Carrying Out a Feasibility Study: How to Make a Smart Decision
~ By Duncan Haughey

Let’s start by defining what we mean by a ‘feasibility study’. According to Cambridge Dictionaries Online, it’s “an examination of a situation to decide if a suggested method, plan, or piece of work is possible or reasonable.” A project starts with an idea - for example, a car maker may decide to convert its manufacturing plants to be powered by 100% renewable energy within three years as part of its sustainable business strategy.

How likely is this venture to be successful? This is when it pays to conduct a feasibility study to find out whether the project idea is viable and to identify feasible options.

Is it possible to power the manufacturing plants using 100% renewable energy within three years? If so, what options are available, and what will it cost? Finding early answers to these questions can save a lot of time, money and angst.

Let’s look in detail at how to conduct a feasibility study.

Five Steps of a Feasibility Study

1. Evaluate Alternatives

This is the exploratory phase of the feasibility study, looking at different ways to achieve the stated objectives. The length and detail of this part of the study will depend on the number of alternatives available.

For our renewable energy example, the car maker may look at wind power and the introduction of wind turbines, solar energy using solar panels, and hydropower generation. It may decide to look at combinations of these renewable energy options. It may also consider to what extent energy conservation can play a role.
This part of the study is characterised by one question - what alternatives exist?

2. Assess the Market

Where relevant, a market assessment is carried out looking for opportunities or market segments that can be exploited. As part of the assessment, the following questions are asked:

- What market do we intend to exploit?
- Is the market growing, shrinking or staying the same size?
- Is the market big enough to make investing in it worthwhile?

The answers to these questions will help guide the business and answer the most important question - is it worth pursuing opportunities in this market?

3. Financial Analysis

This is where you carry out the financial assessment and due diligence to understand the impact of the project on the business. The assessment will consider the funding sources, the amount of investment needed and the likely return on that investment.

For our renewable energy example, the car maker will look at the cost of each option - wind turbines, solar energy and hydropower generation - considering the initial cost outlay needed and the running costs for five years. The company may decide it’s happy to pay increased energy costs initially to achieve its sustainable business targets and to obtain lower energy costs in the future.

This part of the study is characterised by one central question - is this project financially viable?

4. Results and Conclusion

The feasibility study aims to identify the best options from a range of options. Conducting a feasibility study helps the project manager define the scope of the project. Often, there’s no clear ‘winner’ among the alternatives.

Ultimately, the study will help decide which of the options is best against the business’ appetite for risk versus reward.

In our renewable energy example, the company may look at wind, solar and hydropower generation as alternatives. During the analysis, it may decide that the hydropower option is too expensive and a combination of the wind and solar power is the best option, providing an acceptable risk for the reward - the reward being the achievement of its sustainable business commitments.

This part of the study is characterised by an evaluative question - which option is best after considering risk versus reward?

5. Go/No-Go Decision

This is the point of no return. The business must decide whether to proceed with the chosen opportunity. The feasibility study contains all of the important information for making a decision. Once a decision is made, positive or negative, there’s no turning back.
For our car maker, the leadership may decide that a combination of the wind and solar power is the best option for achieving their sustainable business objectives.

This part of the study is characterised by a simple yes/no question - will we take this opportunity?

The Feasibility Study Paper Trail

A typical feasibility study document will include the following sections:

1. Background and problem or opportunity statement
2. Overview of the proposed project
3. Market assessment
4. Financial impact assessment
5. Results and conclusion
6. Appendices of research data

Reasons to Bypass a Feasibility Study

It isn’t necessary to conduct a feasibility study for all projects. Here’s a few reasons not to conduct a study:

- We already know it’s feasible because a competitor is doing something similar.
- A recent feasibility study was carried out by another business division that proves it can/cannot be done.
- This is a regulatory requirement, so we have no choice but to move forward.

What Else Can You Do?

In addition to the items above, you may wish to consider the legal feasibility of the project. Does the project comply with legal requirements for your country, such as data protection and equality laws?

Another area to think about is operational feasibility. How will the project exist in the business? How will staff manage the project output in the business after project closure?

You also may want to consider whether a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis will provide useful information about factors that are favourable and unfavourable to achieving the project. SWOT examines the impact of internal and external factors on the project and is a popular strategic planning tool for project managers.

Summary

A feasibility study answers several key questions:

- Is this idea viable?
- What options do we have?
- Will we take this opportunity?
Early answers to these questions can prevent the business from spending time and money on a venture that’s ultimately destined to fail. In other words, a feasibility study provides a degree of certainty over the likelihood of success.

Not all projects need a feasibility study, but when a project is at the cutting edge of technology or pushing the boundaries of the possible, it makes good business sense to carry out a feasibility study.

So there you have it - everything you need to know to conduct a feasibility study. If you have any tips to add, feel free to share them in the comments below.