Feasibility Study of a Project

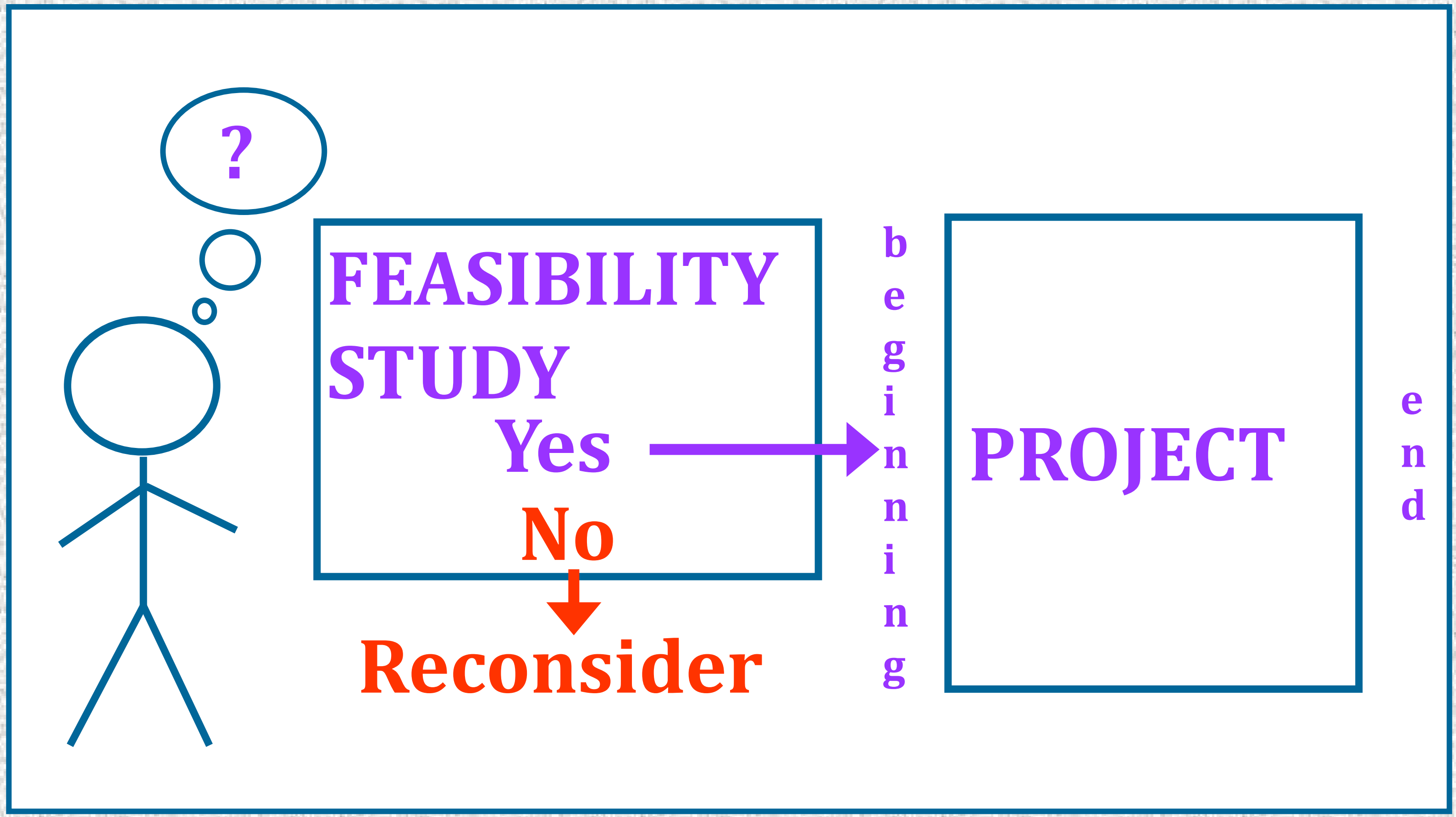
Financial Feasibility Analysis

A disciplined and documented process of thinking through an idea from its Logical beginning to its Logical End.

Two types of project feasibilities are prepared,

- Pre-feasibility report.
- Final Feasibility report.

The Feasibility Study



Home Hand Written Assignment

When does a project begin?

1. *When the idea is generated?*
2. *When requirement is identified?*
3. *When the project charter is approved?*
4. *When a project manager is assigned?*
5. *When a budget is approved ?*
6. *Any other time which you think?*

Four Tests for Feasibility

Technical feasibility - Can we do it?

Social feasibility - Do we want it?

Economic feasibility - Can we afford it?

Operational feasibility - Can we handle it?

Feasibility study conducted before decision to proceed (go/no go). Feasibility study provides investigative function.

Financial Feasibility

Financial feasibility has two key elements:

- Funds are available for solution being developed?
- Is there a positive balance of costs and benefits over time?

Cost Benefit Analysis (Economic Feasibility):

Financial Costs are usually easier to estimate than the Financial Benefits. There are a number of methods for assessing cost benefits, including ROI and Payback Periods.

It is important to identify cost and benefit factors, which can be categorized as follows:

1. Development costs; and
2. Operating costs.

Feasibility study: financial issues

Most commonly used financial indicators:

1. IRR (Internal Rate of Return): average annual return of the project, <u>regardless of how it is financed</u>

2. NPV (Net Present Value): value of the investment in the present year when discounting future cashflows

3. ROI (Return on Investment): average annual return on equity = annual profits / investment costs (%)

4. Payback Period: indicates the number of years before the initial investment is repaid = investment / annual profit (yr)