

# Rural COOPERATIVES

USDA / Rural Development

July/August 2000



Spiral of success:  
co-ops spin off benefits  
to rural communities



# Consultant's feasibility study can predict success of 'next great idea'

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**Editor's note:** *This article is excerpted from the author's forthcoming report "Cooperative Feasibility Study Guide" (USDA/RBS Service Report 58), available soon on USDA Rural Development's website, [www.rurdev.usda.gov](http://www.rurdev.usda.gov).*

**F**armers and their cooperatives continually search for that "next great idea." After they think they've found it, the real work begins.

Background studies are necessary to determine whether that great idea is viable and if farmers should invest time, effort, crops and money in it.

Feasibility studies are a useful tool and valid for many kinds of projects. Evaluation of a new venture, both from new groups and established businesses, is the most common application, but not their only use. Studies can help groups determine whether to expand existing services, build or remodel facilities, change methods of operation, add new products, or even merge with another business. A feasibility study can assist decisionmakers whenever they need to decide among alternative development opportunities.

This analytical tool used during the project planning process shows how a business would operate under an explicitly stated set of assumptions — the technology used (the facilities, types of equipment, manufacturing process, etc.) and the financial aspects of the project (capital needs, volume, cost of goods, wages etc.).

The feasibility study represents the

first time in a project development process that the pieces are put together to see if they perform together to create a technically and economically feasible concept. The study also shows the sensitivity of the business to changes in these basic assumptions.

Feasibility studies contain standard technical and financial components. The exact appearance of each study varies, depending on the industry studied, the critical factors for that project, the methods chosen to conduct the feasibility study and the study budget. Emphasis can be placed on various sections of an individual feasibility study, depending upon the needs of the group for whom the study was prepared.

## The objective consultant

The feasibility study evaluates the project's potential for success. Its perceived objectivity is important in determining the credibility placed on the study by potential investors and financiers. The creation of the study also requires a strong background both in the financial as well as the technical aspects of the project. That's why outside consultants conduct most feasibility studies.

Although in principle it is possible for a group member to conduct the study, outside consultants produce most feasibility studies. Prospective members and financiers see the objective evaluation of a concept as an important aspect of the study. This objectivity can provide helpful information that might have been overlooked by people participating directly in the project.

Hiring a consultant to create the study can be the most important decision in the creation of the study. The

list below provides possible criteria for selecting a good consultant. A group should determine that the consultant is qualified to create the feasibility study for the particular project. Also, any consultant must be able to work well with the group.

## Criteria of a Good Study Consultant

1. Previous experience conducting feasibility studies;
2. Experience with the industry to be studied;
3. Understands cooperatives;
4. Willingness to listen to the group's ideas;
5. Works closely with designated contact members of the group;
6. Accepts reasonable revisions to the submitted study;
7. Accomplishes the study within an agreed deadline;
8. Works within the group's designated budget;
9. Provides clear, useful information in the completed study.

## Experience

Does the consultant have an adequate background to prepare the feasibility study? Before contracting a consultant, the group should review samples of previously prepared studies and speak with others for whom the potential consultant has worked.

If the project is of sufficient size and complexity, it may hire several consultants to complete various aspects of the feasibility study. Multiple consultants can reduce the dependency on a single person or company. It also can permit the group to select experts from several fields. However, it can complicate the coordination and consistency of the

information received.

The consultant preferably would have experience in the industry under study. The consultant may be an expert at creating feasibility studies but, if he or she has no knowledge of the specific industry, probably will not correctly identify critical factors for that industry. Given business complexity, it is almost impossible for one person to have experience in all areas of a business.

Often, a team of consultants assembles feasibility studies. For example, a cooperative development specialist from the USDA might work jointly with industry specialists to create the feasibility study. Some consulting firms resolve this issue by having feasibility specialists and contracting with industry experts to create a feasibility study.

### Cooperative knowledge

The consultant should also understand the unique aspects of cooperatives. Tax implications and business considerations of cooperatives differ from those of other businesses. These factors could decrease or increase project risks. The consultant should be familiar with cooperatives to properly evaluate these effects.

The consultant should avoid preconceived notions about how the project will function. The study should not be an “off-the-shelf” document put together from previously created studies. Rather, the consultant should pay particular attention to the ideas that the group has developed and craft a unique study suited to their needs.

The consultant should work closely with designated members of the group and be receptive to their suggestions. Also, the consultant should be prepared to make technical revisions or to correct errors at their recommendation. Revisions are a normal part of the feasibility study process.

Revisions should focus on the validity of the assumptions and the technical design of the study. Using an outside consultant brings objectivity to the feasibility study rather than merely providing the results that group wants.

Consultants have a legal obligation to provide a responsible analysis. They should not be asked to alter the results merely to conform to members’ desires for a project’s viability.

### Meeting deadlines & costs

When selecting a consultant, timeliness is an important consideration. Projects are time sensitive. Usually, decisions to proceed await information provided in the feasibility study.

So care and diligence required to prepare a well-crafted study must be balanced against the desire for speed. If a qualified consultant cannot complete a well-designed study in a time frame

complete the feasibility study and reduce the cost.

### Useful information

Some public programs offered by the USDA’s Rural Business-Cooperative Service, community development offices, the Small Business Administration and local business incubator programs provide technical assistance at no, or minimal, cost to groups creating feasibility studies.

A consultant should be willing to provide the data used to generate the financial tables and scenarios reported in the feasibility study, and preferably an electronic spreadsheet format that



*Co-op managers and directors need to evaluate and to communicate up-front with consultants to ensure the final report provides sound advice for following up on that “next great idea.”*

*Photo by Glen Liford, courtesy Tennessee Farmers Cooperative*

that serves the group’s needs, he or she should not be used.

On the other hand, the timeline must be realistic. A consultant can only progress as fast as a group makes the required decisions, provides information to the consultant and carries out its other project responsibilities.

Cost is an important factor. The expertise and skills that consultants offer a project must be weighed against their expense. A quicker timeline could increase the charge of a consultant. At times, preparing a pre-feasibility analysis can decrease the effort required to

can be easily manipulated. Though requesting this information can moderately increase the cost of a feasibility study, access to the actual data permits the group to use the information later.

This data can reduce the cost in creating the business plan, if the group proceeds to that stage. It can also decrease the effort required for revisions, if the group changes the project in the future to differ from those in the study.

### The legal ties that bind

Once the consultant has been select-

ed, the group should give him or her detailed instructions on the requirements for the study. A paid consultant should be hired with a legally binding contract between the parties. The group should consult legal counsel for assistance with this contract.

The contract should state clearly the requirements and role of both the group and the consultant. It should have timelines, delivery dates, explicit deliverables and agreement on what is to be accomplished before payment is made.

Often consultants receive a down payment before the study begins. The balance is paid only after the study has been reviewed and accepted by the group (and, possibly, financiers, if appropriate). This gives the group more leverage to encourage timeliness or revisions.

The contract should designate a third party arbitrator to resolve any disputed items.

Before signing the contract, the group should discuss with the consultant arrangements for cost overruns, time delays and revisions. As Murphy's Law states, "Everything costs more and takes longer." The group should discuss with the consultant what considerations will be made for these issues.

Changes after signing the contract can be costly or delay the study results, so all parties should be clear what is to what is expected prior to initiating the study.

### Reviewing the study

Selection of the consultant does not end the group's responsibilities. A qualified member or a small committee should be designated to work closely with the consultant. They work to assure that the feasibility study presents the ideas that the group identified for study. They track the study at all stages and work with the consultant reviewing and clarifying ideas during the study development process.

Members with appropriate abilities or backgrounds should be selected for this task. It is critical that these "contact members" commit sufficient time to work with the consultant. These members represent the group's interests to the consultant. They are the key

contact for providing clarification and additional information that the consultant may require.

These members should give periodic reports regarding the progress of the feasibility study. They also should work with the other group members and advisors to gather the information needed to prepare the feasibility study. These members should express the wishes of the entire group and not their own.

Members or outside financiers will often judge the perceived reliability of the entire study based on its least accurate piece. An otherwise well-conducted feasibility study could be viewed as inaccurate or useless by a simple mistake.

To prevent this, the study should be carefully reviewed. It should be examined for overall clarity and logical consistency, and the appropriate questions should be asked. Is the language appropriate? Is the document well organized? Can someone who is not familiar with the project understand the study? The reviewers should confirm assumptions and assure that the assumptions have been explained.

The report serves as a compilation of project efforts. Potential members, financiers and others use this document to help determine their support for the project. The report should present conclusions from the study. It should be professional in its organization and its presentation. Details should be included such as a table of contents, page numbers and references that make understanding the document easier.

Although the contact members take on the lead in working with the consultant, the entire group should review the study carefully before deciding to accept it.

Advisors such as cooperative development specialists or extension agents can provide an objective review of the study and offer insights on content or assumptions. This outside review can be especially useful, when consultants have prepared the report.

The group refines the report before it is completed. Often a series of draft reports are presented as the study pro-

ceeds. Changes are then conveyed to the consultant.

### Accepting the completed study

After the review is complete, the consultant normally makes a final report to present key findings and recommendations.

The group usually makes the preliminary decision to accept or reject the study. Often, the contact members who have been working with the consultant and have the most knowledge of the feasibility study, make a recommendation to accept or reject the study.

The final decision rests with at least the entire steering committee. In many circumstances, the entire group must grant final approval.

Approval should be based on the technical quality of the study. Does it fulfill the work expectations that the group had when contracting with the consultant? Do the ideas presented differ substantially from those of the members for the project? Does the study contain significant errors? Is the study sufficiently comprehensive to permit informed decisions about continuing with the project? If key information is lacking the group should decide to have the study revised.

A well-crafted, but negative, feasibility study can prevent the group from undergoing considerable trouble and expense to learn the same information later in the project process. By the same token, a feasibility study with a positive economic return should be scrutinized and not accepted merely because it makes the project seem possible.

Written records of the decision-making process should be made and kept in a safe place. Group members need to be aware of their legal responsibilities for due diligence. In the development of a project, an attorney should be kept apprised and provide appropriate legal counsel.

The next great idea for your farm or your cooperative could be just around the corner. But before betting the farm on it, take time to hire a consultant to do a feasibility study to ensure you understand where that next great idea can lead you. ■