VII. The Feasibility Study

Types of Feasibility
Cost/Benefit Analysis
Risk Analysis
Comparing Alternatives
Information Acquisition
Feasibility Study Contents

The objective of a feasibility study is to find out if an information system project can be done, and if so, how.
A feasibility study should tell management:
• Whether the project can be done;
• What are alternative solutions?
• What are the criteria for choosing among them?
• Is there a preferred alternative?
After a feasibility study, management makes a go/no-go decision.

• A feasibility study is a management-oriented activity

Dimensions of Feasibility

Operational -- how will the solution work?
Technical -- is the technology needed available?
Economic -- return on investment
Schedule -- can the system be delivered on time?

Constraints may be hard or soft

Economic Feasibility

The bottom line for many projects!
Economic feasibility amounts to judging whether possible benefits of the project are worthwhile.
As soon as a specific solution has been identified, the analyst can weigh the costs and benefits of each alternative.
This is called cost-benefit analysis.

Types of Benefits

Benefits may be classified into one of the following categories:
• Monetary -- when $-values can be calculated;
• Tangible (Quantified) -- when benefits can be quantified, but $-values can't be calculated;
• Intangible -- when neither of the above applies.

How to identify benefits? By organizational level (operational, lower/middle/higher management) or by department (production, purchasing, sales,...)
Types of Costs

- Project-related costs
  - Development and purchasing costs;
  - Installation, training and conversion costs.
- Operational costs (on-going)
  - Maintenance: hardware, software, facilities
  - Personnel: operation, maintenance.
- For a small business that wants to introduce a PC-based information system, these cost categories amount to:
  - Project costs: purchase hardware, software, furniture; customize software, train, install, file conversion
  - On-going costs: operating the system (data entry, backups, helping users, vendors etc.), maintenance (software) and user support, hardware and software maintenance, supplies,...

Cumulative Benefits

<table>
<thead>
<tr>
<th>Year</th>
<th>$200</th>
<th>$4,500</th>
<th>$5,250</th>
<th>$9,995</th>
<th>$11,270</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Net Costs</td>
<td>($100,000)</td>
<td>($81,243)</td>
<td>($60,924)</td>
<td>($39,564)</td>
<td>($11,580)</td>
</tr>
<tr>
<td>Total Costs (initial + incremental)</td>
<td>($100,000)</td>
<td>($103,572)</td>
<td>($107,159)</td>
<td>($110,719)</td>
<td>($114,135)</td>
</tr>
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Basiclly, we need to compute but it must be done with present dollar values.

Assuming the same figures as for year 4.

The after 5 years is $13,652, and after 6 years is $36,168,

Project-related costs

For a small business that wants to introduce a PC-based information system, these cost categories amount to:

- Development and purchasing costs;
- Installation, training and conversion costs.
- Maintenance: hardware, software, facilities
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Payback Analysis

Basically, we need to compute:

Total costs (initial + incr.) - Yearly return (or savings)
but it must be done with present dollar values.

The net present value of the investment in the project after 5 years is $13,652, and after 6 years is $36,168, assuming the same figures as for year 4.

Discount Rate

- A dollar today is worth more than a dollar tomorrow...
- The dollar values used in this type of analysis should be normalized to refer to current year dollar values.
- For this, we need a number, the discount rate, which measures the opportunity cost of investing money. The number is company/industry-specific.
- To calculate the present value, i.e., the real dollar value given the discount rate i, n years from now, we use the formula

\[
\text{Present Value} = \frac{1}{(1 + i)^n}
\]

For example, if the discount rate is 12%, then

Present Value (1) = \( \frac{1}{(1 + 0.12)^1} = 0.893 \)

Present Value (2) = \( \frac{1}{(1 + 0.12)^2} = 0.797 \)

Benefits

<table>
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<tr>
<th>Year</th>
<th>$25,000</th>
<th>$30,000</th>
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Ualley Software

Expenses:

- 2 Programmer/Analysts (125 hours/ea $25.00/hr)
- 1 System Librarian (250 hours/ea $10.00/hr)
- 1 Database Specialist (15 hours/ea $40.00/hr)
- 1 System Architect (100 hours/ea $45.00/hr)
- 1 Telecommunications Specialist (50 hours/ea $45.00/hr)
- 1 GUI Designer (200 hours/ea $35.00/hr)
- 4 Programmer/Analysts (250 hours/ea $25.00/hr)
- 2 System Analysts (400 hours/ea $35.00/hr)

Personnel:

- Operation, maintenance.
- Customer support, training, installation, file conversion.
- Maintenance: hardware, software, facilities
- Personnel costs:
  - Personnel: operation, maintenance.
  - Personnel: customer support, training, installation, file conversion.
  - Personnel: maintenance: hardware, software, facilities

Accounting Methods

- Payback Analysis: how long will it take (usually, in years) to pay back the project, and accrued costs:
  - Total costs (initial + incremental) - Yearly return (or savings)
- Return on Investment Analysis: compares the lifetime profitability of alternative solutions.
  - Lifetime benefits - Lifetime costs

Net Present Value Analysis: determines the profitability of the new project in terms of today's dollar values. Will tell you that if you invest in the proposed project, after n years you will have $XXX profit/loss on your investment.

Total Projected Annual Costs:

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<tr>
<th>Year</th>
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How to Compute Exactly the Payback Period

- Need to determine the time period when lifetime benefits will overtake the lifetime costs; This is the break-even point.
- Determining the fraction of a year when a payback actually occurs:
  \[
  \frac{\text{beginningYear amount}}{\text{endYear amount} + \text{beginningYear amount}}
  \]
- For our last example, 51,611 / (70,501 + 51,611) = 0.42
- Therefore, the payback period is 3.42 years

Net Present Value

- After discounting all costs and benefits, subtract the sum of the discounted costs from the sum of the discounted benefits to determine the net present value.
  - If it is positive, the investment is good.
  - If negative, the investment is bad.
- When comparing multiple solutions or projects, the one with the highest positive net present value is the best investment.

Return on Investment (ROI)

- ROI analysis compares the lifetime profitability of alternative solutions or projects.
- ROI for a solution measures the amount the business gets back from an investment vs the amount invested.
- ROI is calculated as follows:
  \[
  \text{ROI} = \frac{\text{Est. lifetime benefits} - \text{Est. lifetime costs}}{\text{Estimated lifetime costs}}
  \]
- For our example, ROI = (795,440 - 488,692) / 488,692 = 62.76%
- The solution offering the highest ROI is the best alternative.

Risk Analysis

- One of the criteria for comparing alternatives often has to do with an evaluation of the risks for each alternative.
- For example, one alternative may have a higher risk of rejection by users of the system.
- Or, an alternative may have better backing from top management, which means that it has lower risk of failure because top management changed its mind.

Risk Factors: A Sample

- System requirements:
  - Poorly understood requirements at scheduling time;
  - Customer changes requirements;
  - IS staff insist on unnecessary features;
- Tools and technology:
  - Unsuitable target deployment environment;
  - Unsuitable development tools;
  - New tools;
  - No technology standards
More Risk Factors

- People:
  - Inadequate participation by users in development process;
  - Poor project management;
  - Poorly trained developers;
- Environment:
  - Weak upper management commitment;
  - Changing environment;
  - Changing technological environment;
  - Government action.

Feasibility Analysis Matrix

<table>
<thead>
<tr>
<th>Description</th>
<th>Candidate 1 Name</th>
<th>Candidate 2 Name</th>
<th>Candidate 3 Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational Feasibility</td>
<td>Score: 60</td>
<td>Score: 100</td>
<td>Score: 100</td>
</tr>
<tr>
<td>Technical Feasibility</td>
<td>Score: 60</td>
<td>Score: 100</td>
<td>Score: 100</td>
</tr>
<tr>
<td>Schedule Feasibility</td>
<td>Score: 85</td>
<td>Score: 80</td>
<td>Score: 60</td>
</tr>
<tr>
<td>Economic Feasibility</td>
<td>Score: 30</td>
<td>Score: 100</td>
<td>Score: 100</td>
</tr>
<tr>
<td>Ranking</td>
<td>Score: 90</td>
<td>Score: 90</td>
<td>Score: 60</td>
</tr>
</tbody>
</table>

Another Example

Consider a scenario: You want to adopt a programming environment for your Zeus project; there are three alternatives: Strobe, KEE and Loops

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Strobe</th>
<th>KEE</th>
<th>Loops</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zeus req. (H+)</td>
<td>M</td>
<td>H</td>
<td>M</td>
</tr>
<tr>
<td>Min costs (H)</td>
<td>H</td>
<td>L</td>
<td>Unresolved**</td>
</tr>
<tr>
<td>Customizability</td>
<td>H-</td>
<td>M</td>
<td>H</td>
</tr>
</tbody>
</table>

*: H-, provided source code is available.
**: the following questions need answers: (i) hardware platform for the project? (ii) do we get free copy?
Information Systems Analysis and Design

The Better Way: Use Goal Analysis

- Quality of schedule
- Minimal conflicts
- Minimal effort
- Quality of information

Information Acquisition

- There are many techniques for acquiring the information used in a feasibility study.
  - Study available documents and data;
  - Sampling;
  - Interviews;
  - Questionnaires;
  - Observation.

- You need to know which method to choose, and how to actually use it.

An Example

- Your friendly campus bookstore wants to improve handling of textbook orders. Right now, the orders come in on a paper form from instructors, the information is copied on cards for a card file, and purchase orders are generated for publishers. A clerk keeps track of incoming shipments. All information is thrown away at the end of the year, so instructors can’t say “same as last year.”

- Can you (as systems analyst) help?

- Here are the steps you may want to follow:
  - Talk to the manager, convince her that a feasibility study is a good idea, generate a proposal, sign a contract and get started;
  - Find out how other kinds of information are handled (payroll, scheduling of employees,...); it turns out that they are not problems, so the new system need not deal with such information (acquiring);
  - Talk to the people who handle orders; what do they do? where is the problem, if any? what would they like to see? (information acquisition)

An Example (cont’d)

- As you begin to understand the setup, you begin to form an idea of how different processes are done: HandleOrder, AnswerQuery, PurchaseBooks, GetUsedBooks...

- Confirm your understanding with the manager.

- Next you consider alternatives: (a) improve the manual system with redesigned cards, new card-filing system; (b) install a personal computer with a database where you keep all book orders; (c) install a network of PCs to handle orders, purchase orders, inventory.

- You confirm with the manager that his criteria for evaluating alternative solutions are: (1) cost -- no more than $30K; (2) improved service; (3) ease of use.

- Next, you evaluate each alternative with respect to each criterion.

- Finally, you prepare your report and you hand it in.

Feasibility Study Contents

- Purpose and scope of the study -- objectives, who commissioned it, who did it, sources of information, process used for the study, how long did it take;

- Description of current situation -- organizational setting, current system(s);

- Related factors and constraints;

- Problems and requirements;

- Objectives of the new system;

- Possible alternatives -- including, possibly, the present situation;

- Criteria for comparison -- definition of the criteria

- Analysis of alternatives -- includes description of each alternative, evaluation with respect to criteria, including cost/benefit analysis and special implications.

- Recommendations -- what is recommended, implications, what to do next; sometimes it makes sense to recommend an interim solution and a permanent solution.

- Appendices that include supporting material.