



Why Bother With A Feasibility Study?

By

Peter N. Alexander

Why bother with a feasibility study? You know what you want to build! It is your dream!
It's going to be fantastic and everyone is going to love it!!!

Or are they?

What if it's a flop, and stands there empty while you go broke? That would be bad, now
wouldn't it?

Well, if you start your project by doing a GOOD feasibility study, you will go a long way
toward making your dream a success. That is why virtually every large, successful
theme park, starting with the original Disneyland in 1955, and most successful hotels
and resorts start the design process with a feasibility study.

LOCATION, LOCATION, LOCATION

A good feasibility study starts by assessing whether the intended location is suitable for the project. You could have a great idea, but be building it in the wrong place.

Disney, designer of the most successful theme parks and resorts in the world, provides the best examples of good and bad location selection.

On the good side, Walt Disney chose Orlando, Florida for the location of Disney World. Now today, most people would say, that Orlando is an obvious place to put a theme park. After all, it is one of the biggest tourist destinations in the world!

But in 1965, when Disney bought the land, Orlando was a “one horse town” (as they used to say in the Wild West) and they didn’t even have a saddle for the horse. There was nothing there. It was just a place to get gasoline as you drove from Daytona Beach to Tampa. Back in those days, all the tourists went to the beaches in Fort Lauderdale and Miami Beach.

Walt knew that no matter what kind of attraction he built, it would never be as attractive as the beach to some people. So he put Disney World in the middle of the state, an hour and a half drive from the shore, so that, “People wouldn’t head for the beach every time it got sunny.”

The result was that Disney World diverted a substantial number of tourists away from Fort Lauderdale and Miami Beach and then they spent the night in Orlando in the hotels that sprang up around Disney World, and a new tourist center was born.

An example of a poor choice of location selection is Disney Paris. Disney Paris is a great attraction, brilliantly designed by Disney's best design team. But it has been beset by financial problems since its founding, largely because it is located in Paris, France.

But you say Paris is one of the most popular tourist destinations in the world! How could it be a bad location? There are several reasons, but one of the most important is weather.

Paris is located in Northern Europe where the weather is cloudy, damp and cold much of the year. And when the weather is bright and sunny, in August, virtually the entire population of the city goes on vacation to the south of France.

But what about the rest of the year? Remember, for a theme park, we are talking about OUTDOOR recreation, and while it may be charming to sit inside a cozy little Paris bistro on a rainy day, it's not fun to walk around in freezing rain.

Had Euro Disney been located in Spain along the Mediterranean Coast (another location they considered) where the weather is mild all year round, it would have been much more successful.

Even within a general location, there are good locations and bad. For example, you could put two, virtually identical projects, near, let us say, Riyadh, Saudi Arabia. One might be located in a pleasant valley, while the other might be located in a mosquito filled bog. The weather would be the same for both projects, but the cost of clearing and draining the bog and abating the mosquitoes would make that location a poor one. The pleasant valley would be a better one, since there more of the project budget could be applied to improvements the guests would appreciate, and less to infrastructure that they couldn't see.

A good feasibility study analyzes the good and bad points of a location, and makes sure that you are building your project in the right place.

Market and Demographics

In order for your project to be a success, it cannot be too big for the market, and it shouldn't be too small, either. It also has to appeal to the right demographics, the type of people who are most likely to patronize the project.

The effect of demographics can be seen in the incredible success of the hotel market in Dubai, and the poor performance of the condominium market in the same country.

Hotels in Dubai are almost always full, and the room rates are high. Five star hotels typically maintain 90% year round occupancy rates, at average room rates over \$300 per night, among the highest in the world.

Meanwhile, of the 100,000 condo units that were completed in 2007-8, at least 25% were still vacant by 2013 and those sold dropped 65% in value

Why? Demographics.

A good feasibility study would have shown that a substantial percentage of the visitors to Dubai are business people or adult tourists. These people prefer the amenities of a hotel—the room service, restaurants, bars and spas. Further, their visits are short or infrequent, making the purchase of a condo not financially feasible.

Vacation Condos, like the ones in Dubai, are generally purchased by families and until such time the first theme park is completed (if ever) there is very little for families to do in Dubai other than go shopping or to the movies, and those are not enough of a reason to purchase a condo. So, beautifully designed condo buildings stand empty, waiting for the theme parks to arrive and fill them up.

A project can also be designed to be too big or small for a market.

A good example of a project that is actually too small for the market is Hong Kong Disney. At one point in the opening year, during a Chinese holiday, the park was so packed with people that they had to cut off admissions at the gate, and in order to get in Chinese families were seen boosting their children over the fence. There simply was not enough ride capacity to handle the crowds. Word of mouth spread that the long lines for the few rides made kids unhappy, and as a result Hong Kong Disney first two

years attendance was less than expected, while neighboring Ocean Park, an older amusement park big enough to handle the crowds, had record years.

A GOOD feasibility study establishes how big the project needs to be to work in its market, and without one, you risk over-building or under-building.

What about the Competition?

A good feasibility study will help you carve out a niche in the market that you can “own” and help you make sure that you keep it that way. Ideally, you need to plan your project so that someone else cannot come along and build the same thing right next to you, and put you out of business.

A few years back we had a client in the Canary Islands who wanted to expand his small themed attraction into a full scale theme park. He wanted to add a “Birds of Prey” Show (hawks, eagles, falcons, etc) and build some commercially available, off-the-shelf rides. The project sounded like a good idea on the surface, but we knew there was another theme park not far away, and they might copy the idea, so we recommended that instead, he add some original live shows that would be harder to duplicate, and some rides that could be customized to appear to be unique to his property.

Instead, he hired another firm to do a feasibility study that told him what he wanted to hear, and recommended the “Birds of Prey” approach. Unfortunately for the client, that

bird never even got to take off, because before he could get his show up and running, the competing theme park opened a nearly identical show, and bought the same rides he planned on buying. That was the end of his hope for expansion as he dropped all of his plans.

A GOOD feasibility study will help you figure out what kind of hotel or theme attraction will work in your market, and how to design it to survive any potential competition.

Show Me The Money!

The purpose of a financial feasibility study is to show how much you can invest, and how much profit you can make. No one can guarantee what lies on the financial road ahead, but without a feasibility study you are literally driving blind and there is a strong possibility you are going to crash.

The study will predict the projected capital cost, the potential revenue and the operating costs **before** you proceed with design, so your designers can design for success.

These financial studies are essential if you are going to attract investors to fund your project. Without one, a typical, professional investment firm will often “pass” on the opportunity to invest. At TFC, we spend long hours on the phone and in meetings with financial analysts from investment houses, who go over every assumption we make in intense detail, so we can tell you for a fact if you want them to “Show You The Money” you had better show them a good feasibility study first.

Beyond simply determining the overall success or failure of the project, a good feasibility study will tell you which parts of your overall project will work the best. For example, within a large project, where there are multiple elements such as a theme park, a water park, condo hotels, retail, condos and vacation homes, the study will show you where your profit centers are, and therefore how much of each element to build. It can show you what happens if you under-build the entertainment elements like the theme park, and over-build the high profit centers like the condo hotels, and vice versa. These financial results are always kept confidential by the project's owners, because they are often the difference between success and failure.

How Good Is Your Idea...Really?

Maybe the best reason to do a good feasibility study is that it provides an objective look at your project, which may be a sobering look.

A couple of years ago, I got a call from a fellow who wanted to build a theme park in Berlin, Germany whose theme was to be Darwin's Theory of Evolution. Now it's one thing to read this theory in a college text book, but it's another thing to go on a ride based on a scientific theory that is less entertaining than watching paint dry. I told the fellow that Darwin might make a pretty good museum (somewhere near the scientist's place of birth), but not a theme park in Berlin.

He ended up getting a feasibility study from another firm that predicted he would get four million visitors per year, and then he spent a lot of money on design. But when he showed the feasibility study to potential investors, they all passed on the opportunity and the project was never built.

At TFC, we will not accept a commission to do a study if we can tell in advance that the project is totally infeasible, so we are generally starting with pretty good ideas. Still, because we are not “parroting back” to the owner what they want to hear, often times we find that a client’s ideas have to be fine-tuned. Sometimes, they are interested in building a theme park, but only a water park (which is smaller and less expensive) will work in their location. Sometimes they want to build the project in a particular location, but we find that another one is better.

Because the studies are based upon principles that have worked to establish many successful theme resorts, such as Disneyland in Anaheim, Disney World in Orlando, Universal Studios in Orlando and others, they are essential to the design process. Indeed, they are the first solid step that all projects should take before they begin design. They tell the designer how “big” to make everything—how many hotel rooms, how big of a theme park, how large of a parking lot—even how many restaurants and retail stores to build.

In short, feasibility studies are the first step to a successful project. Whether it’s a small hotel, a theme park or an entire new city (as currently planned in Saudi Arabia) a good feasibility study is an essential starting point.