Feasibility Study For A New Product Line

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A feasibility study is mostly used when referring to product development, and it usually focuses on five major subjects. These five major subjects include technical, economic, legal, operational and scheduling feasibility studies. The subject of economics is commonly known and investigated. A feasibility study involves gathering information and analyzing a new product during the feasibility stage of product development to ascertain whether the new product will be profitable for a business (Bause, 2014). The main purpose of conducting a feasibility study is to identify a market, reduce the risk of a business losing money if the new product is not marketable, and ultimately determine the profitability of a new product.

Key Questions in a Feasibility Study

During the feasibility stage of new product development, the following questions are worth noting: Are the products real, or is there a demand for them? Can the product beat the market, the existing market competition? Finally, is it worth launching the product in the context of sales and revenues? After conducting a successful feasibility study, the results are documented in a business plan for pitching to potential investors or stakeholders.

Market Demand and Product Capability

A feasibility study is usually conducted to take into account the most important aspects of a new product line to ascertain that potential problems are mitigated. A feasibility study usually seeks to address several questions about a new product line. A feasibility study seeks to determine if there is an existing demand for the product. It tries to determine the features that are necessary for the product to gain market traction and perhaps the size and value of the market. It tries to find the market and demand while at the same time seeking to ascertain whether there is technology or any in-house capability to develop the product.

Competitive Analysis

The feasibility study also looks into the competitive environment for the new product. Can the new product compete with the existing ones in the market? What are some of the features of the new product that are giving it a competitive advantage? Competition for a new product line during a

feasibility study is assessed based on different metrics such as price, performance, unique features, the services it provides and reliability—the time it takes to reach the market. Competitive analysis of a new product should be sustainable and in line with the overall strategy of an organization, such as increasing market share or market capitalization.

Financial Viability and Return on Investment

Finally, the feasibility study ascertains whether investing in a new product line is worth it by looking at the estimated sales volumes and revenues. Development costs associated with the production of the new product line are assessed if they are acceptable and affordable. The profitability of the product is also looked into by checking if it is within the acceptable range and in comparison with the other opportunities that are currently available within the organization. The return on investment of the new product line is calculated to determine any risk associated with embarking on the development of the product.

The above aspects should also be looked into after all the information has been gathered and analyzed to aid decision-making on whether the new product line should be developed and whether it is worthwhile or whether funds should be allotted elsewhere. Entrepreneurs or even start-ups can make the same consideration if they need to diversify or develop a new product. Market research is another investment that should not be overlooked because it helps to get your product a defined market and how to communicate to the target customer when launching your product. Positive market research can aid in getting additional funding, especially for expensive products with high development costs.

Economic and Technical Feasibility

A feasibility study for a new product development looks into two main aspects: economic feasibility and technical feasibility. In an economic sense, feasibility studies aim to determine whether a new product will be profitable and viable for business, while technical feasibility studies look at the necessary activities for the development of a new product or the designing of that product (Bause, 2014).

Business Problem And Opportunity Statement

For the business to achieve its potential and expand in line with the organization’s long-term goals, it needs to identify the opportunities it has and the problems it is currently facing in the industry. The business problem statement is intended to help an organization identify issues hindering it from reaching its set goals, and it contains statistics and any other necessary information that can provide management with insight into the problem. Once the problem that the business is facing has been identified, an opportunity statement is drawn to describe the benefits that will accrue if the problem is

rooted out or an opportunity is seized in the market.

In this case of the business looking forward to launching a new product line in the market, which is intended to boost its revenues and increase market capitalization in line with the organization's long-term goal, some of the problems that are imminent include stiff competition from already existing products in the market, lack of funding to support the high cost of research and cost of developing a new product and pricing issues. Mitigating the above-listed problems will present the business with the opportunity to boost its revenues and increase its market share and capitalization upon launching the new product line on the market. These business opportunities are easily identifiable since they are already spelt out in the management goals and budgeted for in the fiscal business year.

Feasibility Study Requirements

A feasibility study has four components, which include product feasibility, market feasibility, organizational feasibility and financial feasibility, which are necessary to identify a viable business idea before investing money in it.

Product And Service Feasibility

Product feasibility analysis looks into the product that the management of an organization is proposing in the sense of whether the customers need it and whether it will gain market traction. Product or service feasibility analysis is necessary to ensure that the product reaches the market for the first time and at the right time. Conducting the usability test for the product during the feasibility study ensures that the organization gains the first customer immediately after the product is launched in the market. Testing the usability of the new product during the product feasibility study also ensures that defects in the design are identified early enough. Product and service feasibility studies help a business save time and capital since they will know well what the customers want, and they give them information in case there is a need for extra products or services (Lefebvre and Gendron, 2012).

Market Feasibility

Market feasibility analysis aims to assess the appeal of the product or service proposed to the customer. During market feasibility analysis, an organization should consider the industry attractiveness of the new product because, usually, a growing industry is more attractive to new businesses entering the market and new product lines being introduced in the market. Lucrative industries for the new product line are characterised by large and growing size, very pertinent to customers and selling of products according to the needs of the customers. A good market is more profitable for entry, and the competition is friendly for new product lines. Such markets are not crowded; hence, the price is fair for products and services, and the competition does not undermine

the pricing of products.

It is advisable to identify small emerging markets or underserved niches within a larger market to launch your new product line and increase your chances of gaining market traction. Launching a new product line in a niche market allows an organization to establish itself without stiff competition from already-established firms and enables the organization to satisfy the needs of the specialized section of the market (Lefebvre and Gendron, 2012).

Organizational Feasibility

This study aims to ascertain whether an organization is competent enough with sufficient management expertise and resources to launch a new product, service or new business idea. Management ability, the passion it has for the new product before launching it, and the extent to which it understands the market for the new product are fundamental.

Organizational feasibility also assesses whether the new product line will be in line with the organization's goals and objectives. It identifies if the new product line will be supported by the management and the stakeholders as well. Ensuring that an organization has managers with prowess enables it to reach out to a friend and other people to seal the knowledge gap that might exist in a new product line. Management with prowess has the advantage that the new product line becomes launched early in the market.

Resource efficiency is also determined to ascertain whether it is sufficient to sustain the development of the product. Resource availability is looked at in terms of the quality of the labour force, the possibility of acquiring intellectual property rights on the new product line, and sufficient office space for management. An intellectual property right is key for new product lines, which are meant to add value to the existing products in the market (Lefebvre and Gendron, 2012).

Under resource sufficiency, only non-financial resources are looked at so that financial resources are considered under financial feasibility. In case the necessary resources are unavailable, it may be impossible to proceed with launching a new product line. Some of the nonfinancial resources that can be necessary for launching a new product line include closeness to suppliers and customers, closeness to other firms for information sharing, the possibility of acquiring intellectual property rights and the possibility of getting supported by the local or state government.

Financial Feasibility

At this stage, the total cost associated with launching a new product line is compared with the estimated revenues to determine whether the new product line will be viable. If the expected revenues from the new product line will cover the total cost associated with the development and reaching the target market, then the product is considered viable (Bause, 2014).

This is the last stage of the feasibility study, and the following pertinent issues are considered: capital requirement, the rate of return of the investment, the attractiveness of the investment and perhaps the financial performance of other products. An organization should ascertain the feasibility of raising sufficient funds to enable the development of a new product line. Capital can be raised to do research and development, train staff, market and advertise, lease office space, and hire specialized employees.

Determining the capital requirement is necessary because budgets can be prepared for the anticipated capital purchases and operating expenses. Assessing the attractiveness of the new product line is also pertinent to ensure that there is demand and a ready market for the product. The attractiveness of the new product line can be assessed by monitoring the growth of sales and market share. The availability of internally generated funds to support the production and development of the new product line can also be used as an indicator of the overall attractiveness of the new product line (Bause, 2014).

Financial feasibility also looks at the new product line's chance of generating enough revenue by winning over customers and steady growth in sales. The financial feasibility of sound investment should also indicate that it sustains its costs and drives the growth of the organization.

Conclusion

A feasibility study is therefore important for the determination of the viability of a new business idea or project before an investment is made in it. A well-conducted feasibility study should guide decision-making within an organization regarding a particular new product line in the market. After conducting the feasibility study, a decision can be made either to draw up a business plan for the new product or to abandon the idea of investing in a new product line.

References

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