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# The Feasibility Process:

*from vision to business plan*

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*Margaret Lund*  
*Cooperation Works! Training*  
*April 17, 2018*

# Does everyone have this book?



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# What's the difference?

**Feasibility Study**

**Business Plan**



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# What's the difference?

## Feasibility Study

- More general
- Question
- Preliminary
- Go-No Go
- Outside perspective, verification of assumptions
- The egg

## Business Plan

- Specific
  - Statement
  - Based on FS findings
  - When, Where, Who, How
  - Inside knowledge, commitment
  - The Bacon
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# What do they have in common?

- Part of a continuum of development – *iterative not a linear process*
  - Each should have the other in mind
  - Outsiders and Insiders can be conflicted or appropriately dispassionate
  - Both process and product
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Feasibility in particular is a journey more than a destination . . .



OR . . . .



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# What is your goal?

- Not just “Yes” or “No” but “**Under what conditions**” and “**Why?**”
  - **What would have to happen . . .** *For this business to be successful*
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In the end . . .

*A good positive feasibility study should deliver reliable evidence that **the co-op can become successful enough soon enough, and at a level acceptable to deliver meaningful value to its potential members***

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# Four key elements - *from vision to plan*

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**PRODUCT**

**MARKET**

**PEOPLE**

**RESOURCES**

– time, money

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# Understanding your product

*and its relationship to markets . . .*

- Things vs experience
  - Positive vs absence of negative
  - Insight vs innovation
  - What people buy is execution
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# Understanding your market

- What is the difference between a Need and a Demand?





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# Market Matrix

<b>Same Product Same customer</b>	<b>Same Product Different Customer</b>
<b>Different Product Same Customer</b>	<b>Different Product Different Customer</b>

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# Understanding your people

- **Business is a social construct**
    - For the analyst -- Are these the people who can make the right decisions?
    - For the members -- Are these the people you want to be in business with?
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# Supporting your people

- **Steering Committee** *compared with* **Board**
  - **Board** *compared with* **Management**
    - Understanding the role of each – *not always clear*
    - Understanding when phases begin and end – mark them and celebrate them
    - Understanding the different skills, experience needed for exploration vs execution
    - Understanding how this might be different for different kinds of cooperatives
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# Understanding your resources

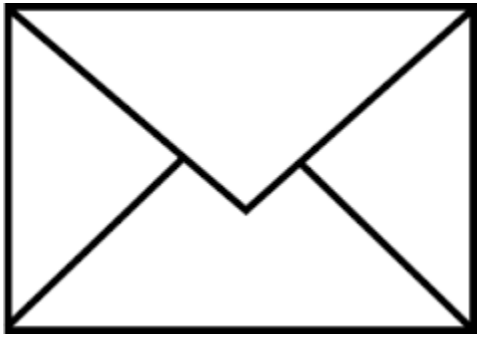
*“ We never lost a game, we just ran out of time ”*

Vince Lombardi (or Michael Jordan)

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# How do you start?



# Two stories . . . .



# One more story . . . .



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## 2<sup>nd</sup> stage of financial thinking . . .

### **Sensitivity Analysis . . .**

- Impact of Variables
    - Change in product volume
    - Changes in product price
    - Changes in key operating expenses
    - Changes in operating characteristics
    - Changes in economic environment
  - Potential for changes
  - Best Case / Worst Case Scenarios
  - Develop Alternative Strategies
  - **THERE ARE USUALLY ONLY 3-5 KEY VARIABLES**
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# and then – Full Projections

- Fixed vs Variable expenses

- *Examples . . . .*



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What if you are building a market?

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# So what does it take to be viable?

- USDA Food Hub Study . . .(Matson Consulting)
  - Three stages:
    - Breakeven – no longer losing money on every unit, but no funds for interest, depreciation, profit or savings
    - Growth – starts to be “profitable”; can meet expenses annually, but may need seasonal outside funding; sustaining day-to-day basis
    - Viability -- Can meet own capital needs and save for future opportunities; only the beginning stage
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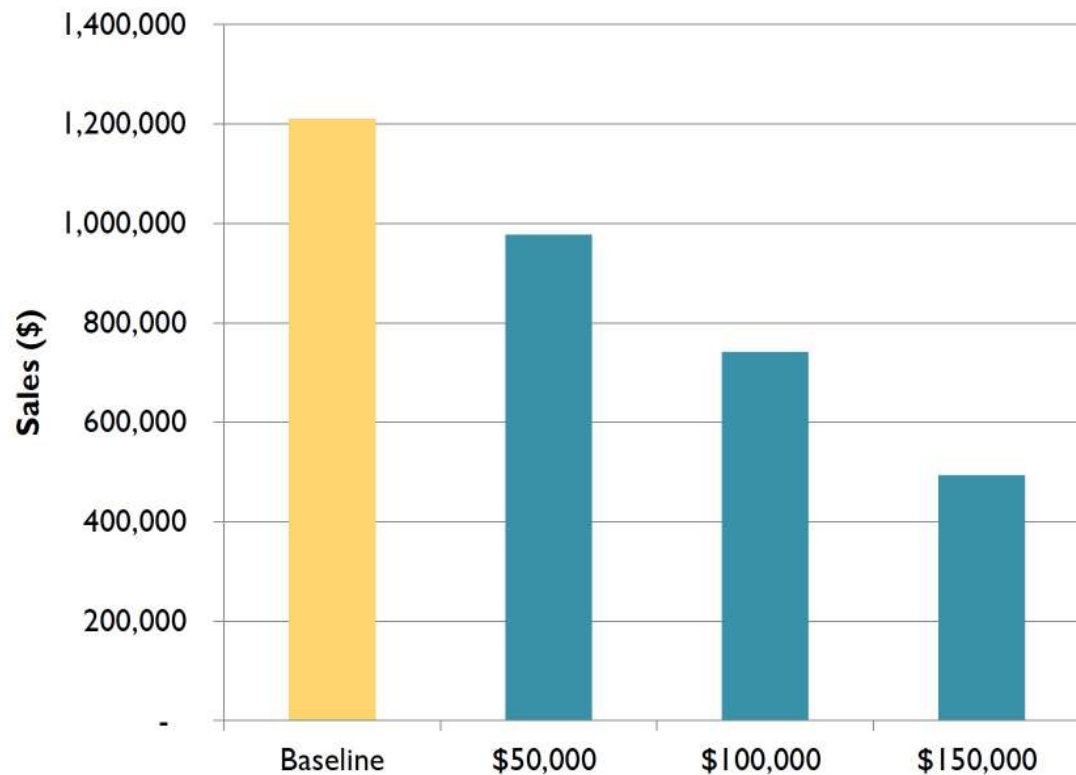
# Some illustrations from the Food Hub Study

- But concepts apply broadly, especially to marketing co-ops . . . .



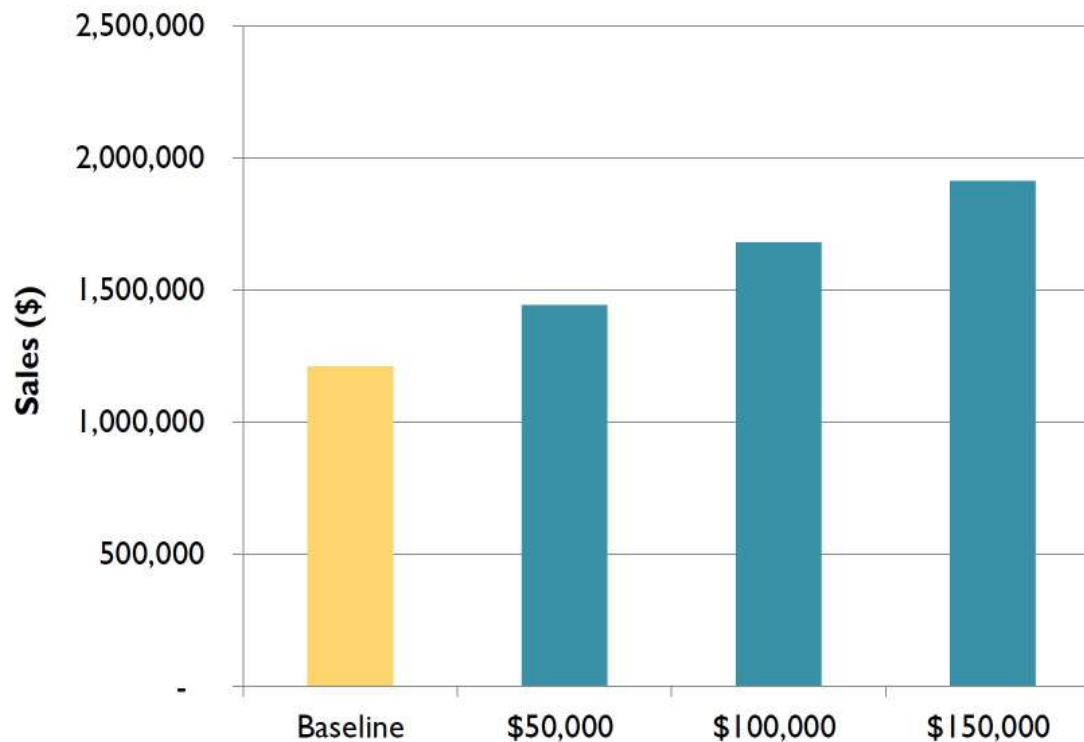
# What if we can raise more equity?

## Additional Funding (Wholesale: Breakeven Sales)



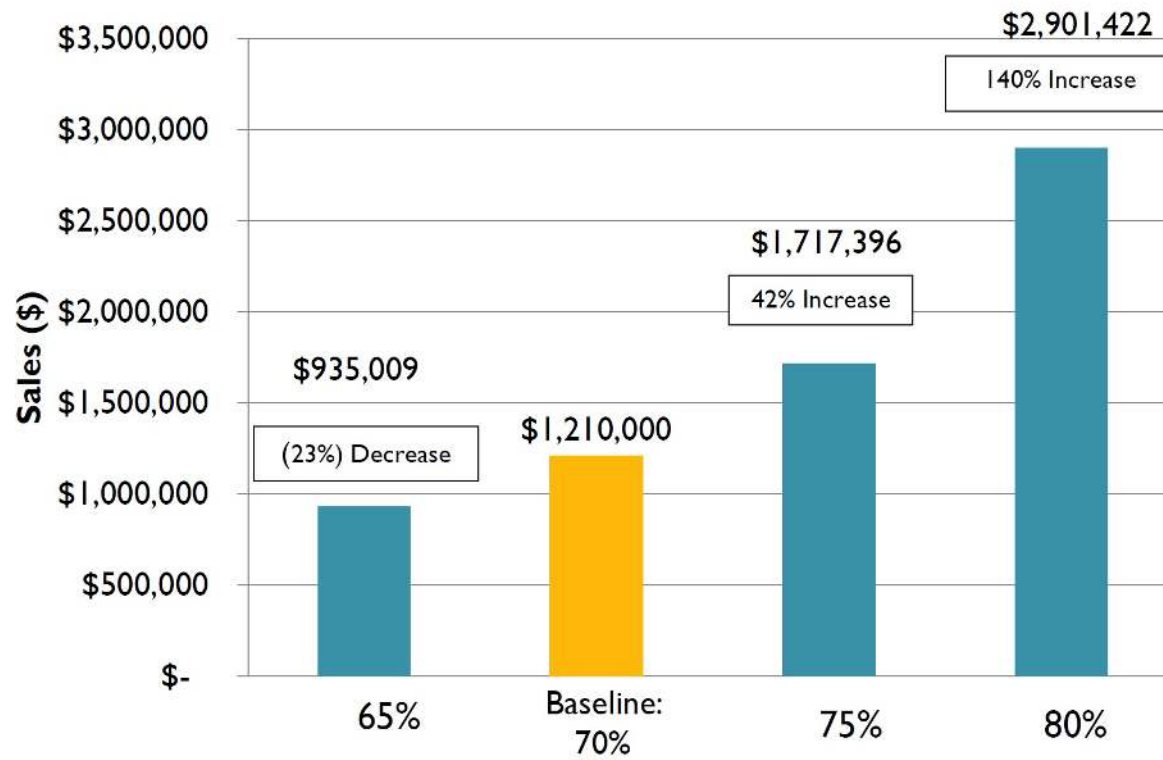
# What if we can't control our expenses?

## Sales with Additional Costs (Wholesale: Breakeven Sales)



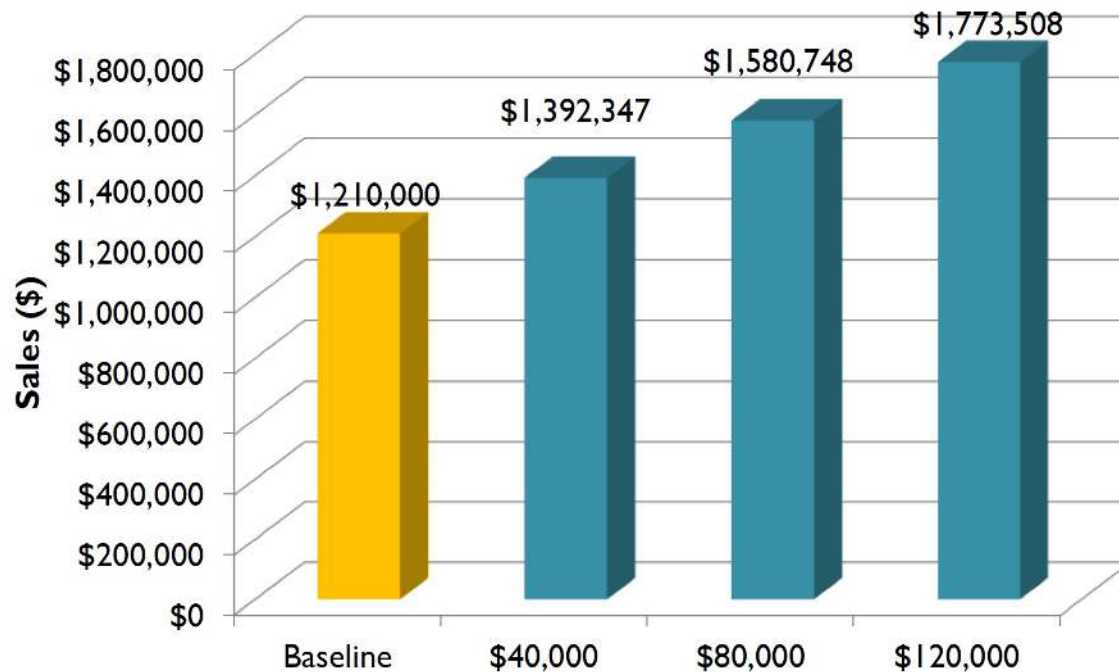
# Shouldn't we always pay farmers more?

## Payments to Producers (Wholesale: Breakeven Sales)



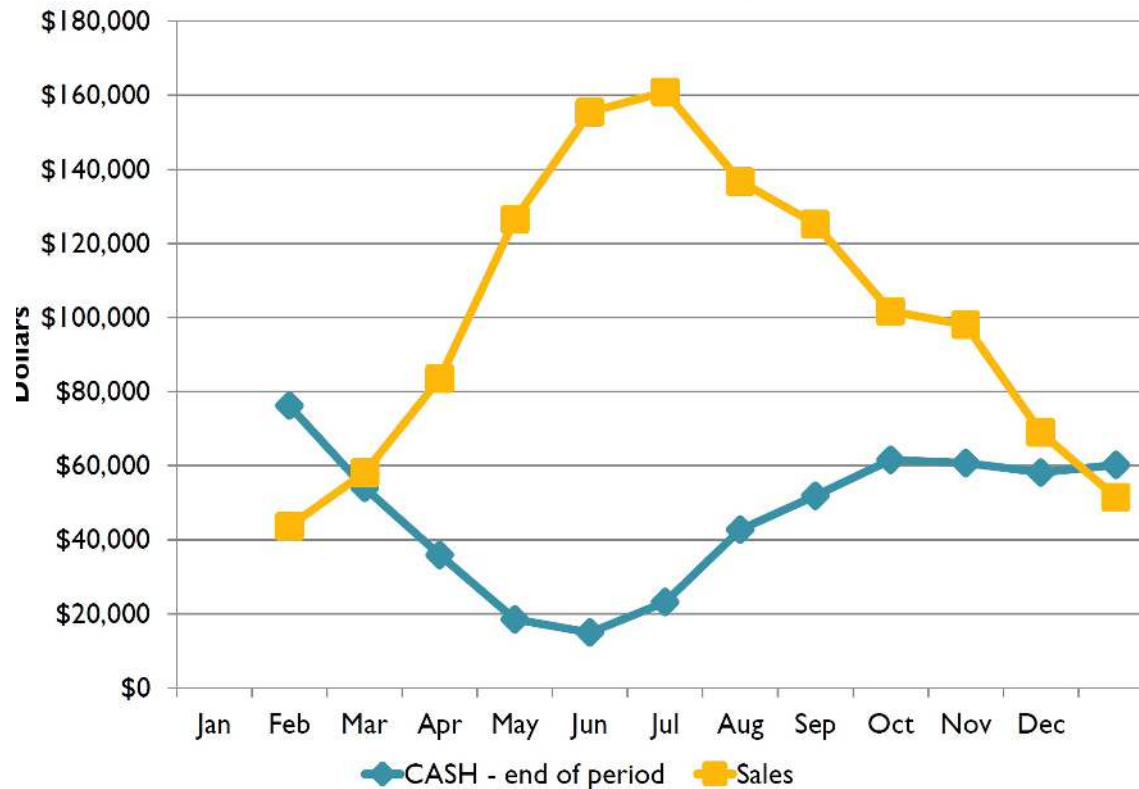
# What if we don't watch our labor?

## Sales Required for Breakeven with Additional Labor Costs (Wholesale: Breakeven Sales)



# What pays the bills? . . . .

## Monthly Cashflow vs. Sales (Wholesale: Breakeven)



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# Feasibility of co-op conversions . . .

- Product

- Market

*consistently profitable . . . .*

- People

- Resources (money, time, relationships, what else . . . )

*but also . . . .*

- Price and terms . . .

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# WAGES case study

- From a Cooperation Works peer . . .





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# What is WAGES? (now Prospera)

- Incubation model co-op developer
- Social purpose co-ops (*some ongoing subsidy from nonprofit parent*)



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# WAGES

- Had five successful projects already
  - Can success of one site be transferred to another
- (what are the key elements of success?)*



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# Four key elements

- Product
  - Market
  - People
  - Resources
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# Sources of data for market feasibility analysis

- **Primary Research** – *exclusive to the project*
  - Surveys
  - Focus groups, meetings
- **Secondary Research**
  - Industry standards (but not alone! – all markets are local)
  - Demographics, census data
  - Can be public sources or private market information
- **Analog Studies** – similar projects, peer data (sectoral strategies help here!)
- **Analysis and Synthesis**
  - Bringing information together
  - Projections, financial modeling
  - Sensitivity analysis – possible effects of changes in key variables

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# Miriam's Analysis . . .

- **Primary Research** – *exclusive to the project*
    - Surveys – **partnered with existing co-op**
    - Focus groups, meetings – **used CW contacts**
  - **Secondary Research**
    - Industry standards (but not alone! – all markets are local)
    - Demographics, census data – **not just income but density**
    - Can be public sources or private market information
  - **Analog Studies** – similar projects, peer data – **had this in-house**
  - **Analysis and Synthesis**
    - Bringing information together
    - Projections, financial modeling
    - Sensitivity analysis – possible effects of changes in key variables
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# Conclusions . . .

- Marin County residents loved the idea of a worker-owned cleaning company
- Marin County residents loved the idea of a green cleaning company
- Many county residents paid to have their houses cleaned
- WAGES was the market leader in “greenness”

**BUT**

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# Conclusions continued . .

- Most were loyal to their existing cleaners and would not change
- There was little market definition in what “green” cleaning meant
- WAGES was relatively expensive compared with the competition
- They offered more job security to workers, but not more immediate income so attracting workers depended understanding of long-term value
- Ultimately the density was just not there

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# Conclusions continued

- Sobering and disappointing, but . . .
  - Learned a lot
  - May move forward in some way at a later date





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# What Tolstoy has to say about feasibility analysis . . .

*“All happy families resemble one another, each  
unhappy family is unhappy in its own way”*

Tolstoy

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# Some parting thoughts . . . .

- Much depends on the ability to acknowledge and embrace less desirable information
  - Multiple, creative, avenues of information increase the quality of the overall analysis
  - If you want to change the world, it is unlikely you will be right 100% of the time
  - Sometimes timing is everything
  - Nothing prevents you from incorporating cooperative practices in a different legal structure
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Sometimes feasibility is all about starting where you are at . . .

