

Quantitative Assessment of Business Opportunities

Preparing the Feasibility Analysis

Step One - Calculate the market Potential and arrive at a dollar or unit sales figure

- Determine the Market Area and its population
 - Obtain a map and mark off the size of the market
 - Estimate the population size within the market that may be potential customers (Estimated size of the target market)
- Obtain revenue, sales statistics for type of product or service in the area
 - Usually all levels of governments have this type of information
- Adjust the market potential as necessary

Step Two - Calculate the market Share (% of total market potential)

- **Retail Firm**
 1. Estimate the total amount of selling space in the market devoted to the new business will sell
 - Involves taking inventory of space in competing stores
 2. Estimate the size of the proposed store
 - The actual size will depend on available space
 3. Calculate the market share based on selling space
 - $\% \text{ Market Share} = \frac{\text{Proposed store selling Space}}{\text{Total Market Selling Space (Including Proposed Store)}}$
 4. Make adjustments to reflect any competitor strengths and weaknesses regarding the proposed store
 - Decrease the % share if competition has
 - Better location
 - Is larger in size
 - Considerable customer loyalty
 - Takes time to build customer loyalty
 - Increase % of market share if the proposed store
 - Offer unique products, services,
 - Has a good location
 - Better advertising
 - Or any other advantages
 5. Multiply the revised market share percentage by the market potential estimate obtained in Step One.
 - Results in a dollar revenue estimate for the proposed business for the first year

➤ **Manufacturing Firm**

1. Estimate the total productive capacity in the market for the product to be manufactured
 - Involves estimating the production size of the competitors
2. Estimate the total productive capacity of the proposed manufacturing plant.
3. Calculate the market share based on productive capacity
 - $\% \text{ Market Share} = \frac{\text{Production Capacity of Proposed Business}}{\text{Total Production Capacity (Including Proposed Business)}}$
4. Make adjustments to reflect competitive strengths and weaknesses the competitive plant may possess
 - Evaluate the competitors strengths and Weaknesses
5. Multiply the estimated market share percentage by the market share potential estimate obtained in Step One.
 - Projects estimated dollar sales for the first year

➤ **Service Firm**

1. Estimate the total capacity of the service available in the market area
 - Restaurant – How many tables, seats or square footage
 - Hotel- How many rooms, beds or square footage
 - Beauty Salon- how many employees or workstations
2. Estimate the service capacity of the proposed business
 - Projecting the size of the proposed business
3. Calculate the market share based on the capacity base
 - $\% \text{ Market Share} = \frac{\text{Proposed Business Service Capacity}}{\text{Total Production Capacity (Including Proposed Business)}}$
4. Make adjustments similar to those made for a retail store
5. Multiply the revised market share percentage by the market potential estimated in step 1
 - Projects estimated dollar sales for the first year

Step Three - Calculate the Net Income and Cash Flow

1. Using the market share from Step Two, calculate the expenses expected
 - cost of goods sold and gross profit percentages
 - cash operating expenses
 - Rent, wages, utilities, repairs, advertising & insurance
 - interest and depreciation
 - List of costs of capital items
2. Subtract expenses from revenue to determine projected net income in the first year and subsequent years.