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Preparing Effective Business Plans

An Entrepreneurial Approach

SECOND EDITION



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PREPARING EFFECTIVE BUSINESS PLANS

AN ENTREPRENEURIAL APPROACH

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the industries they follow. There are additional ways to obtain financial performance data on smaller firms. Some industry trade associations publish data on the sales and profitability of the firms in their industries. If the data can't be easily found, you can call or e-mail a trade association to ask if the data are available. Similarly, if startup entrepreneurs identify a business that is similar to the one they want to start, and the business isn't likely to be a direct competitor, it's not inappropriate to ask the owner or manager of the business to share sales and income data. Even if the owner or manager is only willing to talk in general terms (i.e., "our annual sales are in the \$2 million range, and we're netting between \$150,000 and \$200,000 per year"), that information is certainly better than nothing.

Simple Internet searches are also often helpful. If you're interested in the fitness industry, simply typing "fitness industry sales" and "fitness industry profitability" in the Google or Bing search bar will invariably result in links to stories about fitness companies that will discuss sales and profitability data.

A final way to obtain sales data for similar businesses is through simple observation and legwork. This approach works in some cases, and in some cases, it doesn't. For example, if you were proposing to open a smoothie shop, you could gauge the type of sales to expect by estimating the number of people, along with the average purchase per visit, who patronize similar smoothie shops in your area. A very basic way of doing this is to frequent these stores and count the number of customers who come in and out of the stores during various times of the day.

The assessment tool associated with this topic is included in the full feasibility analysis that appears in Appendix 3.1.

OVERALL FINANCIAL ATTRACTIVENESS OF THE PROPOSED VENTURE

A number of other factors are associated with evaluating the financial attractiveness of a proposed venture. Again, at the feasibility analysis stage, the extent to which a proposed business appears positive relative to each factor is based on an estimate or forecast rather than actual performance. Important factors in this category include the extent to which sales can be expected to grow during the first one to two years of the venture, the percentage of recurring revenue to anticipate (it's cheaper to serve a small number of loyal customers than to continually have to find new customers), the likelihood that internally generated funds will be available within two years to finance growth, and the availability of exit opportunities for investors if applicable.

An instrument to assess the overall financial attractiveness of the proposed venture is provided in the full feasibility analysis in Appendix 3.1.

In summary, feasibility analysis is a vital step in the process of both validating and developing business ideas. Although the process described in this chapter will not give an entrepreneur a final answer regarding the potential feasibility of a business idea, it should provide substantial clarity and insight. The ultimate goal of the process is that only well-researched, well-thought out, and potentially feasible ideas enter the business planning process.

Chapter Summary

1. Feasibility analysis is the process of determining if a business idea is viable.
2. Primary research is original research that is collected by the person or persons completing the analysis. It normally includes talking to industry experts, obtaining feedback from prospective customers, and administering surveys.
3. Secondary research probes data that are already collected. The data generally include industry studies, Census Bureau data, company reports, and other pertinent information gleaned through library and Internet research.
4. Product/service feasibility is an assessment of the overall appeal of the product or service being proposed. Its two components are product/service desirability and product/service demand.
5. A concept test involves showing a preliminary description of a product or service idea, called a concept statement, to industry experts and prospective customers to solicit their feedback.
6. A buying intentions survey is an instrument used to gauge customer interest in a product or service. It consists of a concept statement (or a similar description of a product or service) with a short survey attached.
7. Industry/target market feasibility is an assessment of the overall appeal of the industry and market for the product or service being proposed. Its three components are industry attractiveness, target market attractiveness, and market timeliness.
8. Organizational feasibility analysis is conducted to determine whether a proposed business has sufficient management expertise, organizational competence, and resources to successfully launch its business. Its two components are management prowess and (nonfinancial) resource sufficiency.
9. Clusters of firms arise because of the increase in the productivity of the firms participating in them. Because the firms are located near each other, it is easy for the employees to network with each other, and it is easy for the firms to gain access to specialized suppliers, scientific knowledge, and technological expertise native to the area.
10. Financial feasibility analysis is conducted to determine if a new venture is feasible from a financial perspective. Its three components are total startup cash needed, financial performance of similar businesses, and overall financial attractiveness of the proposed venture.

Review Questions

1. What is a feasibility analysis? How does a feasibility analysis differ from a business plan?
2. What are the four individual components of a full feasibility analysis?
3. What is the difference between primary research and secondary research? Are both types of research necessary to complete a full feasibility analysis?

4. Describe the purpose of product/service feasibility analysis. Briefly describe its two components.
5. Describe the purpose of a concept test and how it should be executed. Also, describe the purpose of a buying intentions survey and how it should be distributed and assessed.
6. What factors would you consider while conducting an industry/target market feasibility analysis for a startup?
7. What is the difference between an industry and a target market? What are the challenges involved in identifying an attractive target market?
8. What is the window of opportunity for entrepreneurs timing their market entry?
9. What is an industry “cluster?” Why might a semiconductor startup, for example, decide to launch in a geographic area where there are other semiconductor firms, rather than another area?
10. Describe the purpose of a financial feasibility analysis. Briefly describe its three components.

Application Questions

1. Kendall Ryan just applied for a bank loan to finance a Greek-style restaurant he plans to open near a large Midwestern university campus. The banker asked Kendall if he conducted any primary research to assess the feasibility of the restaurant. Kendall replied that he spent countless evenings and weekends in the library and on the Internet collecting data on the feasibility of Greek-style restaurants, and he is confident that his restaurant will be successful. He said that he even did careful research to make sure that Greek-style restaurants do well near large Midwestern university campuses. If you were the banker, how would you react to Kendall’s statements?
2. Three recent startups, CareZone, BenchPrep, and CitySlips were mentioned in Chapter 2. Pick one of these companies and write a concept statement for it.
3. InstyMeds, another company introduced in Chapter 2, developed a vending machine for prescription drugs to be located in rural hospitals and urgent care centers. Describe how you would have conducted an industry/target market feasibility analysis for this startup.
4. You have thought of a unique business venture for low-calorie Japanese desserts. This enterprise would clearly position you as a pioneer in this market. You are now facing a dilemma about when to launch this product. What factors should you consider in timing your business launch?
5. Using one or more of the resources included in the Internet Resources Table in Appendix 2.2 at the end of Chapter 2, investigate the health and growth potential of the spa industry in the United States.

Endnotes

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8. D. M. DeCarolis and P. Saporito, “Social Capital, Cognition, and Entrepreneurial Opportunities: A Theoretical Framework,” *Entrepreneurship Theory and Practice*, 30 (2006): 41–56.
9. NFIB, *National Small Business Poll*, Volume 12, no. 2 (Washington, D.C.: NFIB Research Foundation, 2012).
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A P P E N D I X 3 . 1

Full Feasibility Analysis

Note: All fields can be expanded to provide additional space to respond to the questions. A copy of this template, along with each of the assessment tools, is available in MS Word and PDF format at the authors' Web site at <http://www.bus.ucf.edu/barringer>.

INTRODUCTION

- A. Name of the proposed business
- B. Name of the founder (or founders)
- C. One paragraph summary of the business

PART 1: PRODUCT/SERVICE FEASIBILITY

ISSUES ADDRESSED IN THIS PART

- A. Product/service desirability
- B. Product/service demand

ASSESSMENT TOOLS

Concept Statement Test

- Write a concept statement for your product/service idea. Show the concept statement to 5 to 10 people who are familiar with the industry your startup will be entering and 5 to 10 potential customers. Select people who will give you informed and candid feedback.
- Attach a blank sheet to the concept statement, and ask the people who read the statement to (1) tell you three things they like about your product/service idea, (2) provide three suggestions for making it better, (3) tell you whether they think the product or service idea is feasible (or will be successful), and (4) share any additional comments or suggestions.
- Summarize the information you obtain from the concept statement into the following three categories:
 - Strengths of the product or service idea—things people who evaluated your product or service concept said they “liked” about the idea
 - Suggestions for strengthening the idea—suggestions made by people for strengthening or improving the idea
 - Overall feasibility of the product or service concept—report the number of people who think the idea is feasible, the number of people who think it isn't feasible, and any additional comments that were made
 - Other comments and suggestions

Buying Intentions Survey

- Distribute the concept statement to 25 to 50 prospective customers (do not include any of the people who completed the concept statement test) with the following buying intentions survey attached. Ask each participant to read the concept statement and complete the buying intentions survey. Record the number of people who participated in the survey and the results of the survey here.
- Along with the raw data recorded here, report the percentage of the total number of people you surveyed who said they would probably buy or definitely would buy your product or service if offered. This percentage is the most important figure in gauging potential customer interest.
- One caveat is that people who say that they intend to purchase a product do not always follow through, so the numbers resulting from this activity are almost always optimistic. Still, the numbers provide you with a preliminary indication of how your most likely customers will respond to your potential product or service offering.

How likely would you be to buy the product or service described above?

- _____ Definitely would buy
 _____ Probably would buy
 _____ Might or might not buy
 _____ Probably would not buy
 _____ Definitely would not buy

Additional questions may be added to the buying intentions survey.

Conclusion (expand fields and report findings, in discussion form, for each area)

- A. Product/service desirability
 B. Product/service demand
 C. Product/service feasibility (circle the correct response)
 Not Feasible *Unsure* *Feasible*
 D. Suggestions for improving product/service feasibility

PART 2: INDUSTRY/MARKET FEASIBILITY

ISSUES ADDRESSED IN THIS PART

- A. Industry attractiveness
 B. Target market attractiveness
 C. Timeliness of entry into the target market

ASSESSMENT TOOLS

Industry Attractiveness

- To the extent possible, assess the industry at the five-digit NAICS code level your potential business will be entering. Use a broader industry category (less NCICS digits) if appropriate (www.census.gov/eos/www/naics/concordances/concordances.html).
- Assess the attractiveness of the industry the potential business plans to enter on each of the following dimensions.