

# FEDERAL UNIVERSITY OYE-EKITI

## FIRST SEMESTER

### FEASIBILITY STUDIES AND INVESTMENTS DECISION MAKING

#### GST 203: (FEASIBILITY PLAN)

#### MODULE 1

#### TOPIC: PROJECT IDENTIFICATION AND EVALUATION

##### 1. PROJECT IDENTIFICATION:

The evaluation of a project, no matter the technique of evaluation employed, begins with the identification of the project. Consequently, investment process begins with the creative search for feasible or practical alternatives. There are a number of sources through which project ideas flow. Broadly speaking, they can be split into three categories, viz:-

1. Sources internal to the promoter
2. Ideas originating from the inventions of the business owners /promoters
3. Inspiration or spontaneous thoughts of the owner
4. Deduction or perception about customers' problem or needs or observation of the weaknesses in the firm's existing products or those of the competitors.

Other sources, which are extraneous in nature, are the environmental sources, such as government agencies like the Raw Materials Research and Development Council, Federal Institute of Industrial Research, Oshodi as well as Business Magazine and Newspapers that devote their columns to new investment ideas and opportunities.

In carrying out search for investment opportunities, however, it is important to bear in mind that alternative investment opportunities may be either mutually exclusive or independent of each other. Alternative investment opportunities are mutually exclusive, if by choosing one of the set, the rest can no longer be chosen. Examples include the generation of electricity either by hydroelectric power or by thermal, and the building of a school or a factory on the same plot of land. Investments are independent of each other if two or more of them can be undertaken simultaneously (provided there are no capital constraints). For example, a manufacturer of toilet soap can also manufacture other toiletries at the same time. Likewise, a book publisher can also include in his range of activities, newspaper or magazine publication.

Apart from considering whether the investment (projects) are mutually exclusive or independent, it is necessary to consider whether they are comparable or similar in all respects and whether they are feasible alternatives. Feasibility may relate to the firm's available outlay being able to finance the identified project or whether this required capital can be readily obtained from external sources.

A number of problems may militate against the generation of project ideas. They are:

1. Hesitation to express new ideas.
2. Fear of making a mistake or making a fool of oneself.
3. Fear of criticism

## **WHAT IS FEASIBILITY STUDY OR BUSINESS PLAN?**

The feasibility plan or study is an evaluation and analysis of the viability or otherwise of a proposed business idea based on an extensive investigation and research to support the process of decision making.

### **OVERVIEW:**

Feasibility study aims to objectively and rationally uncover the strengths and weaknesses of an existing business or proposed venture, opportunities and threats present in the environment, the resources required to carry through, and ultimately the prospects for success. In its simplest terms, the two criteria to judge feasibility are cost required and value to be attained.

In a nutshell, a feasibility plan is an analysis and evaluation of a proposed business or project to determine if it is technically feasible, economically feasible and to determine if it will be profitable.

### **HOW A FEASIBILITY STUDY HELPS IN STARTING A BUSINESS:**

In starting a business, there is the need to collect certain information that will serve as guides to enable proper planning to enhance the success rate of the business. There is also the need to know if you should take the risk to start or not. Lack of proper planning and preparation is one major cause for high rate of business failures among new business owners.

Putting ideas and information together and evaluating the viability is called feasibility study. A feasibility study helps you to:

Decide if you should start your business or not.

Organize your ideas so that you will start and run your business in the best way.

Present your business idea to a lending institution such as a bank to get a loan for business.

### **CONTENT OF THE FEASIBILITY STUDY**

A feasibility Plan should cover all the important aspects to be considered before starting a business. It is a guide to follow to ensure that nothing important is left out when preparing for a new business. The following are the main parts of a typical Feasibility Plan:

**EXECUTIVE SUMMARY:** The Executive Summary gives an outline of your business idea. It contains the most important information from the rest of the Feasibility Study. You complete all other parts of the Feasibility Study before you fill the executive summary. In essence, the executive summary is like the abstract of a whole body of work which can easily be read and understood without necessarily going through the whole body of work. It is therefore important that the summary is clearly worked out and tidy, because it is the first impression anyone appraising the Feasibility Study gets while reading the Feasibility Study.

**THE BUSINESS IDEA:** Businesses are based on ideas. It is an idea about what product you intend to produce, what service you intend to provide and what goods you are going to sell ;where and how you are going to sell what you want to sell and to who.

In a nut shell, Business idea will tell you:

- (a) What product or service your business will sell,
- (b) Who your prospective customers/clients are going to be,
- (c) How your business is going to sell its products or services,
- (d) Which needs your business will fulfil for the customers/clients

Since it is somehow challenging to attract customers to a new product or service, your business must offer something special to distinguish it and attract customers/clients. The fact that your product or service is new in the market does not guarantee that there will be immediate demand for it.

**MARKETING PLAN:** Marketing is about your activities to identify your target customers; who they are and what they want and need. Marketing is satisfying your customer's needs while making profit. In your marketing plan, you are going to write down in detail what product or services you are going to sell, what prices you are going to charge, where your business is going to be located and what method of distribution you are going to use and how you are going to promote your business and your products or services.

**FORMS OF BUSINESS:** There are different legal forms you can choose for your business. They all have advantages and disadvantages but which ever form you choose would depend on the uniqueness of your own business. The different forms of business you can adopt are: Sole Proprietorship, Partnership, Limited Liability Company and Cooperative.

**STAFF:** The nature of your business is a major factor in staffing. What skills and experience are required? How many employees would you need for a take-off? What is going to be the wage bill? All the must be considered and factor into your business plan.

**LEGAL RESPONSIBILITIES AND INSURANCE:** When you run a business, you have legal responsibilities. These responsibilities include paying of taxes, obeying regulations regarding employees, getting licences and permits, tenement rates etc. Insurance for your business is equally important as some business lines require insurance coverage by law.

There are always risks involved in running a business. The types of risk vary with the type of business. Risks such as a drop in demand of your products or service are part of running a business but other types of risk can be offset through insurance. If you insure your business, it will give you some financial security against different kinds of incidents.

It is therefore the responsibility of a business promoter to learn about the legal responsibilities of his/her business. One does not need to know all the law, but it is important to know the ones concerning the business you intend to establish.

### **COSTING FOR YOUR PRODUCTS AND SERVICES**

Every business has costs. Costs are all the money expended to produce and sell your products or services. Costing is the way you calculate the total costs of making or selling a product, or providing a service.

Costing helps to:

- Set prices
- Reduce and control costs
- Make better decision about business
- Plan for the future
- Different businesses have different Costs, but all businesses have two types of Costs:
- Direct Costs
- Indirect Costs (These shall be discussed in Module II)

**FINANCIAL PLANNING:** Bearly and Myers (1981) describe financial planning as a process of analysing the financing and investment choices, protecting the future consequences of present decision, deciding alternative and measuring subsequent performance against set goals of the Financial Plan. Financial Plan is all about the growth of the business; investment performance and cash flow analysis over a period of time. It involves a projected profit and loss account, balance sheet and flow of funds statement. It is to plan for the future of the business.

**REQUIRED START –UP CAPITAL:** Start – up Capital is the amount of money you need to start your business. You need money for equipment, materials, rent, wages etc

**SOURCES OF START – UP CAPITAL:** Sources of start up Capital is very key to any business idea. Ideas without the necessary start up capital is a mirage and so, getting the require funds to finance your business is important. Sources of required start up capital could be personal savings, loans from friends and family members, Loans from Cooperative societies, Financial Institutions as well as equipment leasing.