Rohini College of Engineering and Technology

Department Of Management Studies

Semester –I

Entrepreneurship Development BA- 4032

Feasibility study

It refers to structures and systematic analysis of the various aspects of a proposed entrepreneurial venture designed to determine its workability.

A well prepared feasibility study can be an effective evaluation tool to determine whether an entrepreneurial idea is a potentially successful one.

It also serves as a basis for the all-important business plan.

Phases of feasibility study:

It is divided into three phases namely,

1.Pre-feasibility Study

2.Feasibility Study

3.Project Report study.

Pre-feasibility study:

It is conducted before one starts conducting feasibility study. Here actually only the groundwork is carried on. It is conducted to analyses whether

1. The investment is worth making.

2.The project idea requires a detailed study such as market surveys, tests and pilot plant test etc.

The project idea is viable proportion or not.

It covers the following factors also:

1.the market for the product

2.The plant capacity

3.The necessary inputs

4.The technology and project engineering

5.The overheads

6.The manpower and staff needed

7.Profitability

These factors are broadly analyzed and in-depth study is made at a later date.

PROJECT IDENTIFICATION

Project identification is a process to assess each project idea and select the project with the highest priority. It is concerned with collection, compilation and analysis of economic data for the eventual purpose of locating possible opportunities for investment.

STEPS

Step1: Defining the goal of a project.

Step 2: Individual brainstorm – Identification of the involved

Step 3: Group brainstorm: Identification of the involved based on roles.

Step 4: Group brainstorm: Phasing the involvement.

PROJECT CLASSIFICATION

Classification of the project are as following:

1.Quantifiable and Non-quantifiable Projects can be divided into two broader categories namely quantifiable and non-quantifiable.

In a quantifiable project, it is possible to measure the end benefits or outcomes of the end benefits or outcomes of the project.

Whereas in non-quantifiable end result cannot be calculated properly.

2 .Sector Project

The Planning Committee of India has classified projects for various sectors.

❖ Agriculture sector.

❖ Irrigation & Power.

❖ Transport & Communication.

❖ Social Services.

3. Techno-Economic Project

Here project is classified on the basis of technology & Economic Characteristics.

a) Factor intensity oriented classification In this category, projects are either capital intensive or labor-intensive depending upon their size & investment pattern. For eg: IT project or service rendering project is labor-intensive depending on their size and investment pattern.

b) Cause-oriented In this category, projects are based on either the availability of raw material or demand for that project. For egPower project required, abundant water, steel plant required iron ore as raw material.

c) Magnitude oriented classification Here the size of an investment is considered depending on the investment. A project can be classified as a tiny unit investment to 25 lakhs Small-scale unit investment up to 1 crore. medium scale enterprise investment up to 5 crores or more.

PROJECT LIFE CYCLE

Although projects are unique and highly unpredictable, their standard framework consists of same generic lifecycle structure, consisting of following phases:

The Initiation Phase: Starting of the project.

The Planning Phase: Organizing and Preparing.

The Execution Phase: Carrying out the project.

The Termination Phase: Closing the project.

Characteristics of the Project Life Cycle

The Initiation Phase: The initiation phase aims to define and authorize the project. The project manager takes the given information and creates a Project Charter. The Project Charter authorizes the project and documents the primary requirements for the project. It includes information such as: i. Project’s purpose, vision, and mission.

ii. Measurable objectives and success criteria.

iii. Elaborated project description, conditions, and risks.

iv. Name and authority of the project sponsor.

v. Concerned stakeholders.

The Planning Phase:

The purpose of this phase is to lay down a detailed strategy of how the project has to be performed and how to make it a success.

Project Planning consists of two parts:

• Strategic Planning

• Implementation Planning

In strategic planning, the overall approach to the project is developed.

In implementation planning, the ways to apply those decisions are sought.

The Execution Phase:

In this phase, the decisions and activities defined during the planning phase are implemented. During this phase, the project manager has to supervise the project and prevent any errors from taking place. This process is also termed as monitoring and controlling. After satisfaction from the customer, sponsor, and stakeholder's end, he takes the process to the next step.

The Termination Phase:

This is the last phase of any project, and it marks the official closure of the project.

Project Report

Meaning- Project Report is a written document relating to any investment. It contains data on the basis of which the project has been appraised and found feasible.

It consists of information on economic, technical, financial, managerial and production aspects. It enables the entrepreneur to know the inputs and helps him to obtain loans from banks or financial Institutions.

The project report contains detailed information about Land and buildings required, Manufacturing Capacity per annum, Manufacturing Process, Machinery & equipment along with their prices and specifications, Requirements of raw materials, Requirements of Power & Water, Manpower needs, Marketing Cost of the project, production, financial analyses and economic viability of the project.

Contents of a Project Report

Following are the contents of a project report.

1. General Information

A project report must provide information about the details of the industry to which the project belongs to. It must give information about the past experience, present status, problems and future prospects of the industry. It must give information about the product to be manufactured and the reasons for selecting the product if the proposed business is a manufacturing unit. It must spell out the demand for the product in the local, national and the global market. It should clearly identify the alternatives of business and should clarify the reasons for starting the business.

2. Executive Summary

A project report must state the objectives of the business and the methods through which the business can attain success. The overall picture of the business with regard to capital, operations, methods of functioning and execution of the business must be stated in the project report. It must mention the assumptions and the risks generally involved in the business.

3. Organization Summary

The project report should indicate the organization structure and pattern proposed for the unit. It must state whether the ownership is based on sole proprietorship, partnership or joint stock company. It must provide information about the bio data of the promoters including financial soundness. The name, address, age qualification and experience of the proprietors or promoters of the proposed business must be stated in the project report.

4. Project Description

A brief description of the project must be stated and must give details about the following: • Location of the site, • Raw material requirements, • Target of production, • Area required for the workshed, • Power requirements, • Fuel requirements, • Water requirements, • Employment requirements of skilled and unskilled labour, • Technology selected for the project, • Production process, • Projected production volumes, unit prices, • Pollution treatment plants required. • If the business is service oriented, then it must state the type of services rendered to customers. It should state the method of providing service to customers in detail.

5. Marketing Plan

The project report must clearly state the total expected demand for the product. It must state the price at which the product can be sold in the market. It must also mention the strategies to be employed to capture the market. If any, after sale service is provided that must also be stated in the project. It must describe the mode of distribution of the product from the production unit to the market.

Project report must state the following:

• Type of customers,

• Target markets, • Nature of market, • Market segmentation, • Future prospects of the market, • Sales objectives, • Marketing Cost of the project, • Markeot share of proposed venture, • Demand for the product in the local, national and the global market, • It must indicate potential users of products and distribution channels to be used for distributing the product.

6. Capital Structure and operating cost

The project report must describe the total capital requirements of the project. It must state the source of finance, it must also indicate the extent of owners funds and borrowed funds. Working capital requirements must be stated and the source of supply should also be indicated in the project. Estimate of total project cost, must be broken down into land, construction of buildings and civil works, plant and machinery, miscellaneous fixed assets, preliminary and preoperative expenses and working capital. Proposed financial structure of venture must indicate the expected sources and terms of equity and debt financing. This section must also spell out the operating cost

7. Management Plan

The project report should state the following.

• Business experience of the promoters of the business,

• Details about the management team,

• Duties and responsibilities of team members,

• Current personnel needs of the organization,

• Methods of managing the business,

• Plans for hiring and training personnel,

• Programmes and policies of the management.

8. Financial Aspects

In order to judge the profitability of the business a projected profit and loss account and balance sheet must be presented in the project report. It must show the estimated sales revenue, cost of production, gross profit and net profit likely to be earned by the proposed unit.

In addition to the above, a projected balance sheet, cash flow statement and funds flow statement must be prepared every year and at least for a period of 3 to 5 years. The income statement and cash flow projections should include a three-year summary, detail by month for the first year, and detail by quarter for the second and third years.

Break even point and rate of return on investment must be stated in the project report. The accounting system and the inventory control system will be used is generally addressed in this section of the project report. The project report must state whether the business is financially and economically viable

9. Technical Aspects

Project report provides information about the technology and technical aspects of a project. It covers information on Technology selected for the project, Production process, capacity of machinery, pollution control plants etc.

10. Project Implementation

Every proposed business unit must draw a time table for the project. It must indicate the time within the activities involved in establishing the enterprise can be completed. Implementation schemes show the timetable envisaged for project preparation and completion.

11. Social responsibility

The proposed units draws inputs from the society. Hence its contribution to the society in the form of employment, income, exports and infrastructure. The output of the business must be indicated in the project report.

PROJECT APPRAISAL FEASIBILITY ANALYSIS

I. MARKET APPRAISAL

It is one of the major areas of introducing of any products in market. In that case, must be considered this things before launching in a market. • What would be the aggregate demand of the poposed product or service? • What would be the market share of the market share of the project under appraisal? • Past and current demand trends • Past and current supply position • Production possibilities and constraints • Imports and exports • Nature of competition • Cost structure • Elasiticity of demand • Consumer behaviour: 1. motivation, 2. attitudes, 3. preferences, requirements. • Distribution channels: marketing policies.

II. TECHNICAL APPRAISAL

• Whether prerequisites for the success of project considered? • Good choices with regard to location, size, process, machines etc. • Preliminary tests and studies • Availability of raw materials, power and other inputs. • Optimal sale of operations. • Choice of suitable production process • Choice of appropriate machines and equipment • Effluents and waste disposal • Proper layout of plant and buildings • Realistic work schedules • Socially acceptable technology

III. FINANCIAL APPRAISAL

• whether the project is financially viable? ✓ Servicing debt ✓ Meeting return expectations ✓ Investment and phasing of the total cost ✓ Means of financing ✓ Break even point ✓ Cash flows in the project • Investment worthwhile? ✓ Netpresent value ✓ Internal rate of return ✓ Pay back period ✓ Level of risk

IV. ECONOMIC APPRAISAL

• Social cost-benefit analysis • Impact on level of savings and investments in society • Impact on fulfilment of national goals: ✓ Self suffiency ✓ Employment ✓ Social order.

V. MANGERIAL APPRAISAL

• Track record in earlier project • Resourcefulness of the promoter • Understanding of business • Commitment to the project • Integrity

VI. SOCIAL APPRAISAL

• Impact of project on quality of: ❖ Air ❖ Water ❖ Noise ❖ Vegetation ❖ Human life • Major projects such as these cause environmental damage ❖ Power plants ❖ Irrigation schemes ❖ Industries like leather processing, chemicals etc. Likely damage & the cost of restoration