ASSESSING PROJECT FEASIBILITY

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If your cooperative is considering or pursuing an expansion opportunity, it is important to have a *systematic* way of assessing feasibility or viability. Given both the predictable time pressures and the unpredictable timelines of expansion projects, it is all too easy to say: "It sounds good. Let's try it and see."

With an emphasis on effective planning, I suggest you systematically approach the question of feasibility from four points of view:

1) **Market feasibility**
2) **Internal readiness**
3) **Financial feasibility**
4) **Design feasibility**

An assessment of each of these points of view, discussed below, can then be integrated into an overall assessment of feasibility that examines both the larger picture and the specific scenario your co-op is aiming to create. Will this project work? You will have much more information to evaluate and help you make your "go or no go" decision. A systematic feasibility assessment may support your original hunch, but you will be much less likely to be governed by personal agendas, emotion, and whim.

Process can be very important in cooperatives when it comes to building commitment and making sound decisions. In the process of determining feasibility, your cooperative must dedicate appropriate resources of people, time and money. It is not unusual for a co-op with annual sales of $1.8 million and 2000 sq. ft. of retail space to spend $30,000 to explore feasibility, negotiate for a site, develop a business plan, and attempt to secure financing, and then not be able to secure the preferred site or obtain financing. The feasibility process may need to be repeated again, and your co-op management and board will have received a valuable education.

Putting resources at risk to explore feasibility is a test of your co-op's commitment level to expansion. While $30,000 seems like a high cost to be avoided, it is a small percentage of the total cost of a project (e.g., 2-3 percent of $1-1.5 million) and a small price to pay for "due diligence". If the project is found to be not feasible, it also will have been worth the cost.

Assessing feasibility includes three different areas of concurrent activity:

- Commitment and planning
- Strengthening and positioning
- Site search and securing

These activities are concurrent with assessing feasibility from the above four points of view. Assessing feasibility can take from three months to three years.

Market Feasibility

Market feasibility can best be determined by securing a professional market analysis and/or site analysis that focuses on your preferred site (or search area) and analyzes the sales potential. Defining your trade area through customer and member spotting techniques, analyzing demographic characteristics, assessing the competitive environment, and rating your preferred site against a number of standard criteria are all part of a market/site analysis. The primary outcome of this analysis is to project the sales level that you could achieve in your new or expanded site during the first three years. It is important that you find a qualified analyst who not only has experience with retail and grocery but also has knowledge of the natural foods industry and an understanding of cooperatives.

Customer and member surveys are also valuable tools in assessing the needs, behavior, and specific demographics of your customers. While a customer survey can complement or enhance a market/site analysis, it does not replace such analysis.

Internal Readiness

Internal readiness is an important contribution to overall feasibility. The goal of assessing organizational readiness is to determine the areas of the business that need to be strengthened prior to opening a larger or new store. It is important to prioritize those areas and to prepare a plan that will improve them in a timely way. Developing and refining key systems is the most effective way to increase the operating capacity of your co-op. Internal readiness can be assessed through techniques of self-assessment, including surveys, evaluations and SWOT analysis (strengths, weaknesses, opportunities, threats).

Also valuable is an *external* assessment in the form of an organizational audit that examines the *key* systems and operating areas of the business. The organizational audit can vary in scope. By providing a new set of eyes and a fresh, detached assessment, obtaining an audit from a qualified professional can shift the focus and energy away from a myriad of internal, unranked priorities and conflicts. The audit or assessment can serve as a beginning for planned change in the cooperative.

Key systems that can be assessed in an organizational audit include:

* merchandising
* marketing
* membership
* customer service
* cleanliness
* governance
* management
* planning
* staff training
* purchasing

* signage
* public relations
* product line
* personnel policies
* community services
* receiving
* accounting
* financial results
* co-op principles

A brief diagnostic tool can be developed for assessing internal readiness and can indicate if you are ready to proceed with an expansion project. It is seldom too early to begin expansion planning, since part of the planning is internal strengthening and positioning work that should be done prior to the opening of your new store.

Financial Feasibility

Financial feasibility can best be determined by constructing a financial model or pro forma that includes a "sources and uses" development budget and five-year projections of income statement, cash flow, debt service, and balance sheet, along with a list of assumptions. This is a valuable exercise, whether it is created within the co-op (if the financial, accounting, and computer skills are present) or by a qualified professional consultant. The model allows you to see how development costs, historical and projected operating income/expenses, and debt service affect profitability, cash flow, and the balance sheet. First year losses are likely and can be acceptable if there is adequate cash flow and if reasonable profitability is projected in following years. The financial model will suggest appropriate levels of working capital to cover potential initial losses. Overrun and contingency allowances should be part of the start-up development costs.

Key indicators of financial feasibility include initial and cumulative profitability, positive cash flow and cash reserves after debt service; and ratios such as debt to equity, return on assets, and return on equity.

A correctly constructed financial pro forma is the preferred tool to help you determine financial feasibility. Projections are best made in a conservative style; they are the estimates you are "banking" on as opposed to projections that are more optimistic. You will want a set of projections that can be achieved and, as a higher measure of success, be exceeded.

Design Feasibility

Design feasibility is the final piece of the feasibility puzzle and involves two basic stages: Preliminary site and store design and, if all looks feasible, final design. Preliminary design will give you a picture of initial feasibility. How much retail space is possible and how will it look? Is there enough back room space for prep and staging areas, kitchen, bakery, offices? Is truck receiving feasible? Is there adequate off-street parking, ingress and egress, and visibility?

What are the initial cost estimates, based on preliminary drawings? What are the key design issues that will need to be addressed? Structural issues? Drainage for coolers and freezers? Lighting? Heating/venting/air-conditioning? Design issues include the store concept, efficiency, and ease of shopping. It is important to assemble a design team that includes a store planner (floor plan), interior design, architect, engineer, and equipment supplier.

"Worst-case" Scenarios

In determining whether you have a feasible expansion project, management and the board of directors will need to assess the risk. Expansion projects can be anywhere from low risk to high risk and always are a stretch for an organization. It is important that leadership in your cooperative gain comfort with the level of risk that is involved. Part of the process of gaining comfort is to review "worst-case" scenarios and determine what your plan of action will be if you experience such a situation. What would the warning signs be? What will your first step be in that event?

Being in business means that you have found some comfort in taking risks. A successful expansion project in a cooperative business implies that the risk has been assessed and found to be in your comfort range and has been effectively spread among internal and external stakeholders.

In conclusion: The feasibility stage can be a very challenging and complex stage of your project. It is a good test for the leadership of your co-op. It is a strong indicator of future results. If problems, conflicts, and misunderstandings arise in the feasibility stage, they will continue to drain your project until they are dealt with effectively. If you are able to have a successful process and outcome during the feasibility stage, you will be better positioned and aligned for a successful expansion project.

While assessing feasibility can be difficult and ambiguous, once you do it, you will have a much stronger basis for confidence, comfort, fun, and success.

(Sidebar to appear near the end of this article):

SURPRISE!

As you proceed with your expansion/relocation project, no matter how thorough your planning process or how complete your feasibility study, you will always encounter the unexpected. The key is to *minimize* surprises through your planning efforts. Here is a *partial* listing of lurking surprised that may be waiting for you:

- Electrical amperage to the building is not adequate after all. And there will be no electrical outlets near where you will need them.
- Soil conditions will not support the planned construction. Pilings are needed. The building will need to be redesigned.
- There is or may be environmental contamination.
- The building permit cost was not included in the construction bid. Neither is the cost of the performance bond required by the bank.
- Overruns and change orders with the general contractor were not clearly documented.
- The building is only 46 ft. wide, not 48 ft. as the drawing says.
- The contractor's bid was not firm. Some areas only had allowances or are design/build.
- Security position and available collateral are not sufficient for your primary lender.
- Opening day was planned and new staff was hired, but now it is delayed three months.
- The new freezers iced up and were "down" overnight after being loaded with product.