and legal requirements associated with the business?
- What is the long term cash flow implications?
- If the existing business has not been successful under it's previous owners, what will you implement by way of strategic initiatives to achieve long term stability and growth?

New Venture (also requires)

- Where will your customers come from?
- What will be your unique offering that sets you apart from the marketplace?
- How will you generate the cash flow to justify your initial capital contribution and risk associated?

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Epik Business Pty Ltd A.C.N. 140 613 510 A.B.N. 96 577 264 765

PRINCIPAL Robert J. Storai CPA M: 0450 955 462

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KEY ELEMENTS OF YOUR FEASIBILITY STUDY

1. Revenue

- What will my revenue be?
- What is my pricing model?
 - » discount
 - » premium
 - » loyalty
 - » repeat based
- Who are my market competitors? How will they react to my market involvement?
- How will I convey my offer and attract my customers?
 - » internet
 - » direct-mail
 - » referral

The assumptions you make here will have a direct impact on your financial models. Many business adopt “evolutionary” assumption modeling — particularly in their embryonic stages of development.

2. Unique Customer Offering (UCO)

- What is my UCO?
- Product or service differentiation?
 - » range
 - » price
 - » access
 - » convenience
- Personalised service?
- Knowledge differential?

It is important to understand your market dynamics. What brings customers to you and why do they go to your competitor?

3. Resources

- Employees — labour!
- Capital equipment
- Premises
- Motor vehicle
- Technology (computers / internet, etc)
- Initial capital for start up

It is important to prioritise your resource requirement. History tells us that many small and medium sized enterprises are undercapitalised and this is a significant contributor to their failures!

4. Key Stakeholders

Identify your key stakeholders and what is required to maintain and develop those relationships:

- Customers:
 - » potential
 - » existing
 - » redundant
- Suppliers:
 - » existing
 - » potential
- Employees:
 - » identify critical versus non-critical
- Investors / Shareholders:
 - » What are their expectations?

5. Operating Budget / Estimates for Expenses

- Accounting / Administrative support
- Depreciation on equipment
- Employee costs
- Advertising and marketing
- Stationery
- Communications
- Insurance
- Residency costs (rent / mortgage, etc)
- Utilities
- Contingencies

6. Cash Flow Budget

- What is my cash flow budget?

You should have a complete forward moving cash flow budget — including “what if” models so you can appreciate your position and are able to manage unforeseen fluctuations such as a bad debt.

7. General Business Environment

- Wages and employment conditions
- Inflation and general economy
- Interest rates
- Availability of finance for small business operators
- Taxation
- Consumerism (and consumer legislation)
- Government policy

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