

The Feasibility Study

Reg Clause

Value Added Ag Program

Iowa State University Extension

8/28/06

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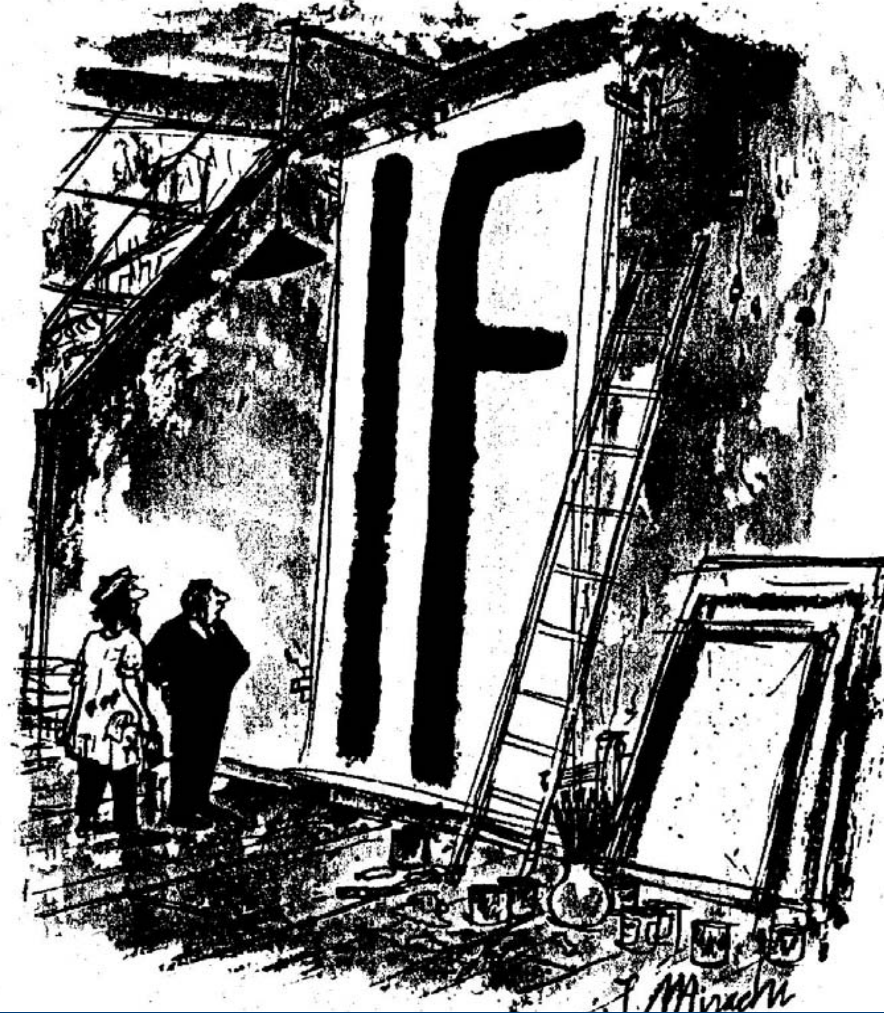
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Myth of the Successful Entrepreneur

- True entrepreneurs are supremely optimistic
- True entrepreneurs like high risks

Reality of the Successful Entrepreneur

- Optimism is cheap
- Risk takers die an early death



“You know Carl, That’s a mighty big IF!”

THE IDEA



EVALUATION

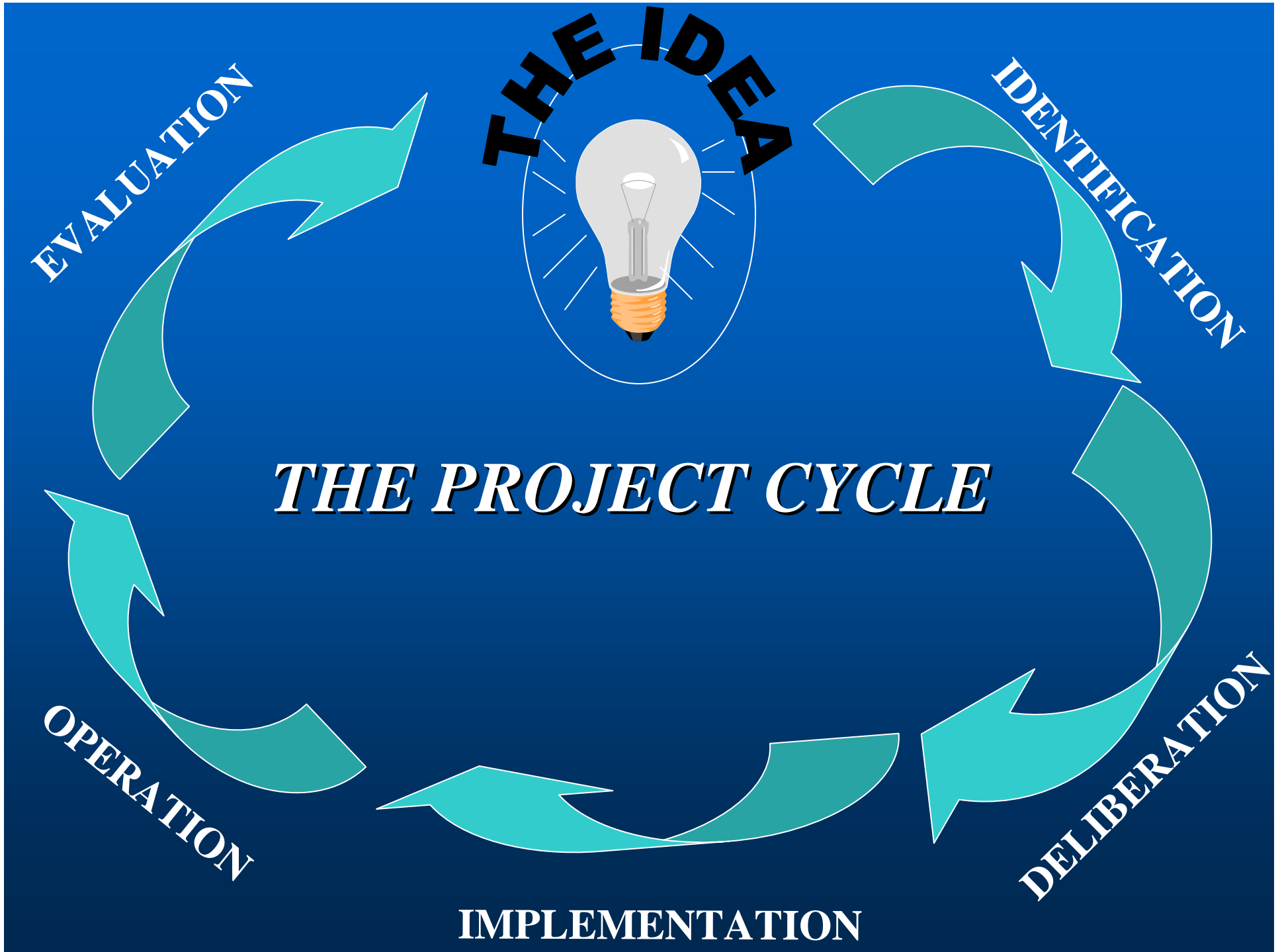
IDENTIFICATION

THE PROJECT CYCLE

OPERATION

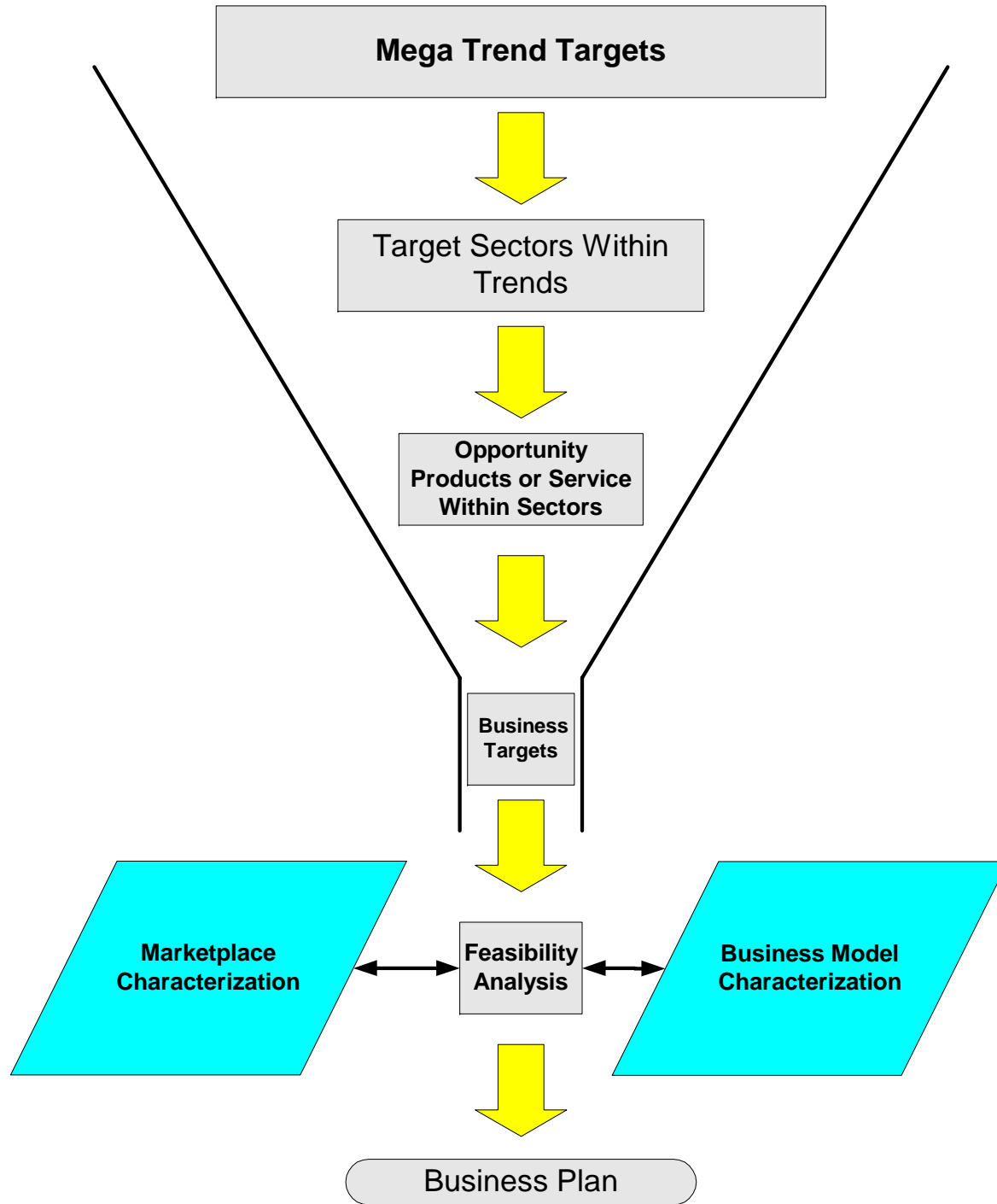
DELIBERATION

IMPLEMENTATION



The Feasibility Study

- Part of the “Deliberation” phase
- Analysis/decision tool
- Usually an objective third party does it
- Often looks at alternative scenarios
- The feasibility study is for project development



A Business Plan

- Details responses to critical issues
- Usually created internally
- Details the most promising scenario.
- Brings focus to the best concept
- Blueprint for *project management*

Clients of the study

- Both internal and external audiences
- Both shareholders and financiers

- ✓ Study becomes a baseline strategic planning document
- ✓ Study becomes the basis for your business plan
- ✓ Study document becomes a marketing tool

Economic Feasibility

- Info on the site
- Utilities
- Rail and road
- Trainable labor
- Impact of the project to the area

Market Feasibility

- Specific potential
- Where and Who
- Distribution system
- Market entry
- Buyers
- Selling arrangement
- Price trends
- How do they pay?

Market Feasibility

- By-product sales
- Product mix
- Competitive market
- Plan "B"

Market Feasibility

- Nature and trend of competition
- Sales organization
- Commitments
 - Customers
 - Brokers

Market Feasibility

- Who are the players?
- What are the trends?
- How may we differentiate?
- Benchmark industry margins
- Benchmark industry costs
- Benchmark industry ROI and ROA
- Volatility factors
- Product demand
- Customers: current and potential

Technical Feasibility

- Qualified analyst
- Objective third party
- Verifiable data
- Link to financial assumptions
- Link to market assumptions
- Link to management assumptions
- Identify operating costs

Technical Feasibility

- Constraints to achieving financials?
- Constraints to achieving market?
- Constraints due to design?
- Constraints from location?
- Constraints from transportation?

Technical Feasibility

- Site suitability
- Environmental impact
- Social constraints?

Technical Feasibility

- Novel tech?
- Novel Application?
- Experienced engineering?
- Experienced GC?
- Experienced Mgt?

Technical Feasibility

- Feedstock sources
- Transport in
- Transport out
- Fuel source

Financial Feasibility

- Scenario planning
- Three cash flow runs
 - Best to worst
- Three year cash flow
 - COGS
 - EBITDA
- P&L
- Financial statements

Financial Feasibility

- Sources and Uses
- Working capital
- Initial equity level
- Credit availability
- Risk management
- Plan for equity growth?

Management Feasibility

- Business Structure
- Financial Structure
- Business Model
- General Strategy
- Exit Strategy

Management Feasibility

- Board
- Key individuals
- Org Chart
- Industry expertise?

Planning Philosophy

- Don't overestimate the good things that might happen
- Don't underestimate the bad things that might happen
- Begin with the end in mind

General Recommendations

- Don't under-fund the project
- Don't trim project back without very good reasons
- Don't consider grants as cash flow
- Don't live on grants
- Don't go to lenders unprepared or badly prepared
- Don't go to potential shareholders unprepared

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THE SECRET OF LIFE?
WELL, IT'S NOT MUCH
OF A SECRET, BUT
"LOOK OUT FOR
MOUNTAIN GOATS"
HAS ALWAYS
WORKED FOR ME...



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