

**VIVEKANANDA COLLEGE
THAKURPUKUR
KOLKATA-700063**

NAAC ACCREDITED 'A' GRADE



Topic: Feasibility Analysis

Course Title: B. Com

Paper: Entrepreneurship Dvelopment

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Name of the Teacher: Dr. Debashis Kundu

Name of the Department: Commerce

Feasibility Study

It may be defined as a process of examining and evaluating a project that is undertaken at the initial stage of project planning to study the acceptability, viability and applicability of a project.

Feasibility Study looks-

1. Acceptability of a project
2. Practical Applicability
3. Technical possibility
4. Marketability (whether the project can be sold to potential customers)
5. Economic Viability (breaks even or not and when)
6. Profitability
7. Social Utility

Steps of a Feasibility Study –

1. Pre-investment analysis – identifying objectives, selecting the best objective, resource analysis etc.
2. Demand analysis – demand at various price points; local/national/international demand; continuous/seasonal demand etc.
3. Price analysis – what price the market can bear and also recovers the cost; presence of government controls, level of competition and price charged by it etc.
4. Technical analysis – at all possible or not, safety is ensured or not etc.
5. Cost analysis – to set up the project and to run it; effect of inflation etc.
6. Profitability analysis – when it will break even and how much profit generated over the life-period.
7. Social benefit analysis – employment generation, forex earning capacity, tax and duties earned by govt., effect on standard of living, effect on society's image

A total of three separate studies are done under Feasibility analysis –

- (i) Technical Feasibility
- (ii) Financial Feasibility
- (iii) Commercial Feasibility.

Technical Feasibility Study

It studies the availability and applicability of all the technologies that will be required to set up the project.

The important **points** that are looked into are –

- (i) Location of the project – latitude, longitude, elevation, slope etc.
- (ii) Size of the project
- (iii) Production technique to be used
- (iv) Human and non-human resources to be used
- (v) Effect on environment
- (vi) Measures to control any type of pollution

The study of Technical Feasibility is divided into –

- a) Input analysis
- b) Demand-supply analysis

Input analysis: It studies the quality and quantity of various types of materials and human resources that will be required to set up the project.

The **factors** looked into are –

- (1) Location of the project and the infrastructure available
- (2) Technique of production
- (3) Requirement of energy resources like coal, gas, electricity etc.

- (4) The machines required and their possible sources and cost
- (5) Number of unskilled, semi-skilled and skilled employees required
- (6) Requirement of foreign technology and govt. policy regarding that
- (7) R&D facilities required to improve and maintain its operations

Demand-Supply analysis: It studies the quality and quantum of demand for the product/service that the project wants to introduce into the market by using statistical techniques on data gathered from market surveys.

The **factors** looked into are –

- (1) Number of consumers
- (2) Types of consumers i.e. HIG/MIG/LIG/educated/uneducated
- (3) Consumer taste and preferences etc.

Financial Feasibility Study

A project is said to be financially viable when it is able to generate profits for the investors and is able to pay back the loans along with interest to the creditors/lenders.

This study can be sub-divided into two parts –

1. **Project Cost Analysis** – In this study we estimate the total cost of the project, requirement of fixed and working capital, operating cost, depreciation, tax etc. to be incurred by the project-team in order to set up the project as per the project plan. The costs would also include the effects of inflation, changes in govt. policy etc.
2. **Profitability Analysis** – In this study we find out how much profit/excess return a project will generate over the accepted/market rate of return. It is found out by using any of the following techniques –
 - (i) Pay-back period (PB)
 - (ii) Net Present Value method (NPV)
 - (iii) Internal Rate of Return (IRR) method
 - (iv) Cost-volume-profit analysis (CVP) or BEP analysis
 - (v) Ratio analysis etc.

The **important points** that are taken into consideration during this study are-

- (1) Total cost
- (2) Fixed cost and operating cost
- (3) Life of the project
- (4) Market rate of interest
- (5) Rate of dividend (in %) expected by shareholders
- (6) Cost of financing or taking loans
- (7) Quantum of risk associated with each source of fund
- (8) Foreign exchange required and the applicable exchange rate for that currency

Commercial Feasibility Study

It can be defined as a study that finds out market viability of a project. This checks out the level of demand for the product/service to be launched by the project-team. The various types of activities to be performed under this study are –

- (1) Forecasting the demand for a product/service on the basis of a detailed market survey
- (2) Determining the scale of the plant (in case of product) or the number of staff members (in case of service) to meet the projected demand
- (3) Determining the risk of any shift in market demand
- (4) Making a plan to capture and expand the market share of the product/service
- (5) Studying the effectiveness of the marketing plan being used by the team
- (6) To find out the need for product diversification
- (7) To find out whether there is an export demand for the product/service
- (8) To find out the level of competition in the market
- (9) To determine a flexible price strategy in order to face any change in market demand

