

Chapter 9. Preliminary Financial Feasibility Analysis

Preface

Early development of financial feasibility analysis can avoid wasting time, energy and money. This will help one focus on the big picture, identify critical business data needs and assumptions, and narrow down potentially viable opportunities to match the available resource. Preliminary financial analysis helps depersonalize feasibility analysis so that decisions as to “Go” or “No-Go” are made on an objective rather than subjective basis. This approach helps prevent emotional attachment to bad ideas. Preliminary financial analysis also helps convert passive discussion into action as it illuminates opportunities and problems.

What woody biomass business planners and managers really need is an effective and simple way for biomass processing facilities to simultaneously consider both revenue and costs. Enterprise viability depends in part on the dynamics of the available timber or biomass supply (cost of biomass delivered to the processing facility), cost of converting the biomass into products (processing cost), and products markets (revenue from the sale of biomass products). Evaluation of product value to delivered log cost and processing cost provides a good starting point for preliminary feasibility analysis of the proposed enterprise.

In the final calculation, *gross margin*¹ will be of greatest interest and importance to the biomass processing enterprise planning team. Specifically, the gross margin is used to identify both the biomass feedstocks and product mix that offer the greatest potential for economic return, as well as those that pose the greatest problems, risk of losses, or unacceptably low margins.

Preliminary financial analysis done using “best-case” scenario assumptions can help present the financial picture early on in the planning process. It should be developed using a reasonable pair of “rose-colored” glasses. This quick and easy analysis will identify projects that are unattractive even under the best-case assumptions. When this is found and demonstrated, it is obviously the case that attention should be focused elsewhere. This saves time and energy from chasing after a poor investment scenario.

Under a best-case scenario, a positive gross margin indicates a scenario worth further investigation and more intensive financial analysis. A negative gross margin indicates a nonviable scenario² that is not worth further investigation and pursuit of the nonviable option can be dropped before extensive time and energy have been expended.



Loading urban wood waste into a screen hopper; Carson City, NV. Source: USDA Forest Service

¹ Gross margin equals product revenue minus delivered biomass cost and processing (variable manufacturing) cost.

² In some cases, the preliminary financial analysis may indicate that the original concept is flawed or otherwise unworkable. However, a more appropriate dimension of undertaking may be identified as a result of interactive discussion in doing the analysis and more broadly considering problems and opportunities.

