CHAPTER 3

feasi{

bility\textit{analysis}

Getting Personal
with
DAVID BATEMAN

What I’d like to be doing in 10 years
Doing a start-up of course

Best advice I’ve received
Recruit people whose strengths are your weaknesses

My biggest surprise as an entrepreneur
Tusting your instincts is key for success—even if it means disagreeing with partners/investors
In 2002, David Bateman was quite busy. Not only was he taking classes in the College of Business at Brigham Young University (BYU), he was running a company he started called DearElder.com. The idea for DearElder.com came to Bateman after he spent a year in Honduras as a Mormon missionary. One thing that’s hard for missionaries is to get letters and packages from home on a reliable basis. DearElder.com provided a service that made it much easier for families to keep in touch with their loved ones in the mission field.

At the same time Bateman was busy with school and DearElder.com, his wife, Amanda, was equally busy, working as a property manager at an apartment complex in Provo, Utah, where BYU is located. Bateman recalls visiting his wife at work and being struck by the huge stacks of paper ledgers on her desk. Most of the bookkeeping for the complex was done by using very basic accounting software. As is common in the apartment rental industry, tenants where Amanda worked paid their monthly rent by check or in cash. Bateman remembers thinking that his small company DearElder.com was more technologically sophisticated than the much larger apartment complex business.

This experience got Bateman thinking. He remembered that his idea for DearElder.com was prompted by one of his professors, who, in explaining the basis for a promising business idea, said to try to find a pain in the marketplace and come up with an idea to ease the pain. While in Honduras, Bateman often waited 3 to 4 weeks to get letters and packages from home—the pain that DearElder.com was founded to ease. To ease the pain that tenants and apartment complex owners felt in dealing with the cumbersome task of collecting rent, Bateman envisioned a Web-based environment where apartment complexes could collect rent online and offer other services. This approach, Bateman reasoned, would be a win-win for both tenants and apartment complex owners. The tenants would win by having a more convenient way to pay their rent, and apartment complexes would win by
1. Explain what a feasibility analysis is and why it's important.

2. Discuss the proper time to complete a feasibility analysis when developing an entrepreneurial venture.

3. Describe the purpose of a product/service feasibility analysis and the two primary issues that a proposed business should consider in this area.

4. Identify three primary purposes of concept testing.

5. Explain a concept statement and its contents.

6. Define the term usability testing and explain why it's important.

7. Describe the purpose of industry/market feasibility analysis and the three primary issues to consider in this area.

8. Explain the difference between primary research and secondary research.

9. Describe the purpose of organizational feasibility analysis and list the two primary issues to consider in this area.

10. Explain the importance of financial feasibility analysis and list the most critical issues to consider in this area.

After studying this chapter, you should be ready to:


discuss the importance of financial feasibility analysis and list the most critical issues to consider in this area.

The Property Solutions case illustrates a set of activities that is fundamental to the launch of a successful entrepreneurial venture—determining if the business idea is feasible. In David Bateman’s case, he didn’t commit to launching Property Solutions as a business before he had a reasonable degree of certainty that the business idea itself was feasible. He tested the idea by conducting surveys and hosting focus groups with both apartment complex managers and apartment tenants. He further tested the idea by entering business...
plan competitions and by subjecting the idea, the potential market, the capabilities of himself and his initial management team, and the financial aspects of the business to panels of discriminating judges.¹

In this chapter, we’ll discuss the importance of feasibility analysis and look at its four key areas: product/service feasibility, industry/market feasibility, organizational feasibility, and financial feasibility. Failure to conduct a feasibility analysis can result in disappointing outcomes, as illustrated in this chapter’s “What Went Wrong?” feature (which deals with satellite phones as a product offering).

Feasibility Analysis

Feasibility analysis is the process of determining if a business idea is viable. As a preliminary evaluation of a business idea, a feasibility analysis is completed to determine if an idea is worth pursuing and to screen ideas before spending resources on them. It follows the opportunity recognition stage but comes before the development of a business plan, as illustrated in Figure 3.1. When a business idea is deemed unworkable, it should be dropped or rethought. If it is rethought and a slightly different version of the original idea emerges, the new idea should be subjected to the same level of feasibility analysis as the original idea.

Although the sequence pictured in Figure 3.1 makes perfect sense, statistics show that the majority of entrepreneurs do not follow this pattern before launching their ventures.² Several studies have investigated why this is the case. The consensus of the research is that entrepreneurs tend to underestimate the amount of competition there will be in the marketplace and tend to overestimate their personal chances for success.³

Once a business idea is determined to be feasible, much work remains to be done to completely flesh out the idea when preparing to write the business plan and launch the venture. In Table 3.1 we show you the chapters of this book in which the various components of a feasibility analysis are discussed. A positive feasibility analysis gives a green light to an entrepreneur to further pursue a business idea. Each area of the feasibility analysis must then be completely explored in anticipation of launching the new venture.

A business idea developed by Trakus, Inc. provides an example of the importance of conducting a feasibility analysis. Unlike Iridium, Trakus effectively used feasibility analysis to determine that a business idea wasn’t feasible before spending a lot of time and effort on it. Let’s investigate this matter a bit more.

**FIGURE 3.1**

Role of Feasibility Analysis in Developing Successful Business Ideas

<table>
<thead>
<tr>
<th>Proposed business venture</th>
<th>Spending the time and resources necessary to move forward with the business idea depends on...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product/service feasibility</td>
<td>Yes in all four areas → Proceed with business plan</td>
</tr>
<tr>
<td>Industry/market feasibility</td>
<td>No in one or more areas → Drop or rethink business idea</td>
</tr>
<tr>
<td>Organizational feasibility</td>
<td></td>
</tr>
<tr>
<td>Financial feasibility</td>
<td></td>
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</tbody>
</table>
When Barry Bertiger's wife couldn't reach her clients via her cell phone while vacationing in the Caribbean, the Motorola engineer had an idea. He envisioned placing a constellation of 66 low-orbiting satellites in space that would allow subscribers to make phone calls from anywhere on earth. Although satellite phones were already available while Bertiger was considering this idea, there were problems: They used satellites at high altitudes, they were heavy, and they involved annoying quarter-second voice delays. By using low-altitude satellites, the phones could be smaller and the voice delay would be imperceptible. Bertiger called his solution Iridium.

Sound like a good idea? Unfortunately, it wasn't.

Let's see why.

To build the satellites and put them in orbit, Motorola established Iridium LLC as a separate company in 1991. The cost of putting the satellites in orbit was enormous, meaning that the company started with significant debt. The service was launched on November 1, 1998, in a ceremony at which Vice President Al Gore made the first call using Iridium. Iridium charged $3,000 for a handset and $3 to $8 per minute for a call. Iridium knew that its phone would be too large (they were the size of a brick) and that its service would be too expensive to compete with traditional cell phone service—which were cheaper and lighter and worked better in most areas. Second, because Iridium's technology depended on line of sight between the phone's antenna and an orbiting satellite, the functionality of the phone was limited. It couldn't be used inside moving cars, inside buildings, or in many urban areas where tall buildings obstructed the line of sight between the phone and the satellite. Dartmouth College professor Sydney Finkelstein, who wrote about Iridium in his book Why Smart Executives Fail, said that in studying the failure of Iridium, a top industry consultant told him, “You can't expect a CEO traveling on business in Bangkok to leave a building, walk outside to a street corner, and pull out a $3,000 phone.” Iridium had other annoying limitations as well. For example, in remote areas where electricity wasn’t available, the battery charger required special solar-powered accessories, which made it unappealing to busy travelers.

One has to wonder what type of feasibility analysis Iridium engaged in before it spent billions of dollars to so spectacularly fail. Another passage from Professor Finkelstein's book, quoting Iridium's second CEO, John Richardson, makes one wonder further:

"We're a classic MBA case study in how not to introduce a product. First we created a marvelous technological achievement. Then we asked how to make money on it."

Questions for Critical Thinking
1. Why do you think that those who were leading Iridium continued to push the concept forward despite all the difficulties being encountered in the early stages of the venture's life? Would you have pulled the plug on this venture sooner than actually happened? If so, at what point?
2. One of Iridium's problems was rapidly advancing cell phone technologies. As an entrepreneur, what would you do to remain abreast of technological developments and to monitor their meaning?
3. Why do you think the founders of Iridium and its financial backers didn't conduct a more thorough feasibility analysis before over
one billion dollars were committed to product development?

4. What can a startup firm learn from Iridium’s experience about the importance of feasibility analysis? Identify specific points in Iridium’s development where more concept testing and usability testing was needed.


Originally named Retailing Insights, Trakus was founded in 1997. The company’s business idea was to build computerized shopping carts for grocery stores called Videocarts. Using wireless technologies, Videocarts would know where each cart was in a store and would alert shoppers to specials and provide other useful information on a video display attached to the cart. If a shopper were in the cereal aisle, for example, the Videocart would show advertisements for cereals and let the shopper know what brands were on sale. The Videocart had other useful features, too, such as providing recipes and locating needed items in the store.

Another company’s earlier attempt to build a Videocart failed, primarily because of poor execution. Retailing Insights vowed to do it right and equipped its carts with all the latest technology. The company obtained $50,000 of seed money from an angel investor. **Seed money** is the initial investment made in a firm. The investor insisted that Retailing Insights conduct a feasibility analysis of the market for the product before using resources for product development. In response to this request, the company developed a very detailed description of the Videocart, which included all the product’s benefits for both the grocery store retailers and grocery products’ manufacturers. They showed this description to both retailers and manufacturers and were surprised by what they found. In fact, they discovered that neither party had an interest in the product. The previous cart’s bad reputation was a major concern for retailers, who were wary of trying another version of something that had already failed. Retailing Insights knew then that it would have to establish multiple test sites (at its own expense) to convince retailers that the carts were reliable. Manufacturers told the company that they would be willing to consider a new medium of advertising only if sufficient scale were established to justify the cost of producing ads and incurring related expenses. This stipulation led Retailing Insights to realize that the firm would have to sign up a significant portion of all grocery stores in the United States to get manufacturers excited about its product.

After considering these obstacles, the idea for the Videocart was abandoned. The company still thought it had core competencies, however, and after a brainstorming session decided to go in a completely different direction. A **core competency** is a resource or capability that serves as a source of a firm’s competitive advantage over its rivals. A new idea was conceived, based on Retailing Insight’s core competency in the area of miniature

**Locations in This Book of Additional Information**

**TABLE 3.1 About Each Component of Feasibility Analysis**

<table>
<thead>
<tr>
<th>Component of Feasibility Analysis</th>
<th>More Complete Discussion of Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product/service feasibility</td>
<td>Chapter 3 (this chapter)</td>
</tr>
<tr>
<td>Industry/market feasibility</td>
<td>Chapter 5: Industry and Competitor Analysis</td>
</tr>
<tr>
<td>Organizational feasibility</td>
<td>Chapter 6: Developing an Effective Business Model</td>
</tr>
<tr>
<td></td>
<td>Chapter 9: Building a New-Venture Team</td>
</tr>
<tr>
<td>Financial feasibility</td>
<td>Chapter 8: Assessing a New Venture’s Financial Strength and Viability</td>
</tr>
<tr>
<td></td>
<td>Chapter 10: Getting Financing or Funding</td>
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</tbody>
</table>
electronics, to build rugged little transmitters that could be put on athletes (in their helmets or on their clothing) that, together with a set of antennas in a stadium, could determine where every athlete was at any given time during a sports contest. The devices would generate real-time statistics during the course of a game, such as the percentage of time that a defensive lineman spent on his opponent’s side of the line of scrimmage during a football game. Such data could be fed to broadcasters to liven up the information they provided during the game’s broadcast, or it could even be displayed on the television screen. To test the product feasibility of the idea, Research Insights changed its name to Trakus and showed a detailed description and simulation of the device to its potential clientele. This time, the reception the company received was overwhelmingly positive. The only real concern was whether the device could actually be built. Trakus has since received venture capital financing and has tested the devices in National Hockey League games and in thoroughbred horse racing events. There are several fascinating streaming videos available on Trakus’s Web site (www.trakus.com), under the “news” heading, that show how the device works.

Trakus could have spent millions of dollars fully developing the Videocart only to find that the product had no real value in the marketplace. The feasibility analysis accomplished exactly what it was supposed to—it gave the company a candid assessment of the viability of its business idea before it consumed resources such as money. To its credit, the company responded by shifting to a different and viable product, causing the firm to move in a more promising direction.

A similar affirmation of the importance of feasibility analysis is provided by Jim Clark, the founder of Silicon Graphics and cofounder of Netscape. Clark is very blunt in the value he places on feasibility analysis—particularly the importance of getting out and talking to potential customers about the merits of a business idea:

The reason so few companies are successful is that most people don’t have a lot of common sense about what will sell and what won’t. You need to be very pragmatic about whether people will pay for a product based on your great idea. “This should be great and I am sure the world will beat a path to my door.” Once you have an idea for a product or service, you need to test the market. Talk to your potential customers about what they want. And don’t try to make the product do everything for everyone. Engineers often make this mistake. It’s the Swiss Army knife mentality. They want to put everything into it. Don’t. Go out and talk to customers as quickly as you can and put a copy of the product in front of them to get their feedback. When we went out to sell our first product at Silicon Graphics, people came back and said, “We don’t want this.” We sold them what they wanted.

Clark’s sentiments reflect exactly what David Bateman did with Property Solutions and what Trakus’s management team has done in that firm. Now let’s turn our attention to the four areas of feasibility analysis. The first area we’ll discuss is product/service feasibility.

**Product/Service Feasibility Analysis**

Product/service feasibility analysis is an assessment of the overall appeal of the product or service being proposed. Before rushing a prospective product or service into development, a firm should be confident that it’s what customers want and that the product or service will have an adequate market. In launching a new venture, it is easy for an entrepreneur to get caught up in activities such as raising money, hiring employees, buying computer equipment, signing leases, writing press releases, and so on. This is understandable, in that these are indeed important activities. However, for most firms, the number one success factor is delivering a superior product or service. The importance of knowing the feasibility of a new product or service idea is affirmed by R. G. Cooper, a widely published author in the area of product development, who wrote,
New product success or failure is largely decided in the first few plays of the game—in those critical steps and tasks that precede the actual development of the product. The upfront homework defines the product and builds the business case for development.8

Table 3.2 provides a summary of the benefits of conducting a detailed and thorough product/service feasibility analysis. As shown in the table, the benefits and rewards of conducting the analysis are well worth the effort. Two primary tests—concept testing and usability testing—constitute product/service feasibility analysis.

**Concept Testing.** A **concept test** involves showing a preliminary description of the product or service idea to prospective customers to gauge customer interest, desirability, and purchase intent.9 It was after the concept test that Retailing Insights abandoned its plans to build the Videocart. There are three primary purposes for a concept test, as shown in Figure 3.2.10 The first purpose is to validate the underlying premise of the product or service idea. This is done by showing the concept test to potential customers and asking them to complete a short questionnaire. The questionnaire should

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>Getting the product right the first time</td>
<td>You know what customers want because you asked them. You also tested a product’s usability and the quality of the user’s experience.</td>
</tr>
<tr>
<td>A beta (or early adopter) community emerges</td>
<td>The firms or individuals that participate in the feasibility analysis often become a company’s first customers or “adopters.” These early customers provide additional feedback as the product or service rolls out.</td>
</tr>
<tr>
<td>Avoiding any obvious flaws in product or service design</td>
<td>By asking prospective customers to test the usability of a product or the ease of use of a service, obvious design flaws are usually uncovered.</td>
</tr>
<tr>
<td>Using time and capital more efficiently</td>
<td>Because you have a better idea of what customers want, you won’t spend as much time or money chasing ideas that customers don’t want.</td>
</tr>
<tr>
<td>Gaining insight into additional product and service offerings</td>
<td>Often, conducting a feasibility analysis for one product or service prompts the recognition of the need for additional products or services.</td>
</tr>
</tbody>
</table>
include questions pertaining to product features, price, location (if applicable), and suggestions for improving the concept. The second purpose of the concept test is to help develop the idea. For example, a firm may show a product idea to a prospective group of customers, get feedback, tweak the idea, and then show it to another group of customers for additional feedback. This process can be repeated several times to help develop and strengthen the idea. The third purpose of the concept test is to estimate the potential market share the product or service might command.

Some type of buying intention question appears in almost every concept test, usually in the form of a survey questionnaire that looks something like this:

1. Definitely would buy
2. Probably would buy
3. Might or might not buy
4. Probably would not buy
5. Definitely would not buy

The number of people who definitely would buy and probably would buy are typically combined and used as a gauge of customer interest. One caveat is that people who say that they intend to purchase a product don’t always follow through, so the numbers resulting from this activity are almost always optimistic. Nonetheless, the numbers do give a business an indication of the degree of consumer interest in a firm’s product or service.

If a firm’s potential customers are geographically dispersed, the concept test can be completed by mail or online. There are many affordable and easy-to-use online platforms for collecting survey data. An example is Zoomerang (www.zoomerang.com). Zoomerang provides services ranging from administering basic online surveys to consulting services regarding how to select the participants in a survey and statistically analyze the results.

A well-designed concept test, which is usually called a concept statement, includes the following:

- **A Description of the Product or Service Being Offered**: This section details the features of the product or service and may include a sketch of it as well. A computer-generated simulation of the functionality of the product or service is also helpful.
- **The Intended Target Market**: This section lists the businesses or people who are expected to buy the product or service.
- **The Benefits of the Product or Service**: This section describes the benefits of the product or service and includes an account of how the product or service adds value and/or solves a problem.
A Description of How the Product will be Positioned Relative to Similar Ones in the Market: A company’s position describes how its product or service is situated relative to competitors.

A Description of How the Product or Service will be Sold and Distributed: This section specifies whether the product will be sold directly by the manufacturer or through distributors or franchisees.

The concept statement for a fictitious company named New Venture Fitness Drinks is provided in Figure 3.3. New Venture Fitness Drinks sells a line of nutritious fitness drinks and targets sports enthusiasts. Its strategy is to place small restaurants, similar to smoothie restaurants, near large sports complexes. It is important to keep a concept statement relatively short (no more than one page) to increase the likelihood that it will be read.

Rather than developing a formal concept statement, sometimes entrepreneurs conduct their initial product/service feasibility analysis by simply talking through their ideas with people and gathering informal feedback. This approach was pursued by Jeremy Jaech, the founder of Trumba.com, an online calendar service. In describing how his company conducted its initial product/service feasibility analysis, Jaech recalls:

The first thing we (did) was to go out and talk to a lot of different people. We talked to about 25 couples about their calendaring, and what they did to manage all the different aspects of their lives. The first hurdle was determining if our idea held water with this broader group of people, what they were using today, and how difficult we thought it would be to switch them over to our solution.14

<table>
<thead>
<tr>
<th>New Business Concept</th>
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<tbody>
<tr>
<td>New Venture Fitness Drinks Inc.</td>
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<table>
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<tr>
<th>Product</th>
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<tbody>
<tr>
<td>New Venture Fitness Drinks will sell delicious, nutrition-filled, all-natural fitness drinks to thirsty sports enthusiasts. The drinks will be sold through small storefronts (600 sq. ft.) that will be the same size as popular smoothie restaurants. The drinks were formulated by Dr. William Peters, a world-renowned nutritionist, and Dr. Michelle Smith, a sports medicine specialist, on behalf of New Venture Fitness Drinks and its customers.</td>
</tr>
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<table>
<thead>
<tr>
<th>Target Market</th>
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<tbody>
<tr>
<td>In the first three years of operation, New Venture Fitness Drinks plans to open three or four restaurants. They will all be located near large sports complexes that contain soccer fields and softball diamonds. The target market is sports enthusiasts.</td>
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<table>
<thead>
<tr>
<th>Why New Venture Fitness Drinks?</th>
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<tbody>
<tr>
<td>The industry for sports drinks continues to grow. New Venture Fitness Drinks will introduce exciting new sports drinks that will be priced between $1.50 and $2.50 per 16-ounce serving. Energy bars and other over-the-counter sports snacks will also be sold. Each restaurant will contain comfortable tables and chairs (both inside and outside) where sports enthusiasts can congregate after a game. The atmosphere will be fun, cheerful, and uplifting.</td>
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<table>
<thead>
<tr>
<th>Special Feature—No Other Restaurant Does This</th>
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<tbody>
<tr>
<td>As a special feature, New Venture Fitness Drinks will videotape sporting events that take place in the sports complexes nearest its restaurants and will replay highlights of the games on video monitors in their restaurants. The “highlight” film will be a 30-minute film that will play continuously from the previous day’s sporting events. This special feature will allow sports enthusiasts, from kids playing soccer to adults in softball leagues, to drop in and see themselves and their teammates on television.</td>
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<tr>
<th>Management Team</th>
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<tbody>
<tr>
<td>New Venture Fitness Drink is led by its cofounders, Jack Petty and Peggy Wills. Jack has 16 years of experience with a national restaurant chain, and Peggy is a certified public accountant with seven years of experience at a Big 4 accounting firm.</td>
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</tbody>
</table>
While not a complete approach, there is merit to the give-and-take that entrepreneurs like Jaech experience by talking with prospective customers rather than just handing them a concept statement and asking them to complete a questionnaire. As a result, the ideal combination is to have a written concept statement, like the one shown in Figure 3.3, with a questionnaire that the participants can complete but also engage in verbal give-and-take with as many of the participants as is practical.

Usability Testing. A concept test is usually followed by the development of a prototype or model of the product, as appropriate and necessary. A prototype is the first physical depiction of a new product, which is usually still in a rough or tentative mode. For products, like a new board game, a prototype is needed to get more substantive feedback than can be gleaned from a concept statement. It is also necessary to have a prototype if feedback will be solicited from potential licensees of a product or the attendees at an industry trade show. There are many ways to get a prototype made if the process requires specialized equipment or expertise. For example, the ThomasRegister (www.thomasnet.com), a directory of all the manufacturers in the United States, has a listing of rapid prototyping services. Similarly, the American Institute of Graphic Arts (www.aiga.org) lists designers and prototype engineers looking for work. Individual projects can also be listed on more general job sites like Craigslist.com and Monster.com. In some instances, a virtual prototype, which is cheaper than a physical prototype, is sufficient.

A virtual prototype is a computer-generated 3D image of an idea. It displays an invention as a 3D model that can be viewed from all sides and rotated 360 degrees.

It is a judgment call on the part of an entrepreneur regarding when to incur the expense of having a prototype made. One of the main advantages of having a prototype available is that it permits usability testing to take place. Usability testing is a form of product/service feasibility analysis, which measures a product’s ease of use and the user’s perception of the experience. Usability tests are sometimes called user tests, beta tests, or field trials, depending on the circumstances involved. There are many forms of usability tests. Some entrepreneurs, working within limited budgets, develop a fairly basic prototype and ask friends and colleagues to use the product, then complete an evaluation form or give verbal feedback. Although fairly rudimentary, this approach is superior to the decision to not do any testing at all. Other companies have elaborate usability testing programs and facilities.

Usability testing is particularly important for software and Web site design. According to one survey, 36 percent of all Web site owners in the United States conduct usability research. Figure 3.4 illustrates the way in which concept and usability testing unfolds at Activision, a maker of electronic games. Activision calls it the “green light process.” As a product passes through the various stages of testing, it must receive a “green light” before it is allowed to progress to the next stage. At any point in the process, a product can also receive a “red light” and be terminated or sent back for further development and review.

**FIGURE 3.4**

Role of Feasibility Analysis in the Development of Successful Business Ideas at Activision

<table>
<thead>
<tr>
<th>Step 1</th>
<th>Is the game concept valid and marketable?</th>
</tr>
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<tbody>
<tr>
<td>Step 2</td>
<td>Does the game design prove the concept’s validity, marketability, and technical feasibility?</td>
</tr>
<tr>
<td>Step 3</td>
<td>Based on the development of a prototype, should the game be approved for production?</td>
</tr>
<tr>
<td>Step 4</td>
<td>Is production processing according to budget, schedule, and quality?</td>
</tr>
<tr>
<td>Step 5</td>
<td>Is the game being completed in a timely manner consistent with creative and technical goals?</td>
</tr>
</tbody>
</table>
The boxed feature titled “Partnering for Success” describes an approach to usability testing employed at Salesforce.com.

**Industry/Market Feasibility Analysis**

**Industry/market feasibility analysis** is an assessment of the overall appeal of the market for the product or service being proposed. For feasibility analysis, there are three primary issues that a proposed business should consider: industry attractiveness, market timeliness, and the identification of a niche market.18

**Learning Objective**

7. Describe the purpose of industry/market feasibility analysis and the three primary issues to consider in this area.

Companies such as Fisher-Price, which makes toys for young children, appreciate the importance of usability testing. Fisher-Price has set up this usability testing lab to observe how children use and interact with its products.

Salesforce.com: Partnering with Customers in a “User-Centric” Fashion to Build Software Products That Work

www.salesforce.com

Typically, firms don’t consider their customers “partners.” But Salesforce.com has adopted an approach to product development and usability testing that is so customer-centric the customer is a true partner in the company’s efforts. Here’s Salesforce.com’s story and how its approach to usability testing works.

Salesforce.com was founded in 1999 by former Oracle executive Marc Benioff to pioneer the idea of “software as a service.” Traditionally, companies have bought software and then run it on their own computers. Salesforce.com’s idea was to let companies rent software and run it on their servers. The niche that Salesforce.com selected was customer relationship management (CRM) software. As a result, the company’s business model was to build CRM software, run it on its computers, and sell access to the software via the Internet as a service. CRM software helps organizations keep track of current and prospective customers.

At the time Salesforce.com was started, CRM software was being sold by Siebel Systems, Oracle, IBM, and other large firms. The constant complaint from users was that the software was unwieldy, difficult to use, updated infrequently, and could only be accessed through a firm’s proprietary computer systems. Salesforce.com set out to counter these complaints by making more user-friendly software, and because it hosted its own software on the Web, the software could be updated frequently and users could log onto their company’s account anywhere an Internet connection and Web browser were available. The biggest objection that Salesforce.com had to overcome was the...
fact that it would be hosting its customers’ sensitive sales and customer data. Most companies consider their sales and customer data to be highly proprietary, and it was unclear whether they would trust another firm to store it. Ultimately, Salesforce.com was able to overcome this objection and is now a vibrant, growing, publicly traded firm. What ultimately swayed its customers and won the day was its products' ease of use and low prices and the company’s “user-centric” approach to software design and improvement. From the beginning, Salesforce.com adopted a “user-centric” approach, meaning that the company consistently involved small groups of users in the design and usability testing of its products—an approach that is still being utilized today. The company also listens to its users and studies their behavior. To illustrate how this works, Pip Coburn, in his book *The Change Function*, lists Salesforce.com’s eight-step approach to utilizing user feedback and behavior:

**Step 1** Salesforce.com translates customer complaints and requests into possible new features.

**Step 2** They also watch the activity in the applications—which they can do since Salesforce.com hosts them. They can see what is and isn’t used.

**Step 3** They formulate new features and iterate current features based on this information.

**Step 4** They test new features with real live clients who might come in to talk for a while about it. In return, Salesforce.com personnel might say thanks tons and give their clients a $10 Starbucks gift card.

**Step 5** Design and development gets more feedback.

**Step 6** Salesforce.com iterates until they are set to deploy

**Step 7** They ask their users for permission to include any changes—functionality is never forced.

**Step 8** Then they start all over again, repeating a fairly straightforward low-risk, community-enhancing process.

Performing these steps results in a self-perpetuating cycle. As the company reacts to the suggestions and behaviors of its customers, those customers become more willing to provide suggestions and be more transparent in the way they use software online. Along with getting good feedback on the quality and usability of its products, as an added benefit, the company is also creating a community of Salesforce.com users. A community of users is likely to remain more loyal and committed to a company than a more diverse set of customers and is more likely to spread the word about the advantages of using a company’s products.

**Questions for Critical Thinking**

1. What benefits do customers experience by becoming heavily involved in the development and usability testing of their vendor's products? Why would a customer or potential customer of Salesforce.com take the time necessary to help develop and test its products?

2. Do you think Salesforce.com would be willing to reciprocate with its partners? In other words, if your small entrepreneurial venture developed a prototype of a product that Salesforce.com might be able to use, do you think the company would be interested in partnering with you to test its feasibility? What would you do to try to convince Salesforce.com to work with you in this manner if its initial response to your request was negative?

3. What can an entrepreneurial venture conducting its first feasibility analysis learn from the Salesforce.com approach to product development and usability testing?

4. Provide at least three additional examples of companies that sell software as a “service” rather than as a physical product. Do you think selling software as a service is a trend that will continue to gain momentum? What are the biggest advantages and disadvantages to this approach to selling software?


---

**Industry Attractiveness.** Industries vary considerably in terms of their growth rate, as shown in Table 3.3. Typically, an industry that is growing is more attractive because it is more receptive to new entrants and new product introductions. A primary determinant of a new venture’s feasibility is the attractiveness of the industry it chooses. This is why many venture capitalists, such as Don Valentine of Sequoia Capital, first assess the attractiveness of a start-up’s industry when considering funding a new venture. In general, the most attractive industries are characterized by the following:
Being large and growing (with growth being more important than size).
Being important to the customer. These markets typically sell products or services that customers “must have” rather than “would like to have.” As you recall from economics, these attractive products have inelastic demand curves.
Being fairly young rather than older and more mature. These markets tend to be early in their product life cycle, when price competition is not intense.
Having high rather than low operating margins. These markets are simply more profitable for entry and competition purposes.
Not being crowded. A crowded market, with lots of competitors, is typically characterized by fierce price competition and low operating margins.

Although this is admittedly an ideal list, the extent to which a new business’s proposed industry’s growth possibilities satisfy these criteria should be taken seriously. For example, an entrepreneur may have an idea for a new product or service that would ideally suit the needs of a particular customer. The market may not be big enough, however, to support a business. On the flip side, sometimes entrepreneurs err by placing too much weight on the overall size and attractiveness of the industry they are entering, which makes the issue of industry attractiveness a careful balancing act. This point is vividly illustrated by Michael A. Cusumano, a Distinguished Professor in the Sloan School of Management at MIT and an author of several books on the software industry:

One of the worst ways for entrepreneurs to explain potential market attractiveness is to describe some huge market or segment (such as how much U.S. financial institutions spent the previous year on information technology and content, or how much U.S. firms spent the previous year in software contracting) and they argue that, if they could get only 1 or 2 percent of the multibillion-dollar market, they would have a viable business. Size alone does not make a market or a business proposition attractive. There is no guarantee that a start-up will get any percentage of a market unless the start-up has some real advantage over its competitors, good access to customers, and some way of preventing imitation, among other things.20

### TABLE 3.3 Three-Year Industry Growth in Revenues

<table>
<thead>
<tr>
<th>Industry</th>
<th>Three-Year Revenue Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting and Financial Software</td>
<td>6.7</td>
</tr>
<tr>
<td>Apparel and Accessories Retail</td>
<td>6.3</td>
</tr>
<tr>
<td>Appliances</td>
<td>(10.6)</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>23.6</td>
</tr>
<tr>
<td>Consumer Electronics &amp; Appliance Retail</td>
<td>5.1</td>
</tr>
<tr>
<td>Footware</td>
<td>5.1</td>
</tr>
<tr>
<td>Internet Auctions</td>
<td>18.8</td>
</tr>
<tr>
<td>Internet Content Providers</td>
<td>72.2</td>
</tr>
<tr>
<td>Magnetic Disk Storage</td>
<td>4.3</td>
</tr>
<tr>
<td>Newspaper Publishing</td>
<td>6.9</td>
</tr>
<tr>
<td>Outsourced Human Resource Services</td>
<td>8.0</td>
</tr>
<tr>
<td>Personal Computers</td>
<td>16.3</td>
</tr>
<tr>
<td>Sauces &amp; Condiments</td>
<td>1.1</td>
</tr>
<tr>
<td>Semiconductors</td>
<td>13.4</td>
</tr>
<tr>
<td>Specialty Eateries</td>
<td>31.8</td>
</tr>
<tr>
<td>Toys &amp; Games</td>
<td>1.2</td>
</tr>
</tbody>
</table>

This quotation is a sobering reminder that industry attractiveness is only one of many factors that lead to entrepreneurial success.

To fully understand the dynamics of the industry a firm plans to enter, an entrepreneur should conduct both primary and secondary research. **Primary research** is original research and is collected by the entrepreneur. In assessing the attractiveness of a market, this typically involves talking to potential customers and key industry participants. **Secondary research** probes data that are already collected. The sources of secondary research include industry-related publications, government statistics, competitors’ Web sites, and industry reports from respected research firms, such as Forrester Research. There are also many authoritative sources of industry-related data available online or in hard copy, as shown in Table 3.4. Most universities buy licenses or subscriptions to these resources and provide free access to their students, faculty, and staff. As evidence that primary and secondary research has been completed, entrepreneurs should have concrete numbers relative to the market size and projected growth rate of the industry that they plan to enter. When looking for funding, for example, it is not enough for an entrepreneur to simply say that the research supports that the firm will be participating in a “large and growing market.” Instead, an entrepreneur should have hard data to support such a claim.

A caveat to this discussion is that it is impossible to analyze markets that don’t exist. This is a challenge confronting entrepreneurs trying to bring breakthrough products or services to market. **Breakthrough products and services** establish new markets or new market segments. Most new products and services feature incremental improvements to existing ones, such as a slightly better DVD player or computer program, while examples of breakthrough products and services include Yahoo! and Internet search engines, eBay and online auctions, and Intuit and personal finance software. Each of these companies pioneered the market it entered. In these instances, it is particularly important that a firm conduct primary research to determine if there is a sufficient market for its product or service.

**Market Timeliness.** A second consideration in regard to the industry/market feasibility of a business idea is the timeliness of the introduction of a particular product or service.

<table>
<thead>
<tr>
<th>TABLE 3.4 Resources to Facilitate an Industry Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Source</strong></td>
</tr>
<tr>
<td><em>Dunn &amp; Bradstreet Business Rankings</em></td>
</tr>
<tr>
<td><em>Encyclopedia of American Industries</em></td>
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<tr>
<td><em>Hoover’s Online</em></td>
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<tr>
<td><em>Mergent Online</em></td>
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<tr>
<td><em>Plunkett’s Industry Almanac Series</em></td>
</tr>
<tr>
<td><em>Standard &amp; Poor’s Industry Surveys</em></td>
</tr>
<tr>
<td><em>U.S. Industrial Outlook</em></td>
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<tr>
<td><em>U.S. Industry Profiles</em></td>
</tr>
<tr>
<td><em>The Wall Street Journal</em></td>
</tr>
</tbody>
</table>

The factors to consider vary, depending on whether a prospective business is planning to introduce a breakthrough new product or service or one that is an improvement on those currently available.

If the product or service is an improvement on those already available in the marketplace, the first consideration is to determine whether the window of opportunity for the product or service is open or closed. As explained in Chapter 2, some markets, such as the one for Internet search engines, are either saturated with competitors or dominated by competitors with sufficient market power that they are essentially closed to new entrants. Other markets, such as specialty eateries, are characterized by windows of opportunity that are wide open and are receptive to new entrants. The second consideration is to study the simple economics of a marketplace to determine the current dynamics of the industry and whether the timing for a new business is good. For example, the personal computer industry is currently consolidating—look at Hewlett-Packard’s acquisition of Compaq in 2001, Gateway’s acquisition of eMachines in 2004, and Dell’s acquisition of Alienware (a high-end gaming machine) in 2006. When an industry consolidates, a handful of large firms acquire or force out of business the smaller firms in the industry and take over the majority of the business. This trend in the personal computer industry suggests that it is not a good time to launch a new personal computer firm.

For new businesses that are developing a potential breakthrough product or service, the issue of whether to try to capture a first-mover advantage is vitally important. A first-mover advantage is a sometimes insurmountable advantage gained by the first significant company to move into a new market. Whether getting to market first is truly an advantage remains an active topic for debate. Proponents of first-mover advantage argue that first movers can set the standard for an industry and typically have an advantage in terms of brand recognition and market power. There are many examples of first movers who have captured these advantages, including Palm, Yahoo!, and Nokia. Others argue that there are an equal number of disadvantages to being first to market, such as high research-and-development costs, the risk of seeing whether the product or service will catch on, and the risk that a competitor will study the first-mover’s product or service and quickly come out with a slightly better version of essentially the same thing. This last disadvantage is compelling. In fact, the term second-mover advantage is used to describe the advantage that the second rather than the first entrant has in entering a market. The second mover has the advantage of studying all the mistakes that were made by the first mover, something that observers believe helps the second mover build a better product or service.

Identifying a Niche (or Vertical) Market. The final step in industry/market feasibility analysis is identifying a niche market in which the firm can participate. A niche market is a place within a larger market segment that represents a narrower group of customers with similar interests. Most successful entrepreneurial firms do not start by selling to broad markets. Instead, most start by identifying an emerging or underserved niche within a larger market, as discussed in more detail in Chapter 11. Another useful way of thinking about this topic is to distinguish between vertical and horizontal markets. A vertical market, which is analogous to a niche market, focuses on similar businesses that have specific and specialized needs. For instance, a start-up might focus on providing accounting software designed specifically for specialty eateries, like small coffee or smoothie restaurants. A horizontal market meets the specific need of a wide variety of industries, rather than a specific one. A start-up that tried to market an accounting software product to all small businesses would be trying to sell into a horizontal market.

For a new firm, selling to a niche or vertical market makes sense for at least two reasons. First, it allows a firm to establish itself within an industry without competing against major participants head-on. Second, a niche strategy allows a firm to focus on serving a specialized market very well instead of trying to be everything to everybody in a broad market, which is nearly impossible for a new entrant. An example is Prometheus Laboratories, a firm selling diagnostic services to the 15,000 doctors in the United States specializing in gastroenterology and rheumatology. Explaining his firm’s strategy of developing world-class expertise in a specialized area, Prometheus CEO Michael Walsh said, “We want to be an inch wide and a mile deep.”
PART 2 • DEVELOPING SUCCESSFUL BUSINESS IDEAS

The challenge in identifying an attractive niche or vertical market is that it must be large enough to support a proposed business yet small enough to avoid initial direct head-to-head competition with industry leaders. If a clearly defined niche market cannot be identified, it is difficult to envision the industry/market feasibility of a new business venture.

More information about the value of vertical versus horizontal markets for start-up firms is provided in the “Savvy Entrepreneurial Firm” feature in this chapter.

Online Social Networks: Winning by Occupying Vertical Rather Than Horizontal Markets

For the first week of July 2006, what do you think was the single most visited Web site in the United States? Yahoo!? Google? Microsoft’s MSN Hotmail? The answer is no to all the above. The winner: MySpace.com—a social networking site.

Social networking is a growing phenomenon on the Internet. Social networking is based on the ability of people to connect to one another via technology, a trend most observers feel is here to stay. It’s important from a business standpoint, because sites like MySpace.com and Facebook, which are relatively new, have garnered tremendous market share in terms of people’s time and mindshare. Just a few short years ago, it would have been unfathomable to think that a social networking start-up would pass Google and Yahoo! as the most visited site on the Internet.

For the purpose of this chapter, the types of social networking sites that are gaining the most traction and those that aren’t are the focal point of interest. There are basically two categories of social networking Web sites. The first is horizontal sites, which are very broad in their appeal and try to connect people of all interests and age groups. This group includes Friendster, Hi5, Tribe.net, and Orkut, which is Google’s social networking site. The second category is vertical sites, which focus on more narrow and tightly focused target markets. The biggest is MySpace.com, which is ostensibly about music but is now intensely focused on the teenage demographic. Facebook, which helps connect students at colleges and universities, is another large vertical site. Other vertical sites that have surfaced over the past couple of years include sites that focus on niches such as art, tennis, football, soccer, dating, and even cosmetic surgery. Interesting examples of tightly focused vertical social networking sites include Dogster (www.dogster.com), Catster (www.catster.com), and Craftster.org (www.craftster.org).

The most successful social networking sites, by far, have been the vertical sites, which focus on a specific area of interest. In comparison, the two most heavily touted horizontal sites, Friendster and Tribe.com, have both struggled. David Beisel, a prominent Boston, Mass., venture capitalist, believes that the horizontal sites have struggled because their primary mission, which is basically to sign people up so they can demonstrate that they have friends, lacks emotion and isn’t very compelling. The vertical sites, in contrast, focus on things that people care about, a focus that is more compelling, whether it’s connecting to other college students or talking about training hunting dogs. People like to share their experiences about something they are passionate about, and the vertical sites give individuals the opportunity to talk directly to like-minded people. It’s much harder for the horizontal sites, which try to be all things to all people, to elicit the same degree of passion.

Ironically, it typically is more expensive to try to gain market share in a horizontal market than a vertical market, even though in many cases the vertical markets offer more realistic opportunities for success.

Questions for Critical Thinking

1. What does this feature teach start-up entrepreneurs about the value of vertical versus horizontal markets?
2. Why might a social networking site that appeals to a vertical market, like dog owners or cancer patients, actually have more business potential (for targeted ads or e-commerce) than a broader-based horizontal site with many more members?
3. Why do you think Facebook has been so popular on college campuses? What can entrepreneurs preparing to launch their ventures learn from studying Facebook and what has made it successful?
4. If you launched a social networking site to target a vertical market, what market would you target? What would you expect the demographic makeup of your user group to be?

Organizational Feasibility Analysis

Organizational feasibility analysis is conducted to determine whether a proposed business has sufficient management expertise, organizational competence, and resources to successfully launch its business. There are two primary issues to consider in this area: management prowess and resource sufficiency.

Management Prowess. A firm should candidly evaluate the prowess, or ability, of its management team. Because this requires detailed introspection, the entrepreneur must complete a self-assessment. Two of the most important factors in this area are the passion that the solo entrepreneur or the management team has for the business idea and the extent to which the management team or solo entrepreneur understands the markets in which the firm will participate.30 There are no practical substitutes for strengths in these areas.31 Although financing, for example, is important, it is not as important as passion for the business and knowledge of the customer. Scott Cook, the founder of Intuit, makes this point:

Financing is really not the most important issue. If you have a great business, know your customer, and know that what you are doing is superior to what’s on the market—that’s what it takes to win. But if you have a lousy business idea, financing won’t turn it into a good one. Getting money is a necessary requirement, but I really wouldn’t focus on the financing. I would focus on knowing the customer cold.32

An example of a company that suffered by having a management team that was unfamiliar with the industry it entered is illustrated in the “What Went Wrong?” feature in Chapter 9. The feature focuses on an Internet start-up named Garden.com, which was launched in 1995 to sell gardening supplies on the Internet. None of Garden.com’s three founders had any experience in garden retailing, nor were they knowledgeable gardeners. The firm failed after losing many millions of dollars of its investors’ money.

Several other factors should be considered regarding management prowess. Managers with extensive professional and social networks have an advantage in that they are able to reach out to colleagues and friends to help them plug experience or knowledge gaps. In addition, a potential new venture should have an idea of the type of new-venture team that it can assemble. A new-venture team is the group of founders, key employees, and advisers that either manage or help manage a new business in its start-up years. If the founder or founders of a new venture have identified several individuals they believe will join the firm after it is launched and these individuals are highly capable, that knowledge lends credibility to the organizational feasibility of the potential venture. The same rationale applies for highly capable people who a new venture believes would be willing to join its board of directors or board of advisers.

Resource Sufficiency. The second area of organizational feasibility analysis is to determine whether the potential new venture has sufficient resources to move forward to successfully develop a product or service idea. The focus in organizational feasibility analysis should be on nonfinancial resources, in that financial feasibility is considered separately. Several areas should be examined, including the availability of office space, the quality of the labor pool in the area where the business will be located, and the possibility of obtaining intellectual property protection on key aspects of the new business (intellectual property is discussed in detail in Chapter 12). Some start-ups are able to minimize their initial facility expenses and gain access to resources that they wouldn’t have access to otherwise by locating themselves in a community- or university-sponsored business incubator.

One resource sufficiency issue that new firms should consider is their proximity to similar firms. There are well-known clusters of high-tech firms, for example, in the Silicon Valley of California, on Route 128 around Boston, and in the Cambridge region in the United Kingdom. Clusters arise because they increase the productivity of the firms participating in them. Because these firms are located near one another, it is easy for their employees to
network with each other, and it is easy for the firms to gain access to specialized suppliers, scientific knowledge, and technological expertise indigenous to the area. A semiconductor start-up that decided to locate in Kansas City, Missouri, for example, would be at a significant disadvantage to a semiconductor start-up in Silicon Valley, which already has a cluster of semiconductor firms. Researchers have found that small manufacturing firms benefit more than larger firms by being physically close to a cluster of similar firms.33

To test resource sufficiency, it is suggested that a prospective firm list the 6 to 12 most critical nonfinancial resources that will be needed to move its business idea forward and to assess the feasibility of securing those resources for the business. If critical resources are not available in key areas, it may be impracticable to proceed with a business idea.

Financial Feasibility Analysis

Financial feasibility analysis is the final stage of a comprehensive feasibility analysis. For feasibility analysis, a quick financial assessment is usually sufficient. More rigor at this point is typically not required because the specifics of the business will inevitably evolve, making it impractical to spend a lot of time early on preparing detailed financial forecasts. The most important issues to consider at this stage are total start-up cash needed, financial performance of similar businesses, and the overall financial attractiveness of the proposed venture. If a proposed new venture moves beyond the feasibility analysis stage, it will need to complete pro forma (or projected) financial statements that demonstrate the firm’s financial viability for the first 1 to 3 years of its existence. In Chapter 8, we’ll provide you with specific instructions for preparing these statements.

Total Start-Up Cash Needed. This first issue refers to the total cash needed to prepare the business to make its first sale. An actual budget should be prepared that lists all the anticipated capital purchases and operating expenses needed to generate the first $1 in revenues. Very few new ventures qualify for either bank financing or equity funding early on, as will be explained in Chapter 10, so a cursory “I’ll borrow the money” or “I plan to bring equity investors on board” won’t do. Instead, the financial feasibility analysis should state specifically where the money will come from to fund the venture’s start-up costs.

If the money will come from friends and family or is raised through other means, such as credit cards or a home equity line of credit, a reasonable plan should be envisioned to pay the money back. In the small number of cases where a bank loan or equity investors are involved, the case should be made that sufficient funds will be available to cover start-up costs and get
the firm to the point where its cash flow is positive. Showing how a new venture’s start-up costs will be covered is an important issue. Many entrepreneurial ventures look promising as ongoing concerns, but have no way of raising the money to get up-and-running, or are never able to recover from the costs involved. When projecting start-up expenses, it is better to overestimate rather than underestimate the costs involved. Murphy’s Law is prevalent in the start-up world—things will go wrong. It is a rare start-up that doesn’t have some setbacks getting up-and-running—whether it involves unanticipated expenses or delays getting to market.

In terms of raising the money needed to start a firm, you will read many anecdotes throughout this book of savvy and creative ways that entrepreneurs cover their start-up costs. For example, as we discussed earlier, David Bateman, the founder of Property Solutions, raised $100,000 in cash and in-kind services by winning two prestigious business plan competitions. Similarly, Derek Gregg and Justin Swick, the entrepreneurs featured at the beginning of Chapter 10, raised over $250,000 through business plan competitions and grants to get their firm, Vandalia Research, off the ground. While participating in business plan competitions and applying for grants is hard work, in many instances these and similar types of efforts make the difference between a successful start-up and an idea that has to be dropped because of lack of funding.

**Financial Performance of Similar Businesses.** The second component of financial feasibility analysis is estimating a proposed start-up’s potential financial performance by comparing it to similar, already established businesses. Obviously, this effort will result in approximate rather than exact numbers. There are several ways of doing this, all of which involve a little ethical detective work. First, there are many reports available, some for free and some that require a fee, offering detailed industry trend analysis and reports on thousands of individual firms. The most promising sources are shown in Table 3.5. Bizstats.com (www.bizstats.com), for example, provides a wealth of information for free. On the Bizstats Web site, entrepreneurs can type in the projected revenue of their firm, by industry classification, and receive a mock income statement in return that shows the average profitability and expense percentages of U.S. small businesses in the same category. Similarly, Bizminer.com (www.bizminer.com), which is a for-profit company, sells a wide variety of industry-related data and statistics. A portion of the company’s Web site is designed specifically for start-ups and provides information to help entrepreneurs understand how businesses similar to theirs are doing financially. Substantive reports can be purchased for as little as $99.

There are also ways that entrepreneurs can track sales data, in particular, through simple observation and reviewing public records. For example, the fictitious firm New Venture Fitness Drinks, discussed earlier in the chapter, could gauge the type of sales to expect by estimating the number of people, along with the average purchase per visit, who patronize similar restaurants, like smoothie shops, in their area. A very basic way of doing this is to

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bizminer.com</td>
<td>Has a wide variety of industry-related data, statistics, and other information. A section of its site is dedicated to new ventures.</td>
<td>Fee-based</td>
</tr>
<tr>
<td>Bizstats.com</td>
<td>Has a variety of detailed financial data on various retail categories. On the site, entrepreneurs can type in the projected revenue of their firm, by industry classification, and receive a mock income statement in return that shows the average profitability and expense percentages of U.S. small businesses in the same category.</td>
<td>Free</td>
</tr>
<tr>
<td>Hoover’s Online</td>
<td>Brief histories and financial information on companies, industries, people, and products. Provides access to detailed financial information and 10-K reports for publicly traded firms.</td>
<td>Typically free if accessed from a college, university, or public library.</td>
</tr>
<tr>
<td>Marketresearch.com</td>
<td>In-depth research on industries and various retail categories. Provides data on more difficult-to-understand industries, such as biotechnology, health care, and all forms of technology.</td>
<td>Fee-based</td>
</tr>
</tbody>
</table>
frequent these stores and count the number of customers who come in and out of the stores during various times of the day. Another technique, which may be less precise for a start-up, is to study the annual reports and 10-K forms of similar publicly traded firms. For example, some restaurant chains actually report their average sales per restaurant. This type of information could help the owners of New Venture Fitness Drinks sharpen their own sense of the financial potential of their firm.

The purpose of this entire effort is to get a general sense of how firms that are similar to a proposed new venture are doing financially and whether the financial performance of similar firms is excellent, good, moderate, or poor. This is admittedly harder to do for a start-up that’s unique and doesn’t have a good set of peer firms. But for a start-up like New Venture Fitness Drinks, there is plenty of information available to get a good sense of how small beverage restaurants are doing. The information collected to complete this stage of feasibility analysis can also be used in preparing pro forma financial statements at a later time.

**Overall Financial Attractiveness of the Proposed Venture.** A number of other factors are associated with evaluating the financial attractiveness of a proposed venture. Typically, these evaluations are based primarily on a new venture’s projected financial rate of return (i.e., return on assets, return on equity, and return on sales). At the feasibility analysis stage, the projected return is a judgment call and is based primarily on comparing a proposed venture to similar businesses, as just discussed. A more precise estimation can be computed by preparing pro forma (or projected) financial statements, including 1- to 3-year pro forma statements of cash flow, income statements, and balance sheets (along with accompanying financial ratios). This work can be done if time and circumstances allow, but is typically done at the business plan stage rather than the feasibility analysis stage of a new venture’s development. Detailed information about how to prepare pro forma financial statements is provided in Chapter 8.

At a macro level, the following factors should be considered to determine whether the projected return is adequate to justify the launch of the business:

- The amount of capital invested
- The amount of time required to earn the return
- The risks assumed in launching the business
- The existing alternatives for the money being invested
- The existing alternatives for the entrepreneur’s time and efforts

There are conclusions that can be reached from evaluating these factors. Opportunities demanding substantial capital, requiring long periods of time to mature, and having a lot of risk involved make little sense unless they provide high rates of return. For example, it simply makes no economic sense for a group of entrepreneurs to invest $10 million in a capital-intense risky start-up that offers a 5 percent rate of return. Five percent interest can be earned through a money market fund, with essentially no risk. The adequacy of returns also depends on the alternatives the individuals involved have. For example, an individual who is thinking about leaving a $150,000-per-year job to start a new firm requires a higher rate of return than the person thinking about leaving a $50,000-per-year job.34

A number of other financial factors are associated with financially promising business opportunities. Again, in the feasibility analysis stage, the extent to which a proposed business

**TABLE 3.6 Financial Feasibility**

- Steady and rapid growth in sales during the first 5 to 7 years in a clearly defined market niche
- High percentage of recurring revenue—meaning that once a firm wins a client, the client will provide recurring sources of revenue
- Ability to forecast income and expenses with a reasonable degree of certainty
- Internally generated funds to finance and sustain growth
- Availability of an exit opportunity (such as an acquisition or an initial public offering) for investors to convert equity into cash
appears positive relative to each factor is based on an estimate or forecast rather than actual performance. Table 3.6 provides a list of the factors that pertain to the overall financial feasibility of a business opportunity.

In summary, feasibility analysis is a vital step in the process of developing successful business ideas. Many entrepreneurs, in their haste to get their idea to market, neglect to conduct a thorough feasibility analysis. This approach is almost always a mistake and, more often than not, results in failure.

Chapter Summary

1. Feasibility analysis is the process of determining whether a business idea is viable. It is a preliminary evaluation of a business idea, conducted for the purpose of determining whether the idea is worth pursuing.
2. The proper time to conduct a feasibility analysis is early in thinking through the prospects for a new business idea. It follows opportunity recognition but comes before the development of a business plan.
3. Product/service feasibility analysis is an assessment of the overall appeal of the product or service being proposed. Concept testing and usability testing are the two primary issues that a proposed business should consider in this area.
4. A concept statement is a preliminary description of a product idea.
5. The three primary purposes of concept testing are to validate the underlying premises behind a product or service idea, to help develop an idea rather than just test it, and to estimate the potential market share the potential product or service might command.
6. Usability testing is a method by which users of a product or service are asked to perform certain tasks in order to measure the product’s ease of use and the user’s perception of and satisfaction with the experience.
7. Industry/market feasibility analysis is an assessment of the overall appeal of the market for the product or service being proposed. For feasibility analysis, there are three primary issues that a proposed business should consider: industry attractiveness, market timeliness, and the identification of a niche market.
8. Primary research is original research and is collected by the entrepreneur. In assessing the attractiveness of a market, this typically involves an entrepreneur talking to potential customers and/or key industry participants. Secondary research is examined to discover meaning in or from data already collected.
9. Organizational feasibility analysis is conducted to determine whether a proposed business has sufficient management expertise, organizational competence, and resources to successfully launch its business. There are two primary issues to consider in this area: management prowess and resource sufficiency.
10. Financial feasibility analysis is a preliminary financial analysis of whether a business idea is prudent. The most important issues to consider are capital requirements, financial rate of return, and overall attractiveness of the investment.

Key Terms

- breakthrough products and services, 82
- clusters, 85
- concept statement, 76
- concept test, 75
- core competency, 73
- feasibility analysis, 71
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- new-venture team, 85
- niche market, 83
- organizational feasibility analysis, 85
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- secondary research, 82
- second-mover advantage, 83
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- vertical market, 83
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Review Questions

1. What is a feasibility analysis? What is it designed to accomplish?
2. Briefly describe each of the four areas that a properly executed feasibility analysis explores.
3. What is a product/service feasibility analysis?
4. What is a concept statement?
5. What is a concept test, and what does it accomplish? What are the three primary purposes for it?
6. What is a usability test, and what does it accomplish?
7. Define prototyping.
8. Describe what a virtual prototype is and how it differs from a physical prototype.
9. What is industry/market feasibility analysis?
10. Describe the attributes of an attractive industry for a new venture.
11. Describe the difference between primary and secondary research. Provide an example of each.
12. What is a breakthrough new product or service? Provide several examples.
13. Identify the pluses and minuses of trying to capture a first-mover advantage.
14. Why is it important for a new venture to identify a niche market in which it can participate?
15. What is organizational feasibility analysis?
16. Briefly describe each of the two primary issues to consider when conducting an organizational feasibility analysis.
17. What is a new-venture team?
18. Why is it usually to a firm’s advantage to be located near similar firms in its industry?
19. What is financial feasibility analysis?
20. Briefly describe the three primary issues to consider when conducting a financial feasibility analysis.

Application Questions

1. Jason Palmer has an idea for a new approach to personal finance software. He plans to use the $200,000 inheritance he recently received to produce the product and bring it to market. When you ask Jason if he has conducted a feasibility analysis, he acts alarmed and says, “I knew I’d have to write a business plan, but I’m not familiar with what you are calling a feasibility analysis. I don’t want to blow the $200,000 I just inherited, so if a feasibility study is necessary, I’m game. Can you tell me how to conduct one?” What would you tell Jason?
2. A good friend of yours, Abby Franklin, has decided to open a sporting goods store geared toward adults 55 years of age and older. As far as she knows, her store will be the only sporting goods store in the United States focused specifically on older adults. Using your imagination, write a concept statement for Abby’s proposed venture.
3. Assume that you were one of the recipients of New Venture Fitness Drink’s concept statement. What type of feedback would you have given the company about the viability of its product idea? If the concept statement included a survey asking you how likely you would be to purchase some of New Venture Fitness Drink’s products, what would you have said and why?
4. Ann O’Neil, who has considerable experience in the home security industry, is planning to launch a firm that will sell a new line of home security alarms that she believes will be superior to anything currently on the market. She is weighing whether to take the time to conduct a product/service feasibility analysis, given the amount of industry experience that she has. If she asked you for your advice, what would you tell her are the benefits of conducting a product/service feasibility analysis?
5. The “You Be the VC 2” feature for this chapter focuses on Bones In Motion, a company that hopes to turn any cell phone into an automatic journal that allows walkers, runners, and bikers to record their activities and benefit from the motivational aspect of keeping track of their progress. How would you go about conducting a product feasibility analysis for this company’s product?

6. Marc Blair is planning to open a fitness center that will feature a set of exercise machines that he designed himself. He would like to do some usability testing of the machines but doesn’t know how to go about it. If Marc asked you for your advice, what would you tell him?

7. Carrie Wells is planning to open a store to sell DVDs in Nashville. As part of her feasibility study, she hands out a questionnaire to 500 people in her trade area, asking them to indicate whether they would shop at her store. Carrie is pleased to find that 75 percent of the people surveyed said they would either “definitely” or “probably” shop in her store at least once a month. Should Carrie plan her business based on the 75 percent figure? Why or why not?

8. Recently, you were telling a friend about Intuit, in particular about the company’s “follow-me-home” usability testing methodology. This methodology is discussed in Case 3.2 in this chapter. Skip ahead to read about this methodology as you prepare your answer to this question. Your friend, who plans to launch a business to sell and make modifications on all-terrain vehicles (ATVs), was intrigued by the story. Describe how your friend could use the follow-me-home methodology to improve the quality of usability testing for his business.

9. Steve Ambrose, who is a physical therapist, is thinking about starting a firm in the medical instruments industry. He would like to know more about the industry, however, before proceeding. Provide Steve with suggestions for conducting primary and secondary research on the industry.

10. The “You Be the VC 1” feature at the end of Chapter 1 focuses on Cereality, a chain of small walk-in restaurants serving only Cereal. How would you have conducted an industry/market feasibility analysis for this company?

11. Kate Wilson has developed an innovative suite of software products for grades K–12. She is wondering if now is a good time to launch a business to sell her products. What factors should Kate consider in making this determination?

12. Wayne Baker has invented a new type of skateboard. He is anxious to get it to market to capture first-mover advantages. Wayne seemed somewhat puzzled when you told him that there are both advantages and disadvantages of capturing a first-mover advantage. Explain to Wayne what you meant by your statement.

13. According to the section of the chapter that focuses on organizational feasibility analysis, two of the most important factors in the area of management prowess are the passion that a solo entrepreneur or the management team has for the business idea and the extent to which the management team or sole entrepreneur understands the markets in which the firm will participate. If you were an investor evaluating the organizational feasibility of a proposed venture, how would you evaluate passion? How would you assess whether the solo entrepreneur or management team behind the proposed venture had sufficient passion to launch a successful firm?

14. Kelly Simon is thinking about opening an electronics store that will feature an innovative floor plan and creative ways of displaying and featuring merchandise. As part of his financial feasibility analysis, Kelly wants to collect data on the level of sales and profitability for other electronics stores in the United States. How would you suggest that Kelly approach this task?

15. What are some of the “red flags” that would suggest that the overall financial attractiveness of a proposed new venture is poor?
Business Idea: Produce and sell the first “branded” watermelons and watermelon juice.

Pitch: Many people enjoy watermelon but find shopping for one to be a frustrating experience. There is no “branded” watermelon available to ensure consistent quality, like Sunkist provides for oranges and Chiquita has done for bananas. Surprisingly, there is also no premium watermelon juice available. Watermelon juice is extremely healthy. It is fat and cholesterol free and is high in many essential nutrients and vitamins. Lycopene, the pigment that gives watermelon its red color, has been linked to a lower risk of many types of cancer, heart disease, and even cataracts.

Sundia aims to deal with these watermelon-based gaps in the market. The company has started selling a Sundia-branded watermelon and is aggressively signing up watermelon growers to achieve national distribution and brand awareness. The company employs strict standards for its watermelons, which will each feature a removable label, similar to the labels found on Chiquita bananas. In addition to its watermelons, Sundia has formulated and developed a patented watermelon juice. The juice, which will be sold in attractive single-serve containers, has a sweet taste and a pulpy consistency and has fared extremely well in taste tests. The market for watermelon juice is promising. According to a recent study by Euromonitor, sales of traditional fruit juice, like orange, apple, and cranberry, have declined in recent years while sales of “other flavors” have increased. Watermelon juice, which enjoys immense popularity in other countries, particularly in Asia, falls squarely in the “other flavors” category. In addition, the sales of a juice are typically 2 to 10 times higher than the sales of their corresponding fruit. Watermelon sales in the United States topped $700 million in 2005, which could translate into impressive sales for Sundia’s watermelon juice in the future.

Q&A: Based on the material covered in this chapter, what questions would you ask the firm’s founders before making your funding decision? What answers would satisfy you?

Decision: If you had to make your decision on just the information provided in the pitch and on the company’s Web site, would you fund this firm? Why or why not?

Business Idea: Turn nearly any cell phone into an automatic journal that allows walkers, runners, and bikers to record their activities and benefit from the motivational aspects of keeping track of their progress.

Pitch: Most people know that they need to exercise to first improve and then maintain their health. But simply buying a pair of running shoes or a bicycle is rarely the answer. People must be motivated to stay committed to an exercise plan. One thing that sports psychologists have found helps people stay committed is a keep track of their daily progress. It’s also very motivating to people to graphically see the results of their exercise efforts and to be able to share their progress with their family and friends.

Bones in Motion was created to fit this exact need. In the first of what it hopes will be many outdoor applications, the company has turned the ordinary cell phone into a virtual coach using a software application called BiMActive. BiMActive is an online service, which is currently available to Sprint and Nextel cell phone customers, that costs $9.99 per month. Bones in Motion is negotiating with other cell phone service providers and hopes to sign up more of them soon.

Here’s how the service works. When you start the application, you have to wait for a few seconds for it to hone in on your GPS location. (You do need a GPS-equipped cell phone.) For the GPS to work you need to be outdoors with a view of the sky. Once you start to run, walk, or bike, it records your distance, speed, pace, location, elevation, and estimated amount of calories burned. All you need to do is keep your cell phone with you. Once finished exercising, your workout data is wirelessly uploaded to a Web page, with the route you just covered superimposed on a Google map. A complete set of stats for your workout are available, including the distance covered, splits, and estimated calories burned. You can also keep track of the distance you’ve covered by week, month, or year.

If you’re community minded you can share your results with other BiMActive members. You can also post the route you just covered for other BiMActive members to see. The route’s difficulty is rated by BiMActive based on topography, changes in elevation, and other data. You can also look at the routes that other BiMActive members have posted.

Q&A: Based on the material covered in this chapter, what questions would you ask the firm’s founders before making your funding decision? What answers would satisfy you?

Decision: If you had to make your decision on just the information provided in the pitch and on the company’s Web site, would you fund this firm? Why or why not?
Palapa Azul: Benefiting from a “Hands-On” Approach to Product Feasibility Analysis

www.palapaazul.com

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Introduction

After fruitful careers at Black & Decker, Disney, Hewlett-Packard, and United Distillers, along with a couple of Internet start-ups, Michel Algazi and Roni Goldberg wanted to launch a food company. It’s what they always wanted to do. As kids growing up in Mexico, they had rich memories of enjoying tasty Mexican treats. As they grew older, they became very proud of their native country’s rich cuisines and flavorsome dishes.

One thing that helped influence Algazi and Goldberg to start a food company were signs that Americans were increasingly receptive to good-quality Mexican food. It was 2002. Two very successful restaurant chains, Chipotle and Baja Fresh, featured Mexican cuisines. They were also influenced by Haagen-Dazs’ decision in 1997 to introduce an ice cream flavor called Dulce de leche. Dulce de leche is a traditional candy in Mexico and South America. The name literally means “milk candy” in Spanish. Since its introduction, Dulce de leche has become one of Haagen-Dazs’ top-selling brands.

After considering several alternatives and partly in light of Haagen-Dazs’ positive experience, Algazi and Goldberg decided to create a line of Mexican-style frozen desserts. But they weren’t in a hurry. They knew it would be painful to go through a period with no income while they got their company started, but they wanted to do it right. Since coming to America, they had seen many food brands rushed to market by companies who then had to scramble and regroup as they reacted to market tastes. In contrast to this approach, Algazi and Goldberg committed themselves to a process of product feasibility analysis, market testing, and branding that would give them the best possible chance of getting it right the first time.

Developing the Product and Picking a Name

As kids in Mexico, one of Algazi and Goldberg’s most salient memories was going to fruit stands and treating themselves to sliced fruits and vegetables that were sprinkled with lime, salt, and chilli. This experience influenced the early flavors and formation of their frozen dessert bars. From the outset, the founders wanted to produce a high-quality treat. Their frozen desserts included no added color, artificial ingredients, or high fructose corn syrup. Instead, they used traditional Mexican recipes with fresh fruit and high-end ingredients. The bars averaged around 80 fat-free calories. About 30 flavors were initially made, ranging from prickly pear to watermelon. Algazi and Goldberg figured they could sell their bars in the $2.00 range.

At the same time the two founders were working on the frozen desserts themselves, they set out to pick a name for the company. They considered over 100 names, including Botana, Hamaca, and La Playa. To make their final selection, they walked the streets of Los Angeles, asking people to position various possible names on a spectrum from cheap to expensive. They also asked people to say what “images” particular brand names brought to mind. After collecting over 200 opinions, they settled on the name Palapa Azul. When put together, the words Palapa (a palm umbrella found on warm Mexican beaches) and Azul (the Spanish word for blue) made people think of Mexico, fruit, food, and quality. This was exactly the set of attributes that the founders wanted people to associate with their product.

In something akin to a concept statement, Algazi and Goldberg boiled Palapa Azul’s core value proposition down to one paragraph. The single paragraph defined the company’s target market and the benefits and features of its products. Having a short description of the company and its products was helpful in presenting them to others. They also developed a mission statement to further clarify their ultimate purpose: “Our mission is to become the most unique, irresistible, and high-quality ethnic Mexican frozen desserts brand known to U.S. consumers.”

Learning from Customers

After Palapa Azul’s first frozen bars were ready to be sold, Algazi and Goldberg set up food stands at every farmers market in the Los Angeles area they could find. One advantage of being in Los Angeles is that different areas of the city are populated by different ethnic groups, so it was easy for Algazi and Goldberg to observe how people from different ethnicities reacted to their product. They noticed patterns, such as a preference for the tart flavors plum and kiwi among Asian customers. One particularly humorous anecdote, about gender preferences, was reported in a Fortune Small Business article:

More interestingly, we noticed a gender difference: We could offer two dozen flavors, and still most men would want strawberry. Women, however,
were much more adventurous and willing to try new flavors. Women would say, “You have mango-chile? Interesting! I’d like to try that.” Men would say, “You have mango-chile. Interesting? I’d like strawberry.” So we targeted our brand strategy to better address women’s needs.

Eventually, the company whittled its 30 flavors down to 9. Not everything turned out as expected. Algazi and Goldberg never dreamed that cucumber-chili would be customers’ favorite flavor—but in hindsight it makes sense. It is an authentic Mexican flavor, and clearly differentiates Palapa Azul’s product from those available from other companies’ brands.

The Present
A defining moment for Palapa Azul came in 2004 at the Fancy Food Show, which is a high-profile yearly trade show for confection (candy) and fancy foods. It was the first time Palapa Azul was on a national stage. After the show, Costco, Whole Foods, and several other specialty retailers started carrying the firm’s products. In 2005, Palapa Azul introduced ice creams and sorbets, and the company continues to expand.

Looking back, Algazi and Goldberg are convinced that their early product feasibility analysis and customer interaction set the company on the right track. Summing up their experience, the two founders said, “Large companies often hire external agencies to do their research, and what they get in the end is a very filtered report. By doing everything ourselves, we got a richness of information we’d never seen before.”

Discussion Questions
1. What, if anything, would the founders of Palapa Azul have lost had they hired a professional market research firm to pick a name for the company and do its market research?

2. The case focuses primarily on product feasibility analysis for Palapa Azul. How would you have conducted an industry/market feasibility analysis, an organizational feasibility analysis, and a financial feasibility analysis for the company?

3. Develop a one-half-page to one-page concept statement for Palapa Azul.

4. Were the founders of Palapa Azul more interested in conducting primary research or secondary research in regard to their product feasibility analysis? In your judgment, did they make the right call? Explain your answer.

Application Questions
1. The “You Be the VC 1” feature for this chapter focuses on Sundia, a company that is trying to produce and sell the first branded watermelon and watermelon juice in the United States. How would you go about conducting a product feasibility analysis for this company? What similarities do you see between the challenges and opportunities that the founders of Palapa Azul experienced and the challenges and opportunities that lie ahead for the founders of Sundia?

2. Come up with a suggestion for a product with a rich Spanish heritage that isn’t currently being sold in the United States but could be, or is currently being sold in the United States but in your opinion could be sold in a much more upscale manner.

CASE 3.2 Intuit: The Value of Validating Business Ideas

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Introduction
Intuit is the leading provider of financial management software and related services in the United States. Its flagship products—Quicken, QuickBooks, and Quicken TurboTax—simplify personal finance, small-business management, payroll processing, and tax preparation. The company prides itself first on its customer focus and second on its technological prowess. Its customer focus is directly tied to its culture of ongoing product/service feasibility analysis and usability testing.

Intuit’s Founding
Intuit’s founding is an excellent example of how a strong business idea, coupled with properly executed feasibility analysis, leads to business success. Scott Cook, a business consultant, started the company in 1983. After watching his wife painstakingly pay bills by hand, Cook wondered whether a software product could be developed to help people manage their personal finances. He drew up a preliminary business plan and partnered with Tom Proulx, a computer science student at Stanford University, to found Intuit and develop a product that was to be named Quicken.

Cook’s background in consumer marketing was a true advantage during the product’s development. Cook spent several years as a brand manager with Procter & Gamble earlier in his career and had a thorough understanding of feasibility analysis and marketing research as a result. Cook insisted that he and Proulx first determine exactly what consumers wanted in a personal finance program before any initial prototypes were developed. When asked how he approached this task, Cook answered:

The only way to find that information was to talk to households. So I’d make calls and I got my sister-in-law to call households. We asked upper-income consumers—they were the only people buying computers—about their financial lives. We did this to build a real gut knowledge about how real people did their finances: their behaviors, their likes, and their dislikes. We looked at behavioral data as well. It became very clear to us that people wanted a way to take the hassle out of doing their finances. Who likes to pay bills and write in checkbooks?

An important component of Cook’s approach was a keen understanding that because personal financial management software was a product that consumers hadn’t seen before, it wouldn’t work to simply ask them what they would like in this type of product. So, in addition to the phone interviews, Cook and Proulx actually watched people managing their finances. Quicken was developed only after they were confident that they knew what consumers needed to make personal financial management easier. Cook said this about understanding a customer’s needs:

The key to business success is knowing your customer cold. We had spent time understanding the customer. We clearly understood customer behavior and had data showing that our solution was vastly better according to customers’ decision-making criteria.

Since it’s founding, Intuit has developed or employed a number of techniques to determine customers’ needs and ensure that its products are easy to use and meet customer expectations. Its most useful techniques, which serve as models for all firms to consider, are as follows.

In-House Usability Testing
Intuit didn’t invent the notion of usability testing, but was the first company to apply usability testing to software products. The goal of usability testing is to design products in a way that best meets customer needs. To meet this goal, one thing Intuit does is invite both users and nonusers of its products to visit its usability-testing lab at its California headquarters. At the lab, participants are seated in front of PCs and are asked to work with software products that are being developed. A soundproof room is attached to the lab, where Intuit programmers and designers observe the participants. A “logger” is typically assigned to record usability problems or any comments participants make during the test, and the sessions are taped for further review. The participants are usually given copies of Intuit products in appreciation for their time and efforts. The objective of the testing is to uncover and work out problems relating to Intuit products “before” rather than after they reach the marketplace.

Follow-Me-Home Test
A hybrid form of usability testing that Scott Cook invented is referred to as follow-me-home testing. In the early days of Intuit, Cook’s committed focus on understanding customers’ needs found him going into stores where Intuit’s software was being sold and waiting for someone to buy one of his products. He would then ask if he could follow the customer home and watch while the customer installed the software and tried to use it.

Over the years, this form of testing at Intuit has become more formalized but retains the original spirit of Cook’s early
efforts. The company routinely sends teams of testers to the homes and businesses of its users, to see how its products are working. A team typically consists of three Intuit employees, including someone from the User Experience Group, someone from Quality Assurance, and someone from Engineering or Technical Documentation. Technically, the program is a form of ethnography, which is research based on first-hand observation of how people behave in a certain situation. According to Cook, who has participated in many follow-me-home tests, “You watch their eyebrows, where they hesitate, where they have a quizzical look. Every glitch, every momentary hesitation is our fault.” The testing helps the company uncover areas needing improvement that potentially couldn’t be uncovered in any other way.

A side benefit of the follow-me-home program is that it demonstrates to users the extent to which Intuit is serious about meeting their needs and is genuinely open to their comments and suggestions. This sentiment was affirmed by Wendy Padmos, a Quicken user, who volunteered to participate in the follow-me-home program in 2004. Commenting on her experience, Padmos said,

When the Quicken team came to my house, I thought they just wanted to find out how they could better advertise to me and people like me, but it wasn’t that at all. It was much more customer-focused. They wanted to know how I use the product, what was important to me, and what was not important to me. I told them I would like the ability to see my current spending against my average spending over the last 12 months, and now it’s in the product!

Other Techniques
Intuit utilizes a variety of other techniques to better understand its customers and test its products. The company routinely runs surveys to see how its products are doing. Similarly, the company has a beta tester program that it recruits for on an ongoing basis. The program allows customers to test prerelease software products and then provide Intuit software engineers real-world quality and usability feedback. It is a hands-on program that facilitates a dialogue between Intuit and its users during rather than after the development of a software product. Users aren’t paid for their participation—instead they are provided the opportunity to help shape the design of Intuit products and in some cases are able to buy Intuit products at a discount.

Intuit Today
Today, Intuit is one of the largest software companies in the world with over $2 billion in annual sales. In 2005, the company grew over 9 percent and is consistently ranked by Fortune magazine as one of the “Top 100 Companies to Work For” in America. All of the programs described here are active and are part of Intuit’s ongoing efforts to better understand its customers and their needs.

Discussion Questions
1. Refer to Table 3.2 in the chapter. To what extent does Intuit capture each of the benefits of conducting a product/service feasibility analysis listed in the table?
2. Compare Intuit’s approach to feasibility analysis and usability testing to Salesforce.com’s approach.
3. To what extent do you think Intuit’s industry is attractive? If Intuit conducted an industry/market feasibility analysis on the main industries in which it participates, what do you believe would be the outcome?
4. Why do you think Intuit puts so much effort into collecting primary research about its users and their experiences? Would it be cheaper for Intuit to hire a marketing research firm to collect data on user preferences? What would Intuit lose if it pursued this approach?

Application Questions
1. The “You Be the VC 2” feature at the end of the chapter focuses on Bones in Motion, the company that hopes to turn cell phones into journals that allow walkers, runners, and bikers to record their activities. Which of the forms of Intuit’s feasibility analysis and usability testing do you think would work for Bones in Motion? Describe how you would adapt Intuit’s practices to help Bones in Motion better understand its users and test its products.
2. Would you enjoy participating in Intuit’s beta tester program? Locate information about the program on Intuit’s Web site and read more about it. What aspects of the program, if any, would motivate you to participate?


Endnotes
1. Personal Interview with David Bateman, June 28, 2006.