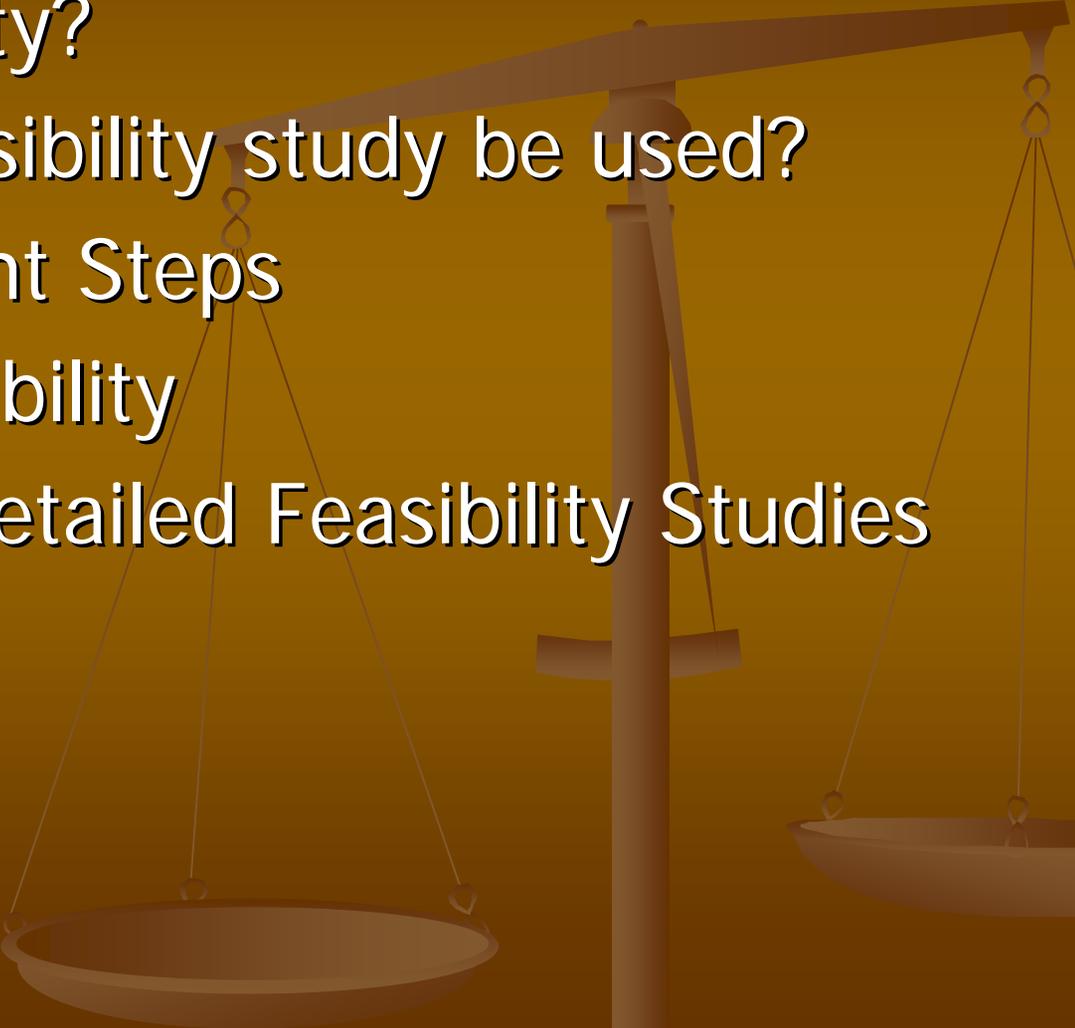


# Weighing Your Options



Assessing Feasibility

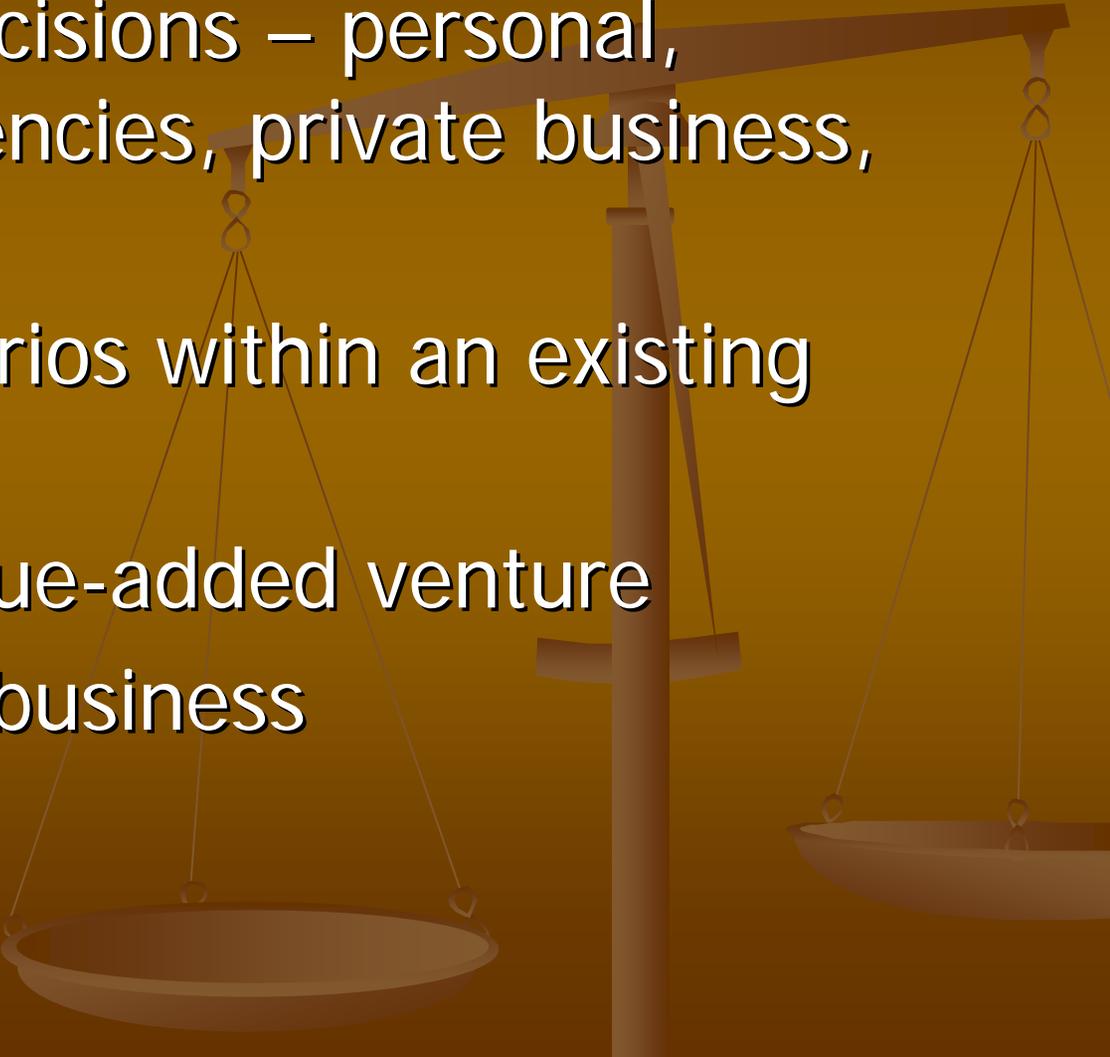
# Overview of Presentation

- What is feasibility?
  - When can a feasibility study be used?
  - Basic Assessment Steps
  - Evaluating Feasibility
  - Resources for Detailed Feasibility Studies
- 

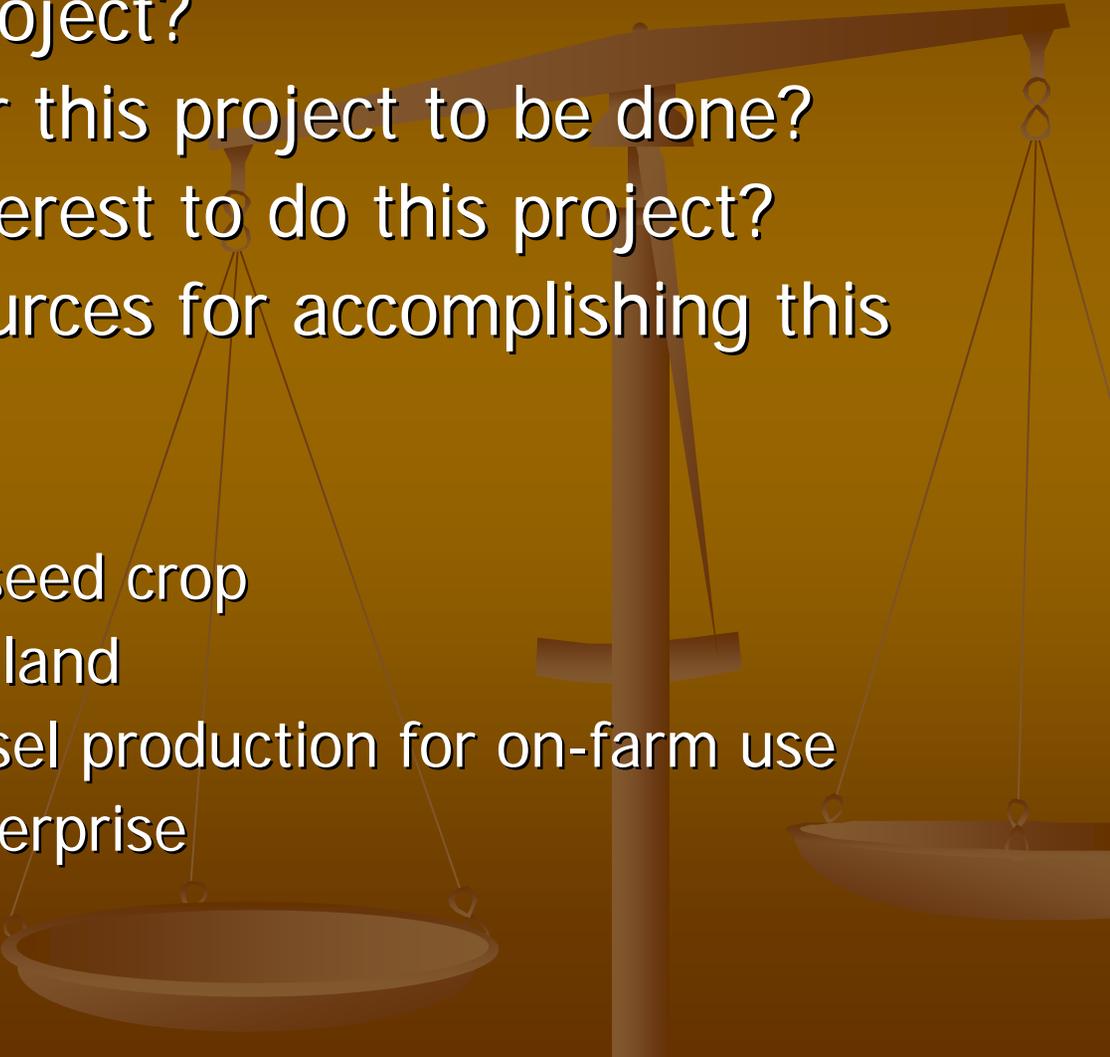
# What is a feasibility study?

- Feasibility is a means of evaluating an idea
- Debunking Feasibility Myths
  1. The only reason to do a feasibility study is because it's required by a bank or grant organization
  2. I am not capable of doing a feasibility study on my own
  3. I cannot afford to conduct a feasibility study
  4. Feasibility studies have to be long, drawn-out, and painful
- Assessing feasibility is the best investment you can make in your idea!

# When can a feasibility study be used?

- Making basic decisions – personal, government agencies, private business, etc.
  - Assessing scenarios within an existing operation
  - Evaluating a value-added venture
  - Creating a new business
- 

# Basic Assessment Steps

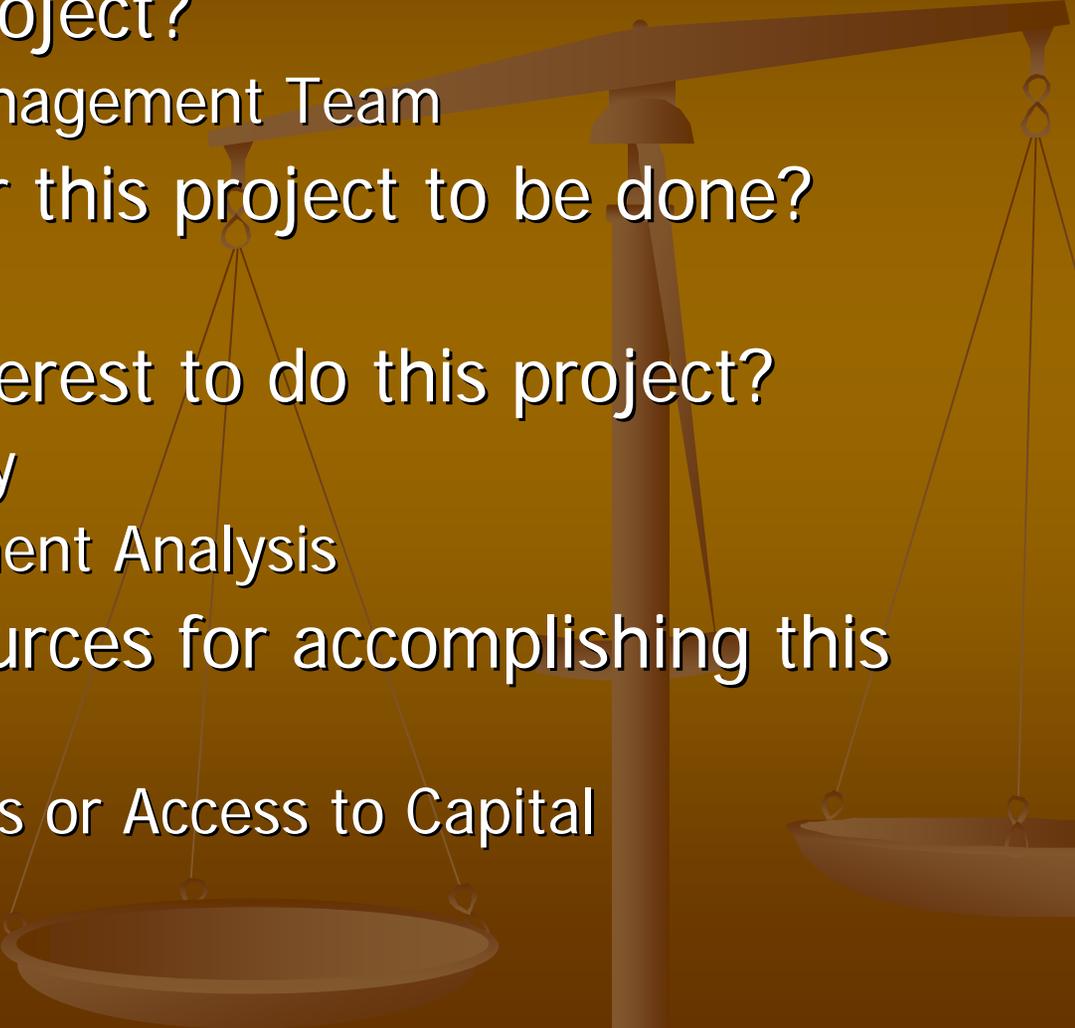


- Who will do the project?
- Is there a need for this project to be done?
- Is it in my best interest to do this project?
- What are my resources for accomplishing this project?

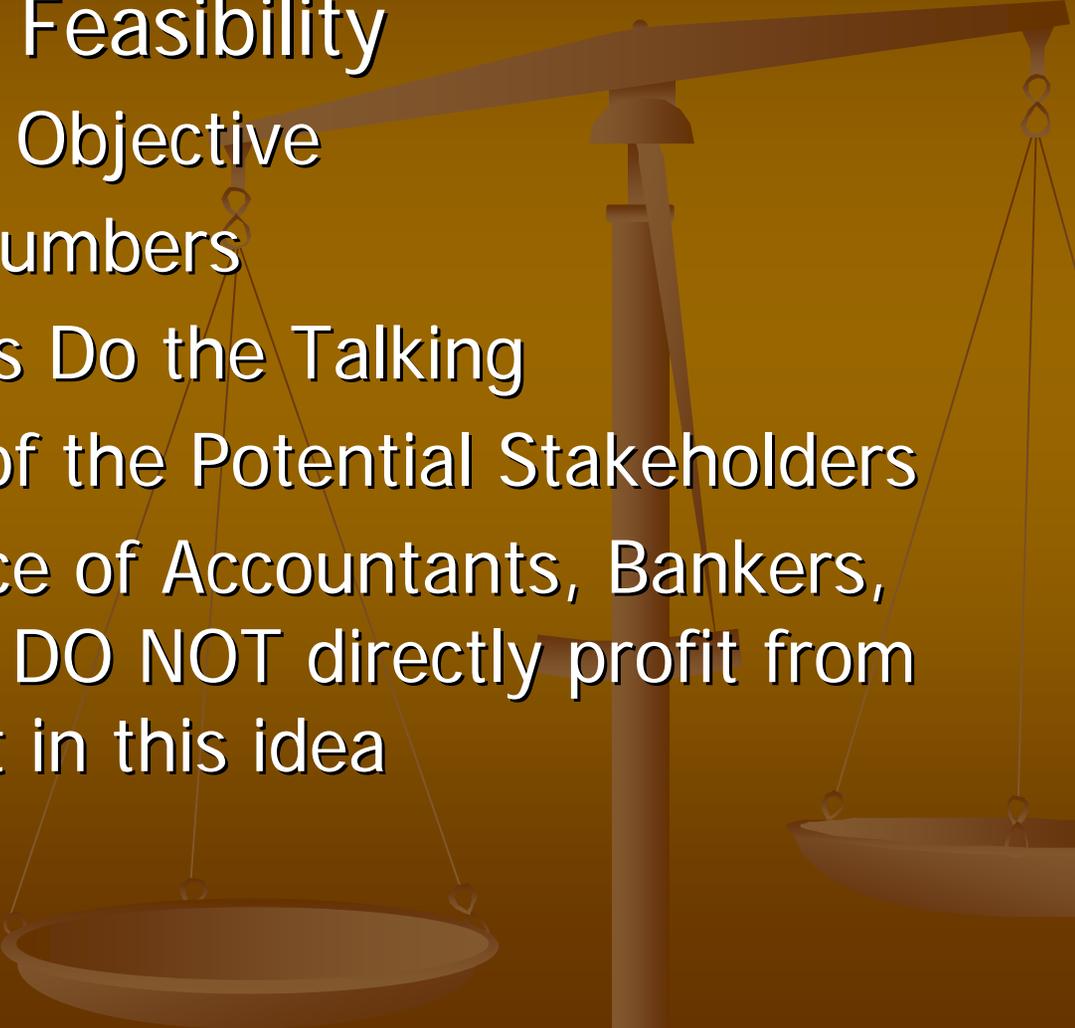
## Sample Projects:

- Planting a new oilseed crop
- Leasing additional land
- Pursuing a bio-diesel production for on-farm use
- Starting a new enterprise

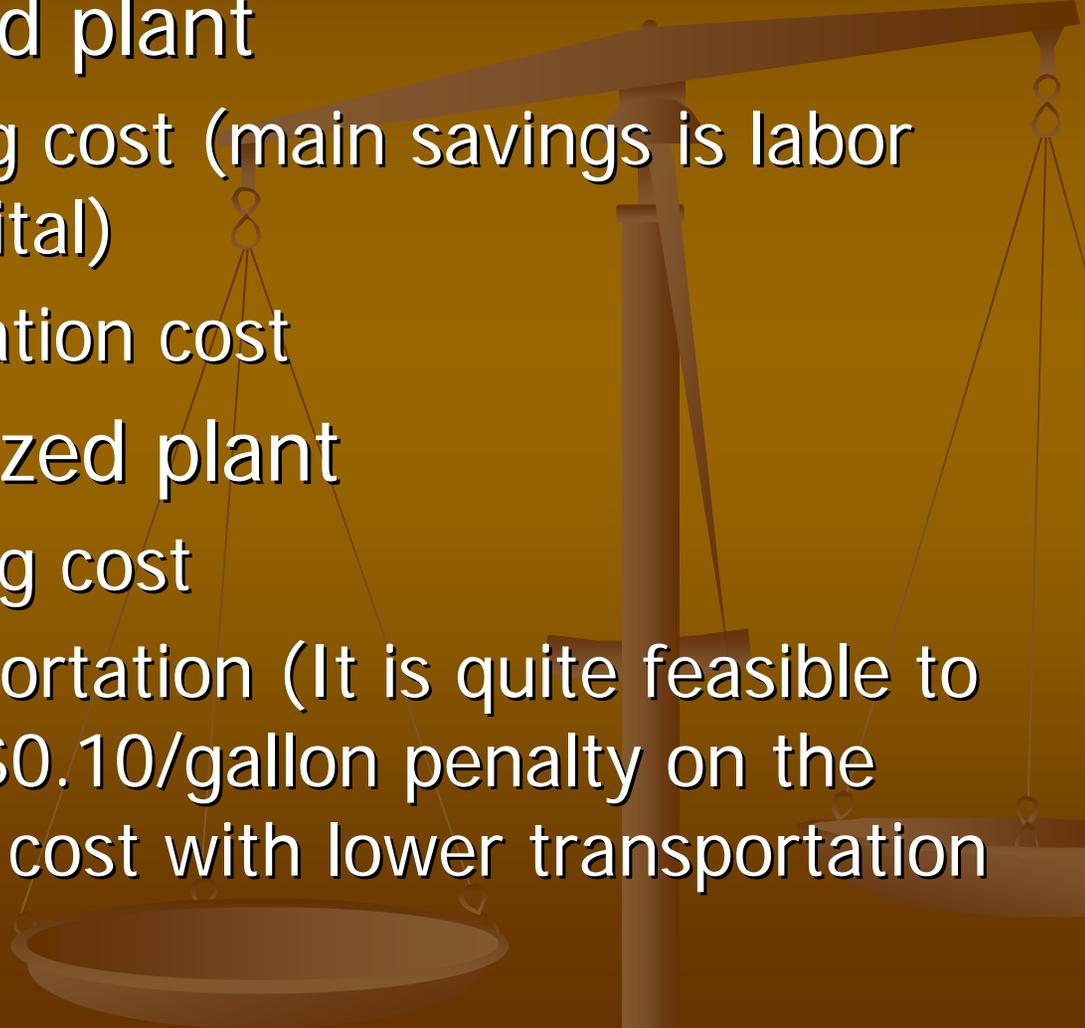
# Basic Assessment Steps – Business Speak

- Who will do the project?
    - Assessment of Management Team
  - Is there a need for this project to be done?
    - Market Demand
  - Is it in my best interest to do this project?
    - Financial Feasibility
    - Return on Investment Analysis
  - What are my resources for accomplishing this project?
    - Business Resources or Access to Capital
- 

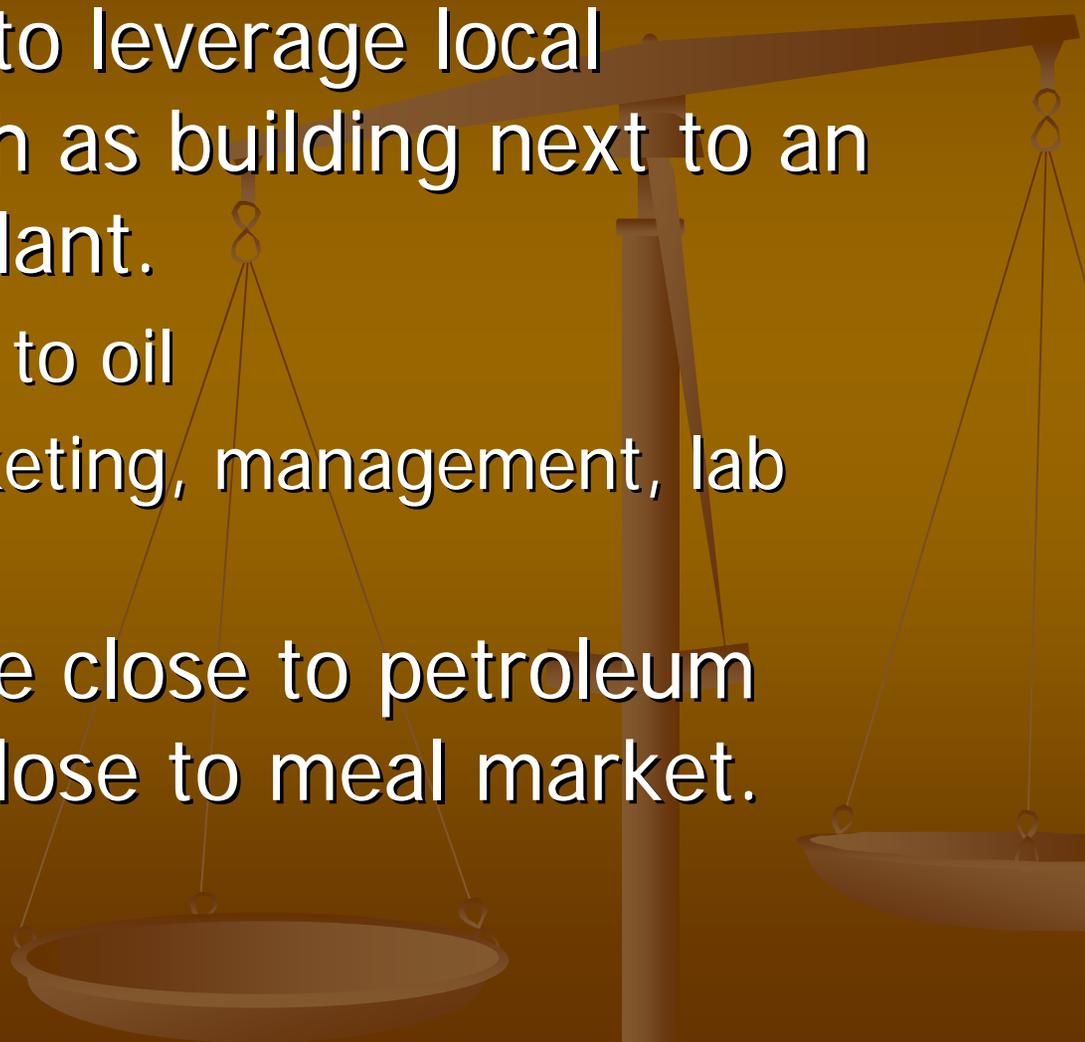
# Feasibility – Getting Started

- Sarah's Rules of Feasibility
    - Determine Your Objective
    - Start with the Numbers
    - Let the Numbers Do the Talking
    - Understand all of the Potential Stakeholders
    - Follow the Advice of Accountants, Bankers, and others who DO NOT directly profit from your investment in this idea
- 

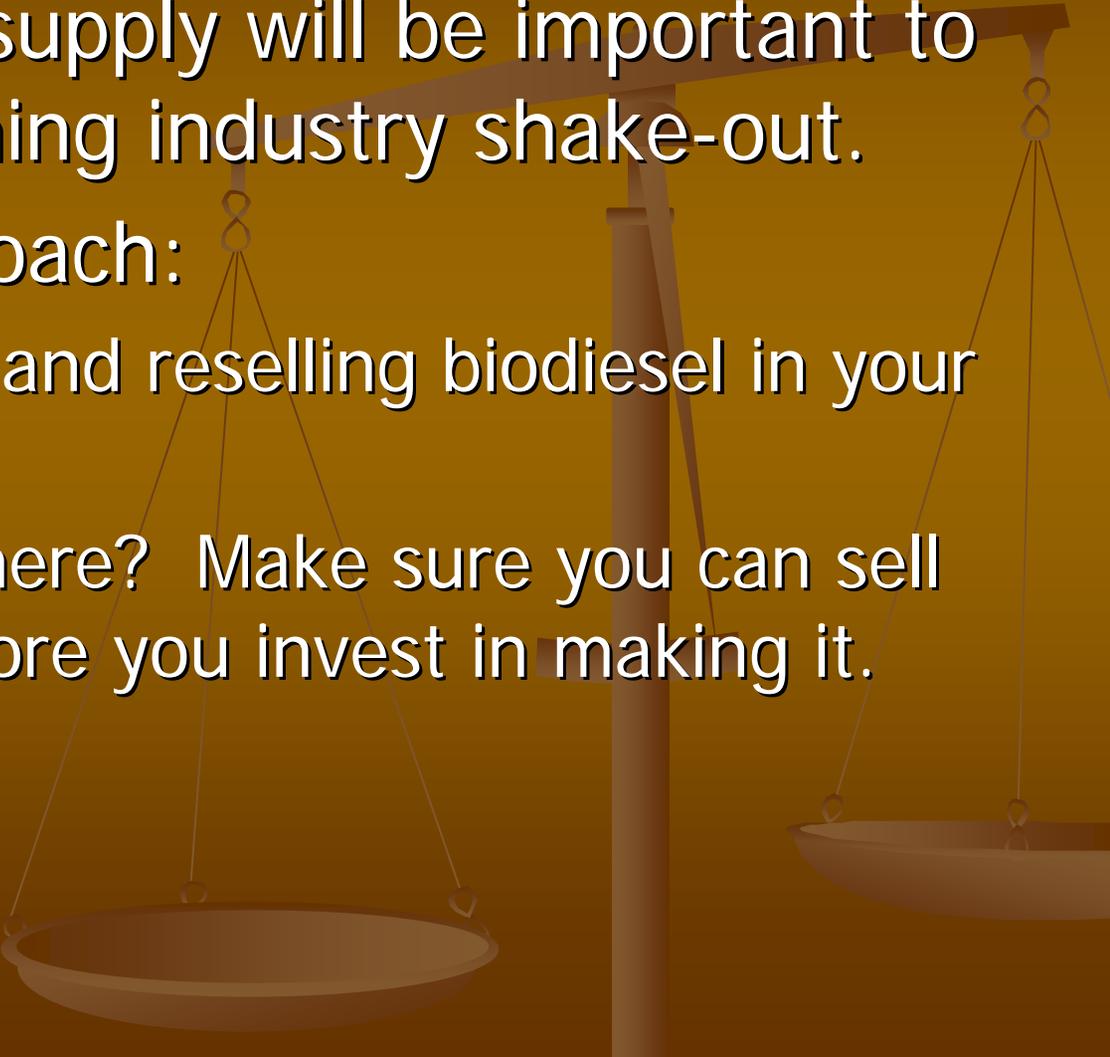
# Business Model

- Large centralized plant
    - Lower operating cost (main savings is labor and cost of capital)
    - More transportation cost
  - Small decentralized plant
    - Higher operating cost
    - Reduced transportation (It is quite feasible to make up for a \$0.10/gallon penalty on the plant operating cost with lower transportation costs)
- 

# Business Model

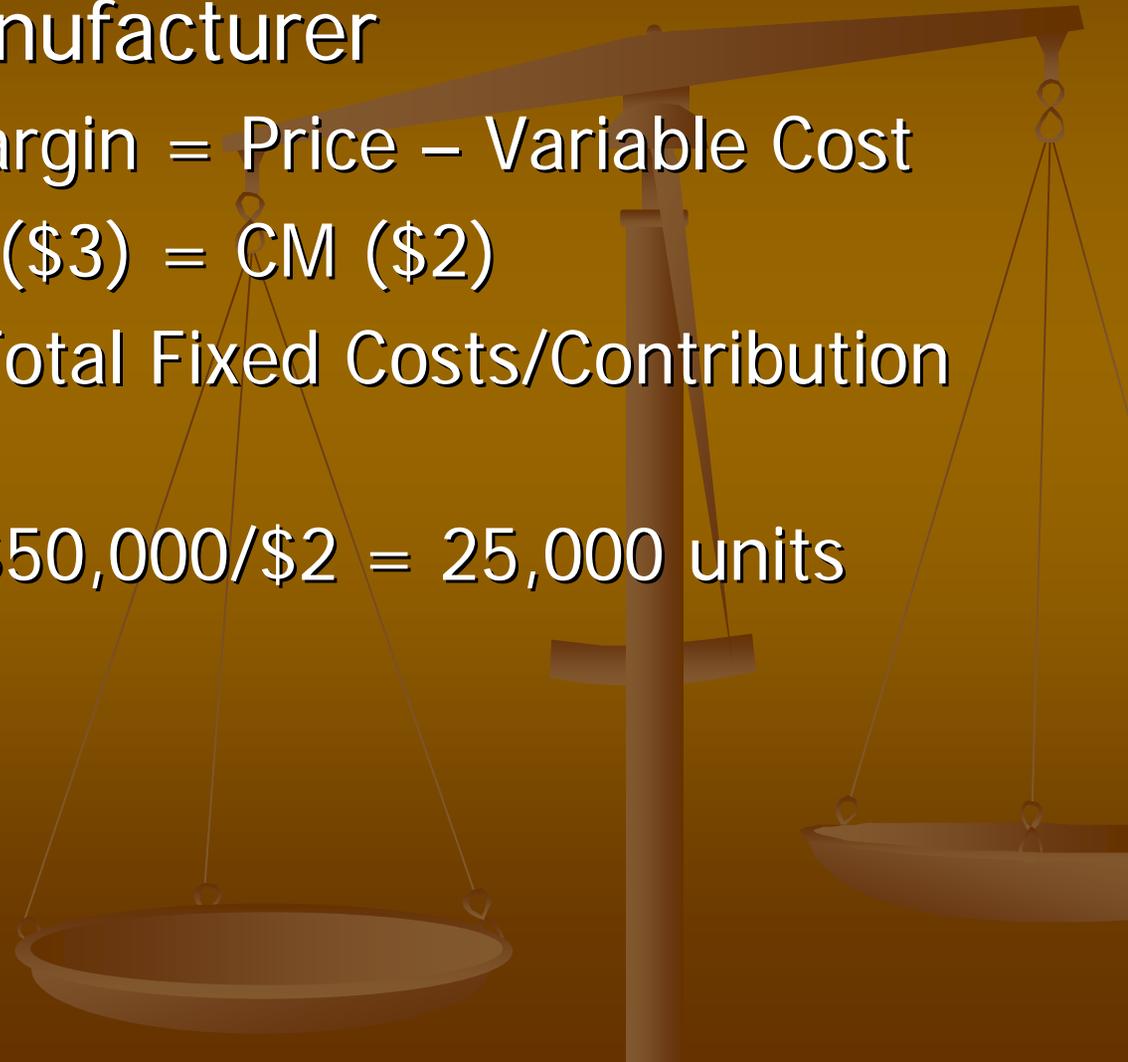
- Most plants try to leverage local advantages such as building next to an existing crush plant.
    - Close proximity to oil
    - Can share marketing, management, lab facilities
  - Might also locate close to petroleum distribution or close to meal market.
- 

# Business Model

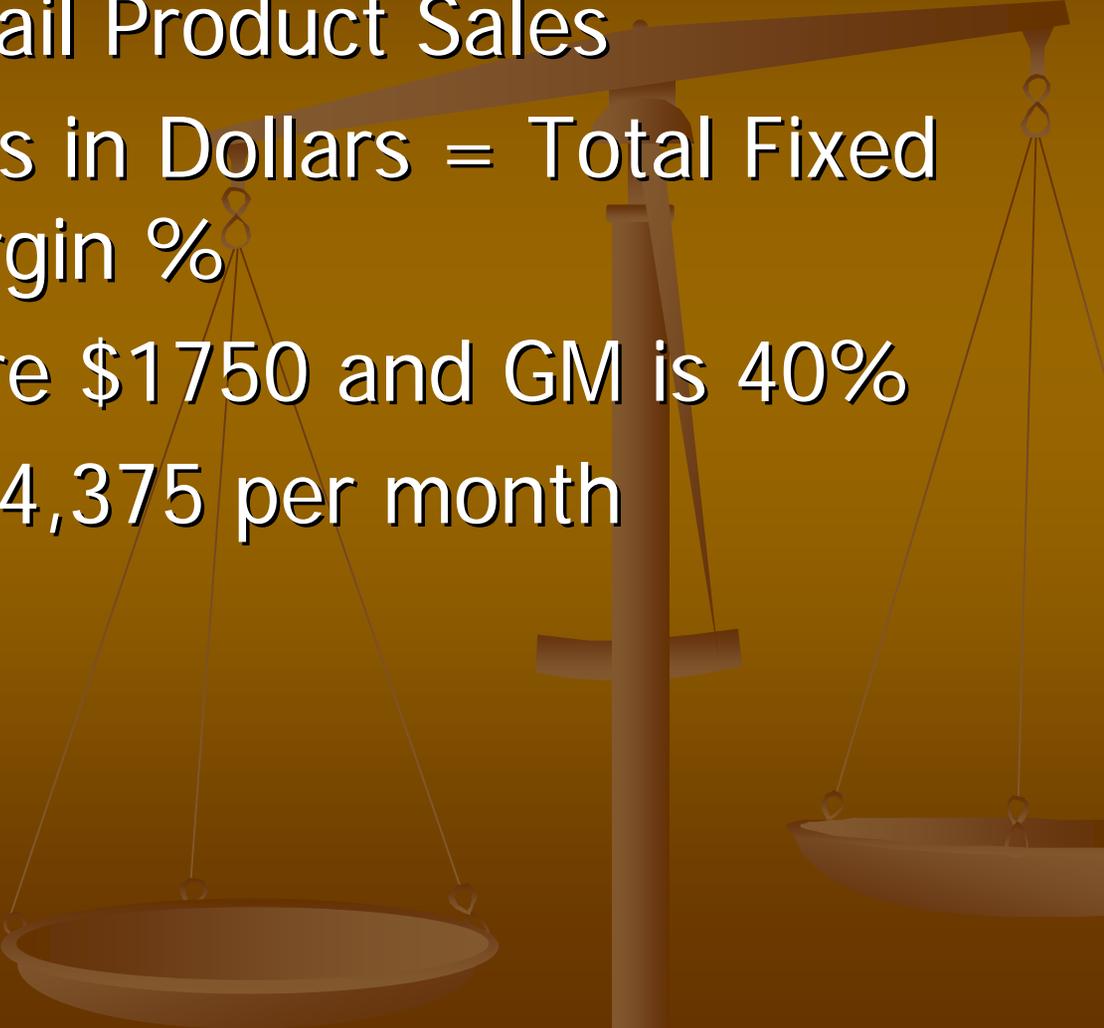
- Tying up an oil supply will be important to weather up-coming industry shake-out.
  - Suggested approach:
    - Start by buying and reselling biodiesel in your area.
    - Is the market there? Make sure you can sell the product before you invest in making it.
- 

# Basic Break Even Analysis

- Example 1: Manufacturer
  - Contribution Margin = Price – Variable Cost
  - Price (\$5) - VC (\$3) = CM (\$2)
  - Break Even = Total Fixed Costs/Contribution Margin
  - Fixed Costs =  $\$50,000/\$2 = 25,000$  units



# Basic Break Even Analysis

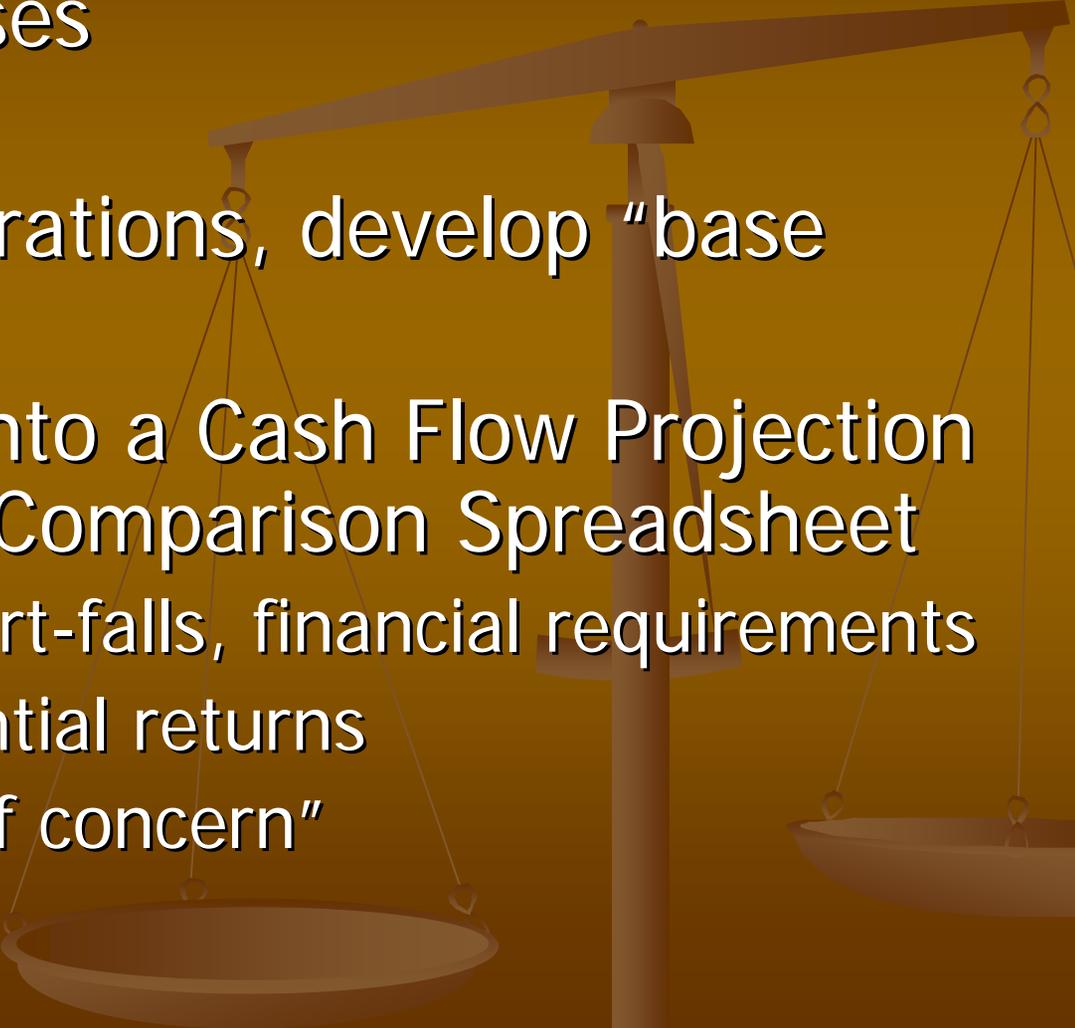
- Example 2: Retail Product Sales
  - Break Even Sales in Dollars = Total Fixed Costs/Gross Margin %
  - If Fixed Costs are \$1750 and GM is 40%
  - $\$1750/40\% = \$4,375$  per month
- 

# Problems with Basic Break Even

- Break Even is a Place to Start – Not a Destination
  - Determining Realistic Fixed Costs
  - Business Cycles and Seasonality
  - Difficult to Assess Capital Requirements

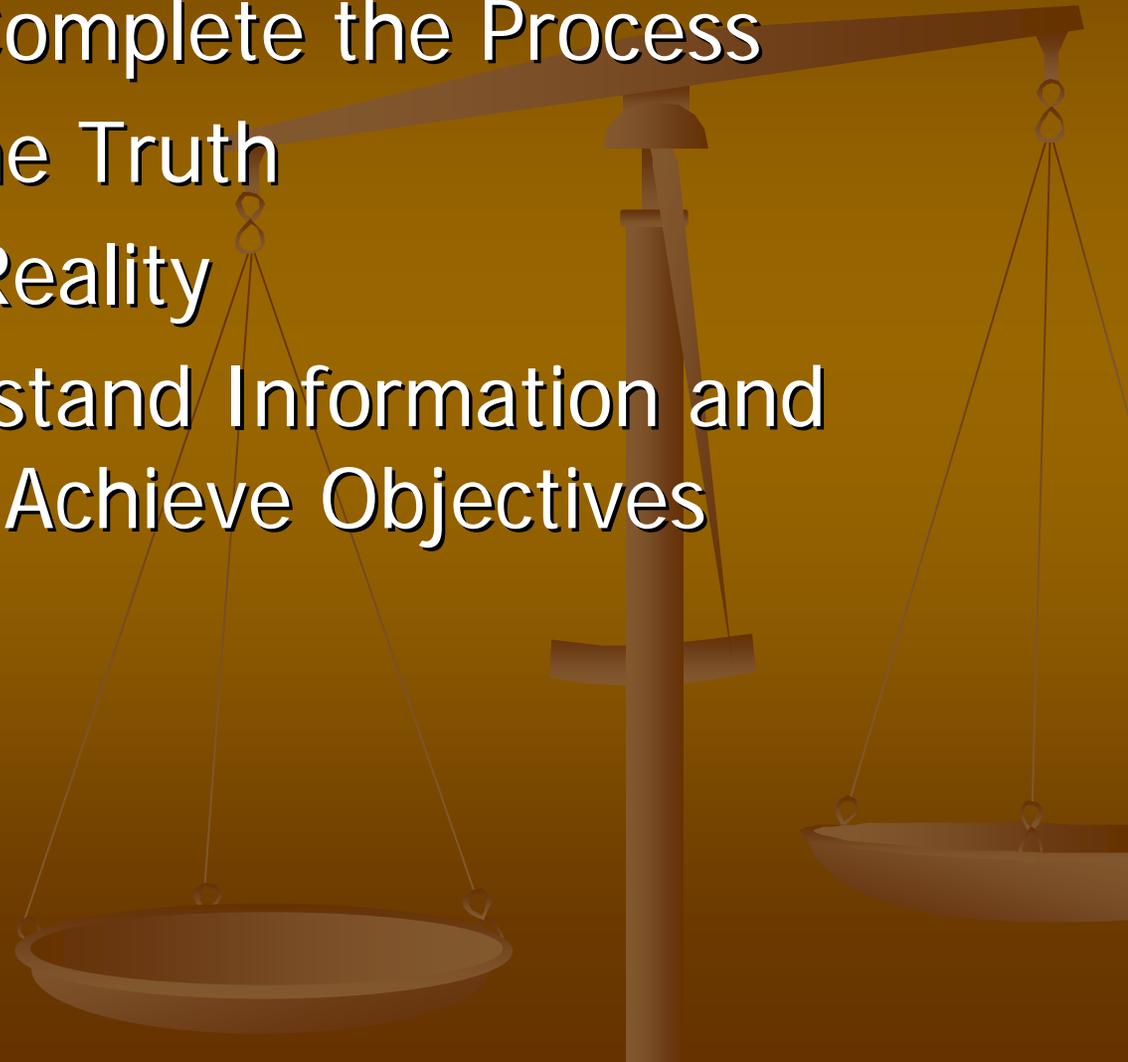


# Digging In

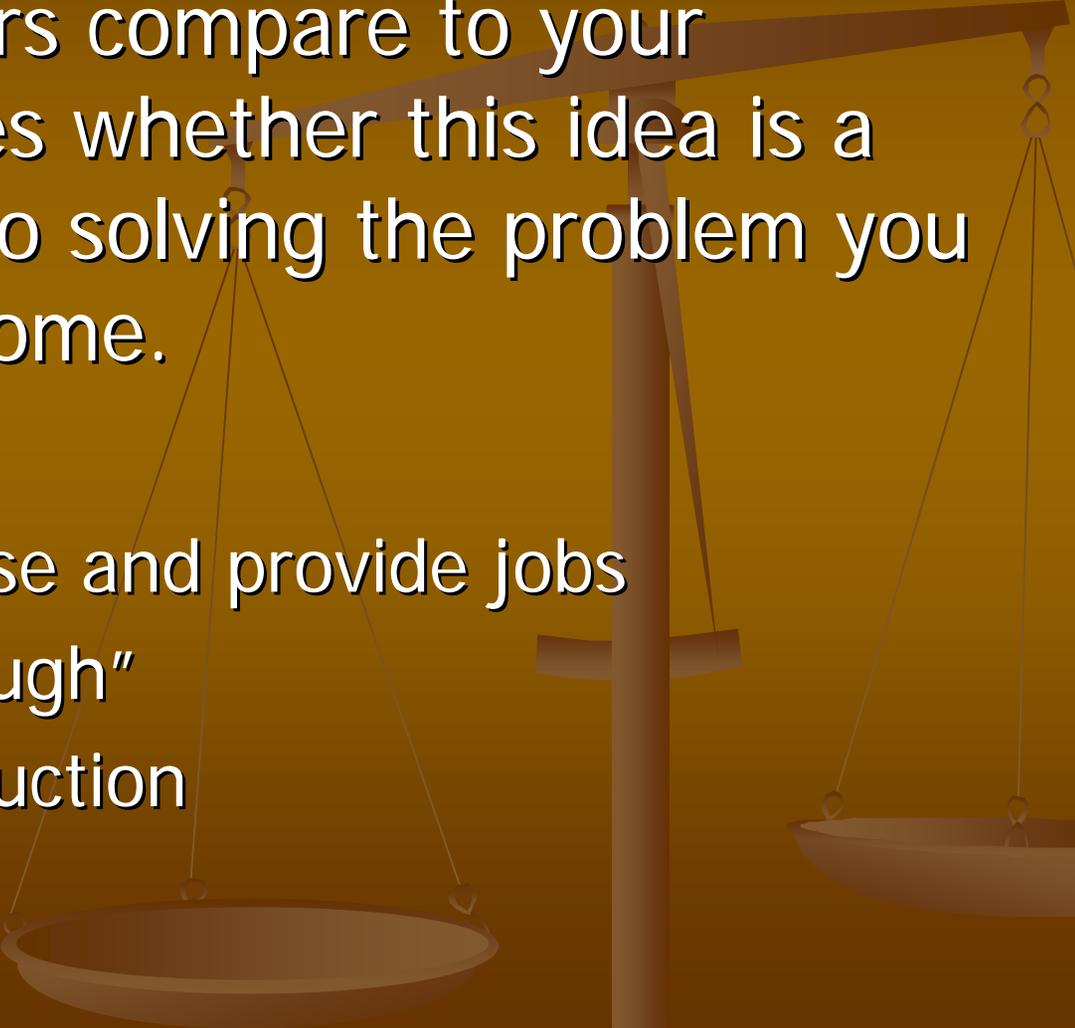
- Detail all expenses
    - Don't cheat
  - For existing operations, develop "base scenario"
  - Plug Expenses into a Cash Flow Projection Spreadsheet or Comparison Spreadsheet
    - Shows cash short-falls, financial requirements
    - Illustrates potential returns
    - Details "areas of concern"
- 

# Assess Finances Against Yourself

- Willingness to Complete the Process
- Dedication to the Truth
- Acceptance of Reality
- Ability to Understand Information and Adjust Ideas to Achieve Objectives



# Assess Finances Against Objective

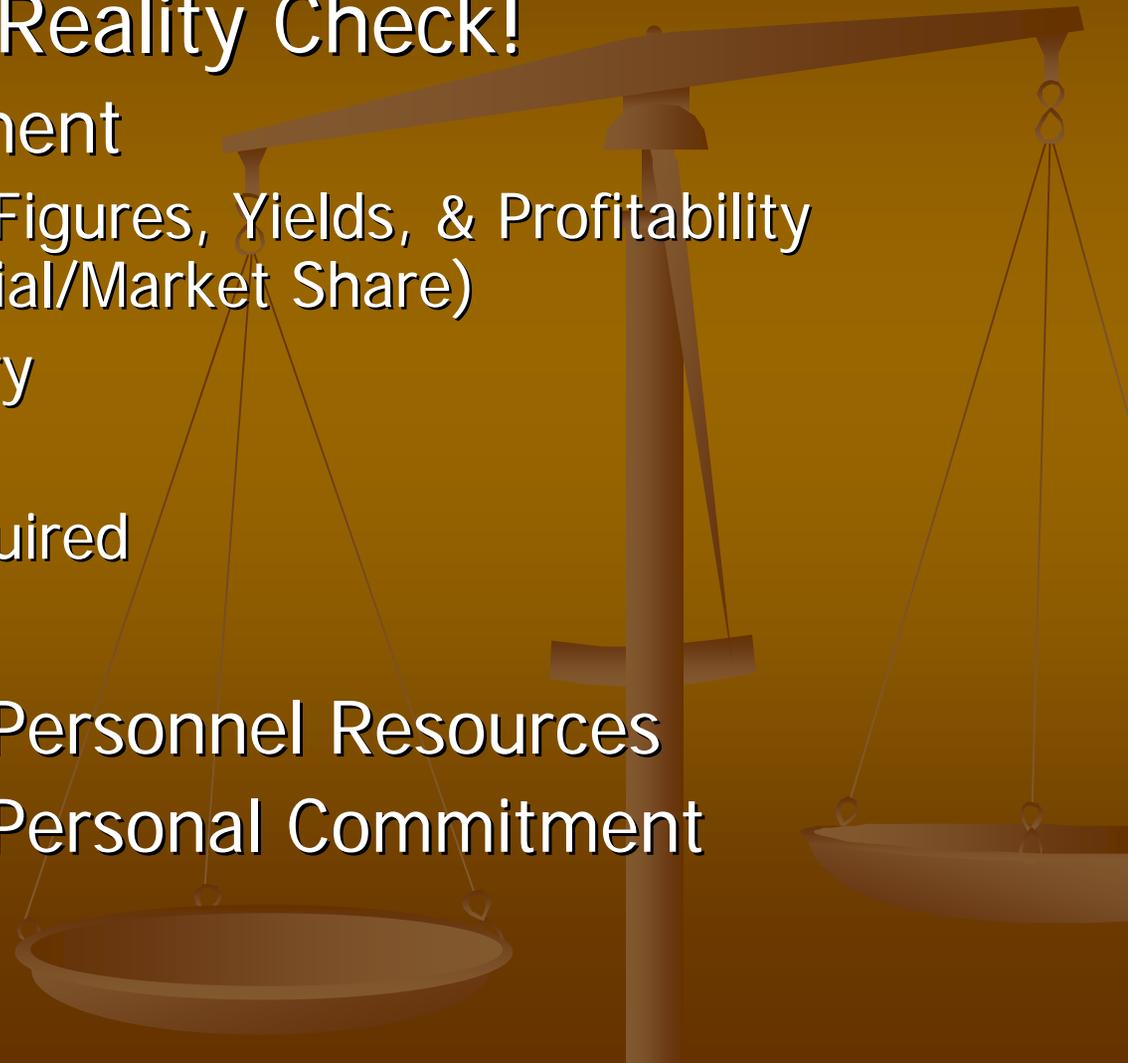


- How the numbers compare to your objective dictates whether this idea is a feasible option to solving the problem you set out to overcome.
- Examples:
  - Increase tax base and provide jobs
  - Rake in the “dough”
  - Provide tax deduction

# So Your Idea Looks Profitable...

## Time for another Reality Check!

- Market Assessment
  - Realistic Sales Figures, Yields, & Profitability (Market Potential/Market Share)
  - Barriers to Entry
  - Costs of Entry
  - Resources Required
- Competition
- Assessment of Personnel Resources
- Assessment of Personal Commitment



# Some Oilseed/Bio Diesel Considerations

- Marketing
- Handling and Storage Concerns
- Costs of Retro-fitting Tanks and Pumping Equipment
- Financial Incentives for Bio Diesel Production

*Remember: Considerations, costs, and concerns vary by project. Run your own numbers!!!*

