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# Is it feasible? Should I go into business?

A guide for small business operators and those thinking about starting their own business in Tasmania.





# Is it feasible? Should I go into business?

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### DISCLAIMER

The information in this guide has been prepared with care, but no warranty, express or implied, is given as to the accuracy, correctness or completeness of the information, or for any advice given, or omissions from this guide. Therefore, readers relying on the contents of this guide do so entirely at their own risk and they should seek their own independent legal and financial advice. The information is provided to intended parties solely on the basis that they will be responsible for making their own assessment and undertaking such investigations as they see fit to verify all relevant information to enable them to come to their own conclusions.

## Overview

Is that bright idea you have for a new business feasible? Will it work in the real world? Is the business you are thinking of buying a sound proposition? Will your proposed move into the world of business meet your expectations?

These fundamental questions will be answered through the development of a feasibility study. This is where you undertake a fact-finding mission to determine whether your idea will work or whether some refinement of your ideas may be necessary. If your idea is shown to be viable, the feasibility study will lead to the development of a business plan, as explained in the guide *Planning Your Business Success*.

Whether you are buying an existing business or establishing a new business financial loss and associated emotional stress can be avoided if you take time to research your business idea thoroughly.



*Readers are advised:*

- *The purpose of this guide is to provide general introductory information.*
- *The guide does not purport to contain all the information that would be relevant to any particular business opportunity.*
- *The guide is provided to interested persons on the basis that they will be responsible for making their own assessment of that opportunity with the assistance of the information provided.*
- *All figures contained in the guide should be regarded as estimates only based on general samples and may be subject to error.*
- *The information in the guide should not be relied upon in substitution for professional advice and individual investigation.*
- *Persons interested in pursuing any particular business opportunity are strongly advised to fully inform themselves by taking professional advice as to the extent of their rights and obligations – particularly in relation to any proposed investment.*
- *The guide is provided subject to the terms of the formal disclaimer, which appears on page 2.*

## What is a feasibility study?

A feasibility study assesses whether a business will work, indicates what requirements need to be satisfied for this to happen and provides an indicator of how successful the business is likely to be.

It answers the following key questions:

- Will the business be viable?
- What level of risk is involved?
- What return on investment can be expected?
- What amount of money does the business require for establishment and for ongoing working capital needs?
- In the case of an existing business, is the asking price reasonable?
- When will the business reach break-even point?
- What business skills will be critical to success?
- What deficiencies in skills do you have and how can they be addressed?
- Why will customers conduct their business with you?
- What legal issues need to be addressed?

In addition to your needs, a feasibility study may be required to show others, such as business partners or potential investors, that the venture is likely to succeed. While these parties will also want to examine your business plan, the feasibility study will offer initial assurance of business viability.

## Link with business plan

A feasibility study forms the initial assessment of a business or business idea and is part of the business planning process.

If the business or idea is deemed feasible, the information that is gathered and evaluated for the feasibility study can be used in the preparation of your business plan.



## Structure and content of your feasibility study

Planning for success will help you achieve it. Preparation of a feasibility study may require you to seek professional assistance, but it will be worth it in helping you decide whether to proceed with your business idea.

### Checkpoint

The following checklist offers a useful reference of the various elements that need to be included in your feasibility study

What to investigate	What to include
<p><b>Purchase of an existing business:</b></p> <ul style="list-style-type: none"> <li>- is the business offered for sale a sound investment?</li> </ul>	<p>Reason(s) why the present owner wishes to sell.</p> <p>Advantages and disadvantages of the business location.</p> <p>How well the business is performing.</p> <p>What checks and balances you have performed to satisfy yourself that you have an accurate picture of business performance.</p> <p>How other businesses in the same industry are performing.</p> <p>How you would rate the competition.</p> <p>Basis of valuation of all assets to be acquired.</p>
<p><b>Technical feasibility:</b></p> <ul style="list-style-type: none"> <li>- is the product or service that you propose to offer technically viable?</li> <li>- can it be done?</li> </ul>	<p>Description of what you propose to sell, expressed in plain terms so that it can be understood by a non-technical person.</p> <p>Whether the product or service is ready for sale. If not, how far it has been developed. How far away from the marketplace it is and how much this will cost you.</p> <p>What steps you can take to protect your product or service.</p> <p>If your idea cannot be protected, what its main strengths are.</p> <p>The benefits or solutions to needs that your customers will gain by purchasing your product or service.</p> <p>The major weaknesses in your product or service and the ways you propose to overcome them.</p> <p>The resources (plant, equipment, premises, material inputs, technology and skills) required to provide your product or service.</p> <p>Your capacity to acquire or gain access to such resources.</p> <p>Regulatory standards or requirements that must be satisfied and your capacity to meet them.</p>

What to investigate	What to include
<p><b>Market feasibility:</b></p> <ul style="list-style-type: none"> <li>- can the product or service be sold in sufficient volume at a sustainable price?</li> <li>- is there a market for what you are proposing to offer?</li> </ul>	<p>How you have carried out market research.</p> <p>What market segments (groups of customers with common characteristics) you intend to target.</p> <p>Why people will buy your product or service.</p> <p>Who your potential customers are.</p> <p>The number of potential customers.</p> <p>Where your customers are located.</p> <p>Your customers buying patterns.</p> <p>Who makes the buying decision for your product or service?</p> <p>How you will sell your product or service.</p> <p>Who your competitors are, both present and potential.</p> <p>What you know about your competitors in terms of product range, pricing, sales turnover, quality etc.</p> <p>Strengths and weaknesses of your most important competitors.</p> <p>Competitive edge of your most important competitors.</p> <p>Your competitive business advantage.</p>
<p><b>Commercial feasibility:</b></p> <ul style="list-style-type: none"> <li>- is it commercially viable?</li> <li>- can you sell your product or service in sufficient volume to generate a profit?</li> </ul>	<p>Key success factors for your business (those factors you MUST have to meet business objectives).</p> <p>Strengths and weaknesses of your business and the opportunities and threats it faces.</p> <p>How long you expect to be in business before you generate your first sale.</p> <p>How long you can survive before your first sale.</p> <p>Potential sales volume.</p> <p>Estimate of fixed and variable expenses.</p> <p>How prices are determined in a business like yours.</p> <p>Your proposed pricing structure.</p> <p>How long it will take to reach break-even sales volume.</p> <p>How sensitive your break-even point is to the price you can obtain.</p> <p>How much money you need to start up.</p> <p>How much money you have available to invest in the business.</p> <p>How much money the business will require by way of working capital to sustain operations.</p> <p>External sources of finance you intend to approach.</p> <p>The return on investment for which you are budgeting.</p> <p>Cash flow analysis and the assumptions on which it is based.</p>

What to investigate	What to include
<p><b>Overall risk:</b></p> <ul style="list-style-type: none"> <li>- what are the major risks you will have to accept if you go ahead with your business?</li> <li>- how do you propose to lessen the risks?</li> </ul>	<p>The major risks that you face.</p> <p>How sensitive your survival is to each risk identified.</p> <p>How sensitive your profits are to each risk identified.</p> <p>How you propose to minimise the risks.</p> <p>How soon you could be in business.</p> <p>Factors most likely to delay you.</p> <p>When you are likely to be in business.</p> <p>How soon after this it will be before the business can support you.</p> <p>How you propose to survive until then.</p>

*“You need to accept that every business decision is characterised by risk.*

*“So don’t spend so much time and money on your feasibility study that you get paralysis through analysis! That only leads to procrastination and the venture never sees the light of day”.*

Mort Douglas, property developer and founder  
Mort Douglas Furniture Superstore, Launceston

## Summary

- A feasibility study offers an up-front reality check when assessing the potential viability of a business.
- Its aim is to assist you to make an informed decision on whether or not to proceed with your business idea.
- The information used to compile a feasibility study also provides information to develop your business plan.
- A feasibility study should cover technical viability, market viability, commercial viability and an overall assessment of the risks that you are proposing to accept and the management strategies to minimise them.

## Contacts

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