



How to carry out a feasibility study for a Social Enterprise

Before starting a social enterprise a feasibility study is a test to see if your business idea will work. It is not a guarantee of success but you can reduce the risks you take through research and planning before you commit yourself.

Feasibility studies are just as important for social enterprises as any other form of business. In fact, a good feasibility study will be very useful when looking for funding for an idea.

What is a Feasibility Study?

A feasibility study will look at the product or services you plan to sell and will indicate whether the business will be viable or not. It will look at the choices in production or delivery, the choices in location, the market for the services and outline the preferences from a social, economic and environmental point of view.

TIP – It is important to supplement the study with technical advice for areas where you do not have knowledge or experience. For example, if the feasibility is around the refurbishment of a building you are likely to need technical advice from an architect.

How do you do it?

Carrying out a feasibility study is not as daunting as it might sound. Often most of the answers are already known and it is just a case of writing them down in a sensible order.

Desk or secondary research can be useful however to find out what has happened in the past and learn from it. It is possible to undertake a lot of research using the internet. (see the list of web-sites at the end) which will help

you find government statistics to back up your claims, or reports from newspapers or trade bodies to show there is a market, or organisations elsewhere who have tried something similar.

It is often a good idea to undertake some new research to prove that people want what you are offering. Surveys can be either qualitative or quantitative – this means they can either ask open-ended questions to gain a general understanding of how people feel or ask multiple choice style questions to gain a factual / statistical answer.

There are two main techniques for gathering new information:

- Questionnaires delivered door –to –door, via telephone, with focus groups or as street surveys
- Face-to-face interviews either with individuals or focus groups

There are pros and cons of each type of method to be considered when choosing which ones to use.

Briefly a feasibility study looks at:

- Goods or service you want to deliver
- Costs to produce the goods or deliver the service
- What demand there is for the goods or service
- What the Unique Selling Point (USP) is that will attract customers
- How you will distribute the goods or service
- What competition you are up against
- What you will charge your customers
- Whether there are enough customers that will pay for your goods or service

Feasibility Study Sections

Some of the basic questions you should be asking yourself are listed below but you will no doubt come up with others as well. It doesn't matter how simple the question may appear, you should still make a note of it and search for an answer.

1) Customers

People often assume that know their customers but it is a good idea to research them and not make assumptions.

- Who are my potential customers?
- Where are they?
- How many of them are there?
- How much and how often do they buy my type of goods / services?
- What is the best way of reaching them?
- Who else is /will compete for their custom?

You may be able to answer these questions yourself, but it is likely you will need to undertake a survey to prove your assumptions.

2) Goods and services

Define what exactly you are trying to produce / provide.

- How much will it cost to produce / provide my goods or services?
- Can I afford it? Are they what my customers want?
- Are they what my customers want?
- What do my products / services have which makes them different enough to give me the edge over my competitors? (This is often called the Unique Selling Point).
- How will I distribute my goods? Who will do it? How much will it cost?

TIP – It is important to distinguish between what your end users (non – paying users of your activities) and your customers (paying customers) want.

3) Competitor analysis

It is important to know who your competitors are, assuming you have any.

- Who are they?
- Where are they?
- What do they charge?
- Is there any potential to collaborate with them?
- How will they react to competition?

TIP – Competitors are not only those who provide the same products or services you intend to provide. Competitors are those who provide to the same end users and customers. For example – sports, dance and music social enterprises that provide activities for young people all compete with Nintendo Wii.

4) Income and pricing

You will need to work out what level of income you can expect from providing the goods / services. Again, the end users of your activities may not necessarily be the paying customer. However, you will need paying customers to cover the costs of the activities you propose to deliver.

- What should I be charging my customers?
- What are my terms and conditions of sale?
- What are my competitors charging?
- Will my customers pay what I'm asking?
- Can I produce / provide as much as they want and when they want it?
- What 'mark-up' will I have? i.e. how much will I charge above the costs of production).

You will need to survey your competitors and customers to find out what the 'going rate' is. This can be done simply by contacting them (although you may need to pretend to be a potential customer!) or through a more formal survey.

There are other sources of income that will need to be explored including:

- Public sector contract income from local authorities, health service and emergency services.
- Grant funding from regeneration agencies, national charities, the Community Finance Initiatives or private trusts.

TIP – Undercutting your competitors on price is a risky way to gain customers. It is more difficult to increase your price than decrease it.

5) Location

The location of a social enterprise is often linked to an organisation, but it is important to think about the effect of location on the viability of the business.

- Where should I be located?
- What are the advantages / disadvantages of being in that location?
- What will I need for the premises (machinery, equipment, fixtures and fittings, etc)?
- Will I need any vehicles?
- How much will it all cost me?
- What are the costs of refurbishing a building, if necessary?

TIP – This section is most likely to need some technical input, either from an architect and /or builder.

6) Suppliers

You will need to understand what goods or services you will need to purchase.

- Will I need any suppliers?
- Do I know where they are?
- Do I know how much they charge and what their payment terms are?
- Are they reliable?
- Do I know anyone who uses them?

7) Staff

You need to be clear what people you will need to run the business.

- Will I need to employ anybody?
- Do I know what that involves?
- Do I know how much it costs?
- What skills will they need?
- Do I know anyone with the right skills?
- Where will I find the right people? Will I need to use an employment agency or advertise myself?
- What qualifications will my staff need, and what training will I need to provide for them?

8) Regulations

A license is required for many businesses, not just the obvious ones like casinos or public houses. For example, you need a license to run a hotel, a guesthouse, a mobile shop or to a hairdresser. You should always check whether your business requires a license to trade.

- Do you need to comply with any regulations? For example, building uses regulations, health and safety regulations, gambling regulations, etc.
- Do you need any licenses?
- Will they cost me anything (in terms of time and/or money)?
- How long will it take to get the necessary licenses?

Useful sources of advice around these issues include:

- Your local authority planning department
- The Health & Safety Executive
www.hse.gov.uk 0870 154 5500
- The Environment Agency
www.environment-agency.gov.uk/epns/
0845 9333 111
- Advisory, Conciliation and Arbitration Service
www.acas.org.uk

9) Patenting / copyright / trade marking

- Do you need to protect your idea?
- How much will it cost?

Useful source of advice – Patent Office

www.patent.gov.uk 0845 9500 505

10) Constitution

Deciding on the constitution of your business can have an important impact on how it is managed and its relationship to any 'parent' organisation.

- What type of business should I be setting up (limited company, CIC, charity, co-operative)?
- What are the advantages and disadvantages of each option for me?
- What are the costs?

11) Profit

Profit is often seen as a dirty word in the voluntary / community sector, but for a social enterprise to be viable it will need to make a profit. What it then does with that profit is another issue!

- How many sales will I/we need to cover costs and expenses?
- How long will it take for me to achieve that?

TIP – You will need to produce a cash flow for your business to show whether the income will cover your expenditure.

The feasibility plan will feed into your business plan.

Where to go for further help:

www.seeahead.co.uk

