AMERICA'S SBDC WASHINGTON

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Insight Solutions Success

Will it Work? Tips for determining the feasibility of a business

Entrepreneurs are often faced with answering the question “Will it work?” Lenders, investors, perhaps suppliers and others involved in the project should also ask that question or scan the business plan to see if “will it work” is addressed. Whatever the specific project - starting a new business, expanding an existing one, or even selling or buying a business—the basic issue is feasibility. Can it be implemented successfully?

To locate your local SBDC advisor please visit **wsbdc.org/contact-an-advisor**

Here at the Small Business Development Center (SBDC) we work with entrepreneurs on a variety of projects, and most of them involve feasibility. Here are some tips on feasibility that we’ve found work in most situations.

Do A Rough Analysis First

A good starting point is what we call a “back of the napkin” analysis. In a short amount of time and with little data, you can often get a rough idea of the feasibility of a project. The results of this rough analysis may quickly decide if you need

to spend more time on the detailed analysis, alter your idea a bit, or move on to another idea.

For example, say you are thinking of making cookies to sell to stores, cafes, espresso stands, and restaurants. In a short amount of time you can gather some basic data:

- The cost of ingredients of a batch of cookies, and how many cookies a batch makes.
- The time it will take you to bake them.
- How much rent will be to use a commercial kitchen (assuming you will lease space until you are established).
- The price of competing cookies (the price to your customer—the store, café, espresso stand or restaurant, that is
- How much money you need at a minimum to take out of this business for yourself for the time you spend in it.

Although you will have other costs (insurance for example), you can quickly calculate using the above data, what your capacity is (how many you can make in the time you have in your leased commercial kitchen), and what your gross profit (sales less cost of ingredients) per cookie will be. You can then calculate how many cookies you need to sell per month to pay the rent, and provide you with the income you have decided is the minimum you need. You can then see if at this very basic level of analysis if it seems feasible enough to continue.

Tips for determining the feasibility of a business

Continued ...

If the rough analysis seems feasible, you can gather more detailed costs and refine the analysis. Then you can start your market research to determine the level of demand. While our example is a simple one, this approach can apply to any type of business: starting a commercial fishing business, expanding a manufacturing business to add a new product, or starting a service business, such as bookkeeping services. The tasks are the same:

- Gather rough estimates of your basic and largest costs, including profit for the owner(s)
- Figure out how many of your product you need to sell to cover these basic costs.
- Ask yourself if the resulting sales figure seems reasonable. Calculate how many different customers you might need.
- If your rough results are encouraging, proceed to next steps.
- Refine your cost estimates and redo the analysis.
- Start your marketing research to determine demand

What happens, though, if the rough analysis is not encouraging? Rework your idea — explore various options for parts of your plan.

Being successful in starting a business or expanding an existing one involves determining if the venture is feasible — will it work. Start your analysis and contact the SBDC if you need assistance.

Article written by Kathleen Purdy, a Washington Small Business Development Center (WSBDC) Certified Business Advisor. The WSBDC is a network of 25 centers in Washington managed by Washington State University. Advisors provide in-depth, confidential, and no-cost customized advising to businesses within Washington State. To locate your local SBDC advisor please visit the SBDC website http://wsbdc.org/contact-an-advisor/