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GETTING THE TIMING RIGHT
WHICH COMES FIRST, THE SITE OR THE FEASIBILITY STUDY?

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Location-based entertainment (LBE) entrepreneurs are faced with a dilemma when it comes to developing an LBE or a family entertainment center (FEC) type project: Do I prepare my business plan and obtain my financing before securing a site, or does securing the site come first?

The challenge, or should we say quandary, comes about due to time. Once a site is secured, usually in the form of an option to purchase, an LOI (letter of intent) or a signed lease with a contingency, the time available to wrap up financing and move forward is limited. So it makes a lot more sense to finalize the business plan first. However, the issue here becomes the feasibility study -- both the market feasibility and economic feasibility. Can they be completed before a site is secured? The answer is an unqualified no.

The actual site has an impact on the geographic market area, market penetration, attendance and the pro forma financial projections. A one-half mile difference in the location can make a dramatic difference in attendance. A market study also has to evaluate many factors to determine attendance. These include such things as a site's visibility, accessibility and the synergies and compatibility of adjoining uses. An FEC next to an adult strip club or junk yard will not have the same attendance as one next to a mall or movie theatre, all other things being equal. Likewise, an FEC on a back road will not generate the same attendance as one on a main highway in the same vicinity. So the specific site becomes critical for the overall feasibility and projections.

The specific site also has an impact on cost. Take two raw land sites within a ¼ -mile of each other. The cost to develop them can easily vary. One site might require a lot of expensive infrastructure improvements and grading, while the other might not. For a rented store space, one store might require much more expensive remodeling for windows, air conditioning, plumbing, etc., while another store directly across the street could cost much less to renovate. Thus, until the actual site is identified, an accurate cost estimate cannot be prepared to be part of the business plan. And without knowing the cost, it is impossible to structure the project funding and calculate the return-on-investment, a critical investment decision number for both the entrepreneur and investors. Even worse, when the cost is only ballparked and not based on a site-specific cost estimate, the funding ends up inadequate to complete the project.

There are some consulting firms in the industry that will prepare a feasibility study without a specific site being identified. We believe they are doing their clients a big disservice, as they are making many assumptions in the study that will probably not prove accurate. Their feasibility studies, in effect, are presupposing that all sites will be the same within the general market, which is never the case.

Our company works with our clients with a two-step approach to the feasibility study when a site hasn't yet been identified. We first conduct a market evaluation of the general area to determine if a project is generally feasible. Based on that evaluation, if a project is feasible, we recommend the general type, mix and size for the LBE or FEC. This identifies for our clients the site specifications to guide them in their site search. At the same time, we identify the best areas in that market where the site search should be conducted. While this is happening, the clients can start drafting the business plan. A business plan has many parts that don't require the market study or economics, including the entrepreneur's background and experience, a general description of the project, how the project will be managed and marketed, etc. Then once the site is located and secured, we prepare the formal market study, cost estimate and pro forma projections that are then plugged into the business plan.

Developing an LBE and securing its financing is not easy. It's like juggling. There have to be lots of balls up in the air all at the same time, and they all have to come down at just the right time for the project to come together. Developing an LBE also requires risk capital – money the entrepreneur has to invest to secure the site, the feasibility study, the business plan and sometimes a securities offering circular for investors before all the financing is secured. That investment can become sizable, often $50,000 or more. This is the nature of being an entrepreneur and LBE developer.

There is no easy, risk-free route. The only sure route to success, meaning developing a long-term financially successful project, is to do it right, and that means a market and economic feasibility study that is site-specific. Trying to shortcut the process only leads to problems that either prevents the project from coming out of the ground, being completed or negatively impacts the LBE's performance and longevity.

Additional reading:

- *The feasibility study, the blueprint for success*
- *Not all populations are created equal: understanding the differences to maximize success*
- *What will my project cost?*
- *Finding the investment sweet spot*
- *Pink slips create entrepreneurs; beware of the roadkill traps*

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