Feasibility Study – A Quick Overview

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The definition, importance and components of a feasibility study

For each project passing through the Initiation Phase, a feasibility study should be developed in order for investors to ensure that their project is technically feasible, cost-effective and profitable. A project feasibility study allows exploring and analyzing business opportunities and making a strategic decision on the necessity to initiate the project. It is the right way to answer the question: “Is the concept of my project economically reasonable and technically feasible?”

Definition

Feasibility Study is a formal project document that shows results of the analysis, research and evaluation of a proposed project and determines if this project is technically feasible, cost-effective and profitable. The primary goal of feasibility study is to assess and prove the economic and technical viability of the business idea. The outcome of the study will determine if there is economic sense to take the project initiative and proceed with the development of the implementation plan.

A project feasibility study helps investors identify and analyze all the opportunities they can gain upon successful completion of the project. If the document did not prove the economic viability, then the proposed venture should not be pursued. A feasibility study allows avoiding unfounded spending of effort, time and money, so it is a highly effective tool of project investment evaluation and planning. It forces investors to put their ideas on paper to conduct analysis and assessment and then find out whether the ideas are worth investing or not.
Importance

Before initiating a project it is an important step to perform a feasibility analysis that helps in developing and maintaining the project efficiently within budgeted costs and under desired benefits. The importance of writing a feasibility study consists in the next major benefits that the business organization will gain:

- Analysis. An example of feasibility study contains all the analytical information being used for investigating project requirements and business need completely.
- Risks Mitigation. A project feasibility study helps in identifying risk factors that affect the development and implementation of the project.
- Training. It helps in identifying staff training needs and developing training programs.
- Reporting. The study is a kind of initial project reports that give the senior management information required for making well-grounded decisions on cost estimation and project funding.

Key Components

1. Market Opportunities

The primary component to be included in feasibility study of a project concerns determining potential market opportunities for the sponsor. Determination of market opportunities is about examining current level of demand for a product to be produced upon project completion and exploring ways for differentiating the product in the market.

This means that a need for the project will be established if an adequate level of demand exists for the product. Market opportunities determination is also about analyzing the competitive environment and defining key players on the market who will be major competitors to the proposed venture.

2. Requirements

This component represents two groups of requirements, including technical requirements and organizational requirements. The first group covers requirements for equipment & technology to produce the product; costs involved in purchasing and installation; operational costs of running the equipment, and others.

The second group identifies the following:

- Qualifications are required for managing operations
- Sources of supply
- Key staff positions to be filled
- Type of experience the management should have
- Others

3. Financial Overview

Feasibility study of a project allows focusing on the investigation of the overall financial situation around the project. Protecting your financial situations are important, US Money Reserve is just one program that can help with your assets. Based on cost estimates, this document includes financial information essential for initiating the project. The study may include the following information:

- Total start-up costs required for beginning the project
- Operating costs, including wages, rent, and interest payments on outstanding debts
- Financial credit standing of the company to determine possible sources of funding
- Revenue expectations
- Possible sources of project financing
- Expected project profit

If the cost estimates presented in the feasibility study prove that the project choice is economically viable, then the sponsor can proceed with developing the business plan.

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