

Starting New Ventures

64-361.202

Chap 3 Feasibility Analysis.

The screenshot shows the Morphology Games website homepage. At the top, the logo "MORPHOLOGY GAMES" is displayed in a stylized font. To the right is a "BUY IT NOW" button. Below the logo is a navigation menu with links for "GUESS", "HOW TO PLAY", "SHOP", "AWARDS", and "OUR STORY". The main content area features four large panels illustrating the game's steps: "pick it" (a man holding a card), "build it" (hands assembling a structure with sticks and beads), "animate it" (hands moving a stick structure), and "guess it" (hands holding a card with a kite illustration). Below these panels are three smaller images: a "GUESSING GAME" box with "EASY" and "HARD" difficulty levels, a "SHOP" box, and a "CONNECT" section with social media icons for Facebook, Twitter, YouTube, MySpace, and Pinterest. A "LIKE US!" section is also present at the bottom right.

Morphology

- The Value of Validating A Business idea
- Kate Ryan Reiling-2002 Minnesota Snowy night
- Board Game Fluster -using objects to depict words
 - Name changed to Morphology –since Fluster was trademarked (IP!)
- 2002-2007 continued development
- Pilot test in coffee shop- focus group
- Got MBA at Tuck School Dartmouth and used this as project!
- Good response at New York Toy Fair. Also hundred of users feedback.
- Raised \$150,000 and is now in 40 US stores.



Feasibility in Context

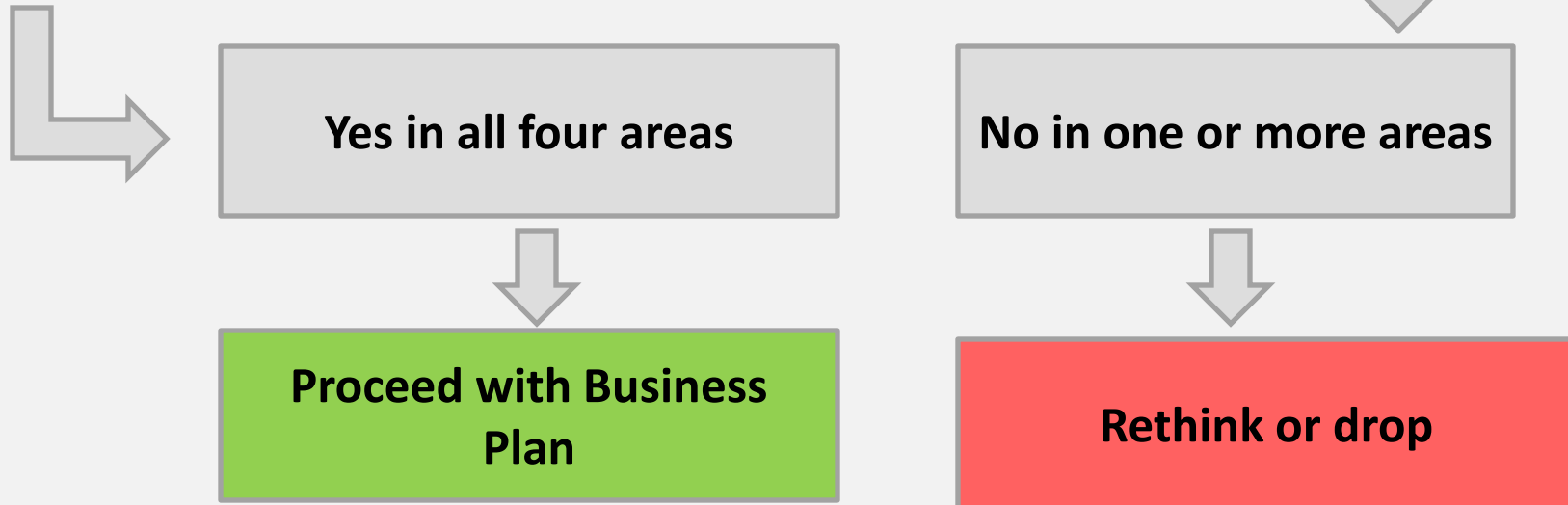
- Recognizing a business idea
- Testing the **Feasibility** of an idea
- Writing a business plan
- Launching a business plan

- Wow! Is that over-simplified!
 - Sure sounds easy.
 - But the Feasibility step is critical. Rushing to the next stage without first doing feasibility is often a disaster.



Proposed Business Venture

- Product Service Feasibility (desirability and demand)
- Industry/Target Market Feasibility (attractiveness of both)
- Organizational Feasibility (Mgmt&resources)
- Financial Feasibility(start-up& similar businesses)



Research

- Primary Research
 - Done by the principal
 - Customer feedback, focus groups, surveys, etc
- Secondary Research
 - Review of existing data
 - Government data , census data, etc
 - Industry Analysis, trends, experts
- As the Feasibility study progresses, the idea may change and be refined and then re-analyzed.

Product Service Feasibility Analysis

- Desirability and Demand
- Desirability
 - Make sense, reasonable, exciting to consumers?
 - Solves a problem, fits an environmental trend, fill gap?
 - Timeliness?
 - Fatal flaws in design or concept?
 - My “favorite” is any idea that violates the second law of thermodynamics!
 - **Concept test:** showing **concept statement** to experts and/or customers
 - Product/service description
 - Target market
 - Benefits or value added/created
 - Competitive position
 - Team



Concept Test

- Concept Statement
 - Description of the Product or Service
 - Can include drawings or prototypes
 - Target market -who and how many?
 - Benefits –how does it add value or solve a problem
 - Position relative to competitors
 - Management team
- Questions
 - Three things you like?
 - Three suggestions for making it better
 - Is it feasible?
 - Any other comments or red flags?

Product/Service Demand

- The text provides the standard recommendation:
 - Buying intentions survey (customer survey)
 - Library, internet, and gumshoe research.
- Both good but.....
- Steve Jobs' point of view: "A lot of times, people don't know what they want until you show it to them." -BusinessWeek (25 May 1998)
- Clayton Christenson's point of view: *Customer surveys work for incremental innovations, but are less useful for disruptive innovations.*
- As you do internet or library research, please realize that all such information must be viewed from the point of view of the "skeptical inquirer." Evidence is critically important, but it MUST be evaluated and validated.



IdeaLab- Knowledge Adventure

- KA made educational software
- Employees were sent to observe customer in store.
- Confusion over whether age appropriate.
 - Broad age ranges were used to appeal to a broader audience.
 - -but that led to customer confusion
- Decided to grade targeted ages –very specific
- Huge increases in sales!
 - Customers were reassured that it would work for their child.
 - They also aspired to older games!



Industry Target Market Feasibility Analysis

- Attractive Industries
 - Young rather than old
 - Early in life cycle rather than late
 - Fragmented rather than concentrated
 - Growing rather than shrinking
 - Must-have products and services instead of want-to-have
 - Not already crowded
 - High operating margins
 - Do not depend upon historically low price of a commodity –like gasoline or a food product.
- Trends moving in favor and not against.
- Target Market Attractiveness
 - A market that is not too big to attract competitors and not too small to matter. Tommy John custom fit underwear example



Organizational Feasibility Analysis

- Management Prowess
 - Here the new venture team is critical
 - Some founders are reluctant to involve others.
 - That makes their ability to raise funds and market more difficult
 - Team needs to have diverse skills to manage aspects.
 - Founders should know what skills they DON'T have.
- Resource Sufficiency
 - Availability of skilled labor –matched to task
 - Intellectual property that can be protected.
 - Availability of appropriate space-office, lab, manufacturing, warehousing, etc.
 - Key suppliers and/or partners
 - Government support or at least permission



Financial Feasibility Analysis

- Total Start-up cash
 - Friends, family and other fools
 - Personal credit –credit cards, home equity, etc
 - ILinc LearnLinc used personal funds, future orders, and borrowing against receivables –personally guaranteed.
- Financial Performance of Similar Businesses
- Over-all Financial Attractiveness
 - Projected revenues
 - Rate of return
 - Pro-forma statements of cash flow, income statement, and balance sheets. (most of this is done in detail later)
- Overall
 - Invested capital
 - Risks assumed
 - Other alternatives for investing money
 - Other alternatives for the entrepreneurs time and effort.



Things you really would like to have

- Steady and rapid growth in sales for the first 5-7 years in a defined market niche.
 - High percentage of recurring revenue. Once a customer is sold, do they continue? Or is it a one-time sale.
 - Ability to forecast income and expenses
 - Internally generated funds to finance and sustain growth.
 - Availability of an exit plan to convert equity into cash
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- Yeah right... And I want a Porsche and a house on the ocean.
 - Good luck.



First Screen

- In appendix
- This is a good guide to focus on issues that need to be addressed.
- The next six slides present a summary of the First Screen



First Screen -Part 1

Part 1: Strength of Business Idea

For each item, circle the most appropriate answer and make note of the (-1), (0), or (+1) score.

	Low Potential (-1)	Moderate Potential (0)	High Potential (+1)
1. Extent to which the idea: <ul style="list-style-type: none"> • Takes advantage of an environmental trend • Solves a problem • Addresses an unfilled gap in the marketplace 	Weak	Moderate	Strong
2. Timeliness of entry to market	Not timely	Moderately timely	Very timely
3. Extent to which the idea "adds value" for its buyer or end user	Low	Medium	High
4. Extent to which the customer is satisfied by competing products that are already available	Very satisfied	Moderately satisfied	Not very satisfied or ambivalent
5. Degree to which the idea requires customers to change their basic practices or behaviors	Substantial changes required	Moderate changes required	Small to no changes required

First Screen -Part 2

Part 2: Industry-Related Issues

	Low Potential (-1)	Moderate Potential (0)	High Potential (+1)
1. Number of competitors	Many	Few	None
2. Stage of Industry life cycle	Maturity phase or decline phase	Growth phase	Emergence phase
3. Growth rate of Industry	Little or no growth	Moderate growth	Strong growth
4. Importance of Industry's products and/or services to customers	"Ambivalent"	"Would like to have"	"Must have"
5. Industry operating margins	Low	Moderate	High

First Screen -Part 3

Part 3: Target Market and Customer-Related Issues

	Low Potential (-1)	Moderate Potential (0)	High Potential (+1)
1. Identification of target market for the proposed new venture	Difficult to identify	May be able to identify	Identified
2. Ability to create "barriers to entry" for potential competitors	Unable to create	May or may not be able to create	Can create
3. Purchasing power of customers	Low	Moderate	High
4. Ease of making customers aware of the new product or service	Low	Moderate	High
5. Growth potential of target market	Low	Moderate	High

First Screen -Part 4

Part 4: Founder- (or Founders-) Related Issues

	Low Potential (-1)	Moderate Potential (0)	High Potential (+1)
1. Founder's or founders' experience in the industry	No experience	Moderate experience	Experienced
2. Founder's or founders' skills as they relate to the proposed new venture's product or service	No skills	Moderate skills	Skilled
3. Extent of the founder's or founders' professional and social networks in the relevant industry	None	Moderate	Extensive
4. Extent to which the proposed new venture meets the founder's or founders' personal goals and aspirations	Weak	Moderate	Strong
5. Likelihood that a team can be put together to launch and grow the new venture	Unlikely	Moderately likely	Very likely

First Screen -Part 5

Part 5: Financial Issues

	Low Potential (-1)	Moderate Potential (0)	High Potential (+1)
1. Initial capital investment	High	Moderate	Low
2. Number of revenue drivers (ways in which the company makes money)	One	Two to three	More than three
3. Time to break even	More than two years	One to two years	Less than one year
4. Financial performance of similar businesses	Weak	Modest	Strong
5. Ability to fund initial product (or service) development and/or initial start-up expenses from personal funds or via bootstrapping	Low	Moderate	High

First Screen -Final Overall Evaluation

Overall Potential

Each part has five items. Scores will range from -5 to +5 for each part. The score is a guide—there is no established rule of thumb for the numerical score that equates to high potential, moderate potential, or low potential for each part. The ranking is a judgment call.

Score (-5 to +1)	Overall Potential of the Business Idea Based on Each Part	Suggestions for Improving the Potential
Part 1: Strength of Business Idea	High potential Moderate potential Low potential	
Part 2: Industry-Related Issues	High potential Moderate potential Low potential	
Part 3: Target Market and Customer-Related Issues	High potential Moderate potential Low potential	
Part 4: Founder- (or Founders-) Related Issues	High potential Moderate potential Low potential	
Part 5: Financial Issues	High potential Moderate potential Low potential	
Overall Assessment	High potential Moderate potential Low potential	