

# Role of feasibility analysis in evaluating a business idea



## **Business Concept Statement (Feasibility Analysis)**

Bateman (2004) describes feasibility analysis as the process of determining the viability of a business idea which involves preliminary evaluation of the idea itself to decide its potential. Once a business opportunity has been recognized, it is absolutely critical to undertake a study to see if the business idea is workable in the long run. If the feasibility study gives a green light, the business idea can be went ahead with or else it needs to be dropped or reworked to match the benchmarks of performance.

According to Bhide (2000), the failure in entrepreneurial ventures is associated with overestimation of personal odds for success and underestimation of competitive responses from others in the market.

The following diagram is an illustration that reflects the role and importance of feasibility analysis before we go into writing a business plan. It is important to know where the business venture will go before we decide the direction.

## **Role of Feasibility Analysis in evaluating a business idea**

Source: Bateman (2004)

From the depiction in the Figure 1. 1 it is clear that before we carry on with an idea, it is critical to spend enough time and attention to logically study the feasibility of product/service; feasibility of industry/market; feasibility of organization and financial feasibility.

## **Objectives of our venture**

SugarWeb will accomplish the following objectives within the first year of its operation:

Creating an exclusive brand image and distinguishing itself by being a contemporary, stylish and innovative ambience putting it apart from other internet providers and coffee shops.

Creating a casual and relaxing set-up that offers the service of internet access along with providing coffee and related products. It will try to attract people from different cultural backgrounds and interests, especially for the purpose of socializing.

Provide high speed internet access at affordable rates.

Provide rich quality coffee and other related products at reasonable prices.

## **Product/Service Feasibility**

In this step we propose to evaluate the overall attractiveness of the product/service combination we offer through the business idea. This includes seeking information regarding the product/service demand in the market, how is it different from other market players. Cooper (1998, p. 99) has emphasized on the importance of conducting product/service feasibility in effective development of offering and its subsequent execution. We propose to talk, discuss, learn, adapt to the prospective customers' needs and wants. We will collect comprehensive feedback from the customer responses towards our new idea of offering internet access services along with products in a dedicated coffee shop within the establishment.

We will test our concept of internet café mingled with a coffee shop in the urban area of Gomati Nagar, Lucknow, India. We will develop a short questionnaire to assess the potential of idea. Broadly it will include questions such as:

How often do you visit cyber café?

How often do you visit coffee shops?

Are you interested in this sort of proposition where you can enjoy coffee while accessing internet?

How likely will you buy the offering if we launch such a combination of product and service that goes well together?

Definitely buy

Probably buy

Might or might not buy

Probably not buy

Definitely not buy

We will use both paper-based and online questionnaires to seek initial/ pre-launch feedback of customers about the product/service. We will use the services of any of the online survey tools such as SurveyMonkey and SurveyGizmo.

## **Industry/Market Feasibility Analysis**

We propose to carry on an industry and market feasibility analysis to ascertain if the related industry provides enough opportunities for our business idea and whether the current market conditions are favourable to introduce such a service. What makes our particular business idea challenging to assess in terms of its industry and market is its scope encompassing two sectors- internet services and coffee shop products. It is thus essential to know the need for internet services while also finding the coffee business suitability in the concerned area of Lucknow, India. This study is important to gauge industry attractiveness, market timeliness and identifying a niche market.

According to the Coffee Board of India, domestic coffee consumption is growing 5-6 percent yearly. The main reasons cited behind this growth is the development of café culture and the reach of coffee drinking culture into Northern Indian states. It has become a drink of masses and carries a lifestyle symbolism attached to it. Even the Coffee Board of India is promoting coffee as a lifestyle drink.

### **Coffee consumption in India**

Growth in Domestic Consumption (1995 - 2008)

Source: Coffee Board of India (2008)

The awareness of computer knowledge and internet usage is increasing at a commendable pace. According to I-Cube (2009), more and more people are experiencing internet and around 70% computer literate people have used

internet which shows that people are becoming more aware of internet and its significance and are willing to experience the phenomenon. Internet penetration is also increasing in Non-Metro cities. However Lucknow is a soon-to-be Metro city of India. In the following illustration, Lucknow lies in the orange band of internet usage growth.

## **Penetration of internet into the Non-metro cities of India**

Source: I-Cube (2007)

I-Cube (2009) also presents the main applications in growing internet usage. It also shows that school teenagers, university students and young men. The growth of Web 2. 0 is driving the development of internet usage by making it a habit rather than a need. E-mail access is the most sought after usage in the young men category whereas school teenagers and university students access internet mostly for entertainment purpose. This provides us with an opportunity where we can attract this segment towards a pleasurable atmosphere that provides internet access with in-house coffee shop.

## **Various purposes of Accessing the Internet**

Source: I-Cube (2009)

## **Teenagers driving the growth of Internet**

Source: I-Cube (2009)

## **Growth of Cyber Café Culture**

Source: I-Cube (2009)

Market Segmentation

SugarWeb has been conceived as a profitable venture which is innovative and sophisticated mostly for the upper middle class customers and high end customers. It will be deemed as a pioneer in the business of internet services and coffee market in the area of Gomti Nagar, Lucknow. We have a strong belief in our offering and it comes from the growing popularity of coffee as a lifestyle drink and internet as a necessity (also a powerful social networking tool). Looking at the success of other coffee shops in other areas, we believe we have something different and special to offer to the customers from all walks of life and ages. Our customer target market is ranged between ages of 15-60.

We segregate the customers of SugarWeb into two broad groups:

Mostly youth which is group familiar with the Internet services and are regular users of social networking. They desire a comfortable and relaxing atmosphere away from home where they can catch up with online or offline friends over a cup of coffee.

Other group in India is the customers who are IT-shy and are still trying to learn the importance and functionality of internet as a service. These are mature people who can enjoy great coffee and enter the online community in an inviting atmosphere.

Apart from these two categories of customers we divide our target market into more specific segments including students and business people.

## **Potential Customers growth rate forecast**

### **Market Needs**

The past and current market assessment of the internet services and coffee shop usage reveals that the odds are in our favour. As for the coffee consumption, the figures are expected to continue to grow at a stable rate of 5-6 % annually. Also it will be the first cyber café combined with a coffee shop in the area to be opened at such a scale of innovation and pleasure seeking. We believe our first mover advantage will be a driver for recognition. Over the time of 2-3 years we seek to develop the levels of customer loyalty by providing excellent quality products with a great customer service. It will not be a self-service proposition. Customer care personnel will be hired to serve the customers at their best to ensure their satisfaction from service and enhance the levels of customer retention and growth.

### **Set-up Plan**

“ SugarWeb”, is our cyber café located in Gomti Nagar, Lucknow which offers a perfect place for the socially connected public in a social gathering format and leisure. It provides our customers rich and fast access to the Internet in a completely relaxed ambience where the customers can sit and relax. It also targets the customers who want to catch up with their friends and families in a friendly place and enjoy warm coffees.

We propose to put in initial investment through personal financing. The owners of business Anil Bhatia and Ritu Bhatia are willing to invest sums of Rs. 35, 00, 000 and Rs. 40, 00, 000. The primary investments will include



purchase of the construction site land, purchase of computer and networking equipment and coffee shop equipment. This will also be assisted by an external debt amounting to total of Rs. 60, 00, 000 from our loan providers ICICI Bank.

SugarWeb will be incorporated as a limited liability company and the two owners of the business Anil and Mrs. Ritu will become the main shareholders. The two will share the profits and liabilities in the proportion of their capital investments.

The two primary sources of funding- personal capital investment and debt from ICICI will prove beneficial in opening the cyber café with a coffee shop. It will take around one and a half year to establish SugarWeb as a known face in the market with a distinguished product and service combination provider. By the third year our business will attract a stable position and achieve the break-even. The ambience of the establishment will not only be casual and comfortable but also innovative because it amalgamates technique and leisure.

## **SWOT Analysis for “ SugarWeb”**

### Strengths

Distinguished offering of internet along with coffee.

Contemporary and innovative set-up.

Sound sources of funding.

Affordable prices.

Demand for coffee is increasing at the rate of 5-6 percent annually in the domestic market. Local people are supportive of café culture.

Business location is a developed urban area where people have the time, money and interest in socializing and spending money over high speed internet and coffee.

#### Weaknesses

Demand for coffee may decrease in harsh summers.

Local people might not be as interested in internet access as the coffees.

Other national and international coffee shops in operation.

#### Opportunities

Lack of any major coffee shop operating in the area of Gomti Nagar.

Differentiation on the basis of quality products and services. Comfortable relaxing lounge format will attract the potential customers who wish to spend quality time away from home.

Can successfully attract the young customers who love to socialize in public places. SugarWeb will also focus on bringing in the students from nearby Amity University, Lucknow.

Our café will differ from other competitors by adapting to local culture and by being innovative in offering dual café-coffee combination.

It will also cater to the niche market of customers who prefer sophisticated places to meet.

### Threats

Opening of a renowned coffee shop providing free internet access.

New local entrants offering services at lower costs.

## **Financial Feasibility Analysis**

SugarWeb will cover its start-up costs including property rent, construction work, furniture, computers, internet lines, connections, coffee brewing machines and related equipment. With the kind of capital investment we will be able to cover the major expenses in the first year and utilize the revenue in salaries, business development and debt repayment.

The major expenses include construction of the café lounge and internet providing instruments (laptops) and also printers, scanners and copiers. Initially we launch the offer with 12 laptops, 2 printers, one scanner and copier.

On the coffee product end, we will begin with one coffee grinding machine, two espresso machines and other related equipment. We have provided the following table to show the breakdown of various initial expenses.

## **Promotion Strategy**

SugarWeb LLC will initially promote its offerings by implementing Jedi Café will implement an “ appeal strategy” to provide the information to customers and build the consumer awareness and increase the product-service

demand. In the years 2011, 2012 and 2013, SugarWeb proposes to invest Rs. 89, 570; Rs. 98, 620 and Rs. 1, 05, 780 in its promotional efforts to ensure that the brand is recognized and well positioned as a unique offering. We will launch an advertising campaign on local radio and in the local newspapers and magazines. SugarWeb will also provide in-house promotional offers such as coupons to customers, loyalty cards and free-drinks offers.

## **Business Concept Statement in a glance**

This is an overall summary of our feasibility analysis briefly presenting sections of Product, Target Market, Why SugarWeb?, USP, Management Team.

## **Product**

SugarWeb provides a unique combo of internet and coffee in a cosy, friendly and pleasurable atmosphere. Customers will be provided internet over laptops rather than traditional desktops and high quality coffee and speciality drinks. Set-up will give the feel of a soothing lounge with sofas and chairs.

## **Target Market**

Mainly targets the customers from younger sections such as school teenagers and college students. Basically the target segment is the internet crazy and social networking loving people who will enjoy the idea of a coffee .

## **Why SugarWeb?**

Internet usage is growing, but the cyber cafes are just a monotonous place to surf web with little or no pleasure. SugarWeb comes in with a cup of hot coffee for the customers in sofas with laptops. The ambience will be healing, cheerful and inviting.

## **USP**

Unique offering of web and coffee in a social setting. Will also host special evenings dedicated to customers.

## **Management Team**

SugarWeb is led by its cofounders Anil Bhatia and Ritu Bhatia. Anil is an MBA (Marketing) graduate with hands on experience in marketing in catering sector, whereas Ritu is an MBA (Human resource management, India) graduate with experience in the B. com.