

THE FOREIGN DIRECT
INVESTMENT
FEASIBILITY STUDY

DeRuiter Consultancy
International Market & Investment Surveyors

THE PREPARATION OF A FEASIBILITY STUDY FOR A FOREIGN DIRECT INVESTMENT

DeRuiter Consultancy has carried out a great number of feasibility studies for foreign as well as domestic direct investment projects. The studies have often been starting points for successful and profitable new projects, which have been realised by our clients in many countries of the world. The experience of the consultants has been built in almost twenty years' time on a high frequency of studies, conducted in markets with different business cultures and national economic environments. DeRuiter Consultancy has developed a well-proven approach and an effective standardisation where possible. This brochure informs you of our approach to feasibility studies for direct investment projects.

YOUR COMPANY MUST CONTINUOUSLY INVEST IN NEW PRODUCTS AND MARKETS

Growth is a prerequisite for survival. In your present product portfolio today's profitable "cash cows" may be tomorrow's "losing dogs". For profits must be made to reinvest in the development of new products and markets. Research & Development costs, however, are continuously increasing, either because of new technological developments or shorter product life cycles, or a combination of both.

New foreign markets may offer good opportunities as well as extra sales outlets. For example, foreign product sourcing may result in lower labour costs. Some developing and "Newly Industrialising Countries" are attractive growth markets.

However, direct exports are not always allowed, or feasible. Therefore a company may consider the acquisition of an existing company, or a new investment in a foreign assembly, or a full manufacturing operation. Sometimes this can be achieved through a fully owned subsidiary, but in many cases it is realised by means of a joint venture, co-production or licence agreement. Financing of such investments may need a consortium of investment promoters and commercial or development investment banks. A sound judgment on risks and opportunities presented by an independent consultant can be of great help.

From time to time all companies must identify new investment projects, and evaluate their feasibility. If this is not a routine job for you, you may save time and money by using the services of DeRuiter Consultancy, your specialist for the preparation of feasibility studies.

HOW WILL A FEASIBILITY STUDY HELP YOU?

A good feasibility study for an investment project serves several purposes. The investment feasibility survey will therefore focus on a number of distinguished subjects. Critical elements regarding the product, the market, the production, the organisational and financial structure and costs and revenues will be defined and analysed, yielding a defined return on investment and a proposition of the best of alternative options for chances of success of the investment.

The feasibility study, besides providing a basis for an investment decision, will serve the following purposes:

- Compare and select the most promising investment proposals
- Give a fair presentation of the opportunities and risks of a particular investment proposal
- Exchange information and reach consensus among managers from various disciplines, such as marketing, production and finance
- Structure and speed up negotiations with joint-venture partners
- Obtain the required government licences, incentives, subsidies, etc.
- Function as a 'selling document' for investors
- Help implement the project
- Serve as a first operational business plan

A “MIXED” PROJECT TEAM: HIGH INVOLVEMENT OF YOUR STAFF

A feasibility study should give a comprehensive insight into all main issues of an investment project, avoiding too many details at a time. Therefore, many specialists and disciplines must participate in the preparation thereof, sometimes only for a brief period. For the preparation of a feasibility study, DeRuiter Consultancy, in close co-operation with your company, will set up a Project Team for the execution of the study.

The Project Team is a combination of 1 or 2 consultants, depending on the magnitude of the project, and experts from your company. The experts of your company could be a raw-material buyer, a production engineer, a marketing expert or another specialist that can make a contribution to the many aspects to be evaluated in the survey. Your experts are the ones that know your own products and production processes best. This will speed up communication and avoid misunderstandings on commercial, technical and production matters. Besides, if your own people participate in the Project Team, all know-how concerning the project will easily be transferred to your own company.

Individual experts from the country in which the investment is intended to take place will support the Project Team. This support relates to government regulations and legal, fiscal and marketing matters.

The consultants will on the one hand participate in the investigations and on the other hand they will manage the study project and will be responsible for the report and the final conclusions. DeRuiter Consultancy will be responsible for the Project Management. This will guarantee a neutral and objective presentation of all strengths and weaknesses of your project.

RELIABLE SALES FORECAST OF CRUCIAL IMPORTANCE

In all our feasibility studies we give high priority to a thorough analysis of the market and the development of a provisional marketing and sales strategy. Local circumstances, business environment, consumer culture and product appreciation are as vital as the volume of the market, pricing, margins and mark-ups and analysis of the competition. The evaluation of the market and the assumptions and forecasts made with respect to sales volume, value and costs form the basis of the production programming, plant-capacity definition, location selection and the profitability estimation of the investment.

The nature of the market information will be established in close co-operation with your experts on the subject. DeRuiter Consultancy has carried out hundreds of market investigations in many countries. Moreover, the network of the consultants organisation in many countries and the close relationship with information brokers and the access to external databases throughout the world, guarantee an efficient data gathering and analysis process.

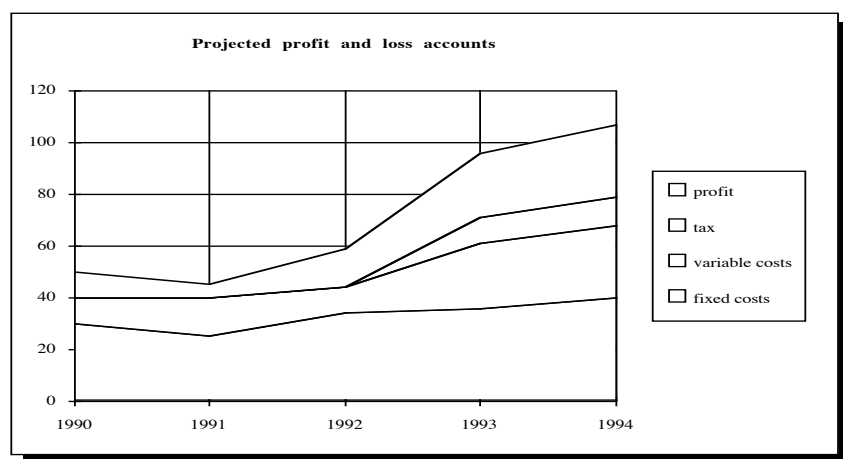
FIELD SURVEY; ADJUSTMENT OF THE CONCEPTS

The Project Team will start by drafting the scope of the project with the client and will establish assumptions on all parameters pertaining to the nature of the project. Alternatives for the organisation structure, the production process or lay-out, the location and the financing will be prepared and evaluated on the basis of preliminary analysis results concerning the market. This is when the iterative process for the final establishment of well-defined investment options starts.

Next, the Project Team will carry out a field survey in the country where the investment project is to take place. In addition to the investigations into commercial, organisational and technical aspects, discussions on the investment and the conditions will be held with local financiers, investment partners and possibly government agencies. Local expertise could be involved for the assessment of aspects of business laws and taxation, marketing and engineering.

FLEXIBLE COMPUTER FORECASTING MODEL

DeRuiter Consultancy has developed a flexible computer model for a great variety of financial and economic calculations and evaluations. The model can easily be tailor-made to the specific needs of your investment project. Projections of balance sheets, profit and loss accounts and profitability ratios of the selected partial project alternatives can be calculated. Sensitivity and break-even analyses will be performed. Information will be presented to you, both in numerical figures and in graphic presentations.



The computer model forces the consultant and the investors to evaluate the project systematically. It is an excellent tool for discussing various options before selecting the optimum one.

REPORTING ACCORDING TO THE STANDARDS OF INTERNATIONAL INSTITUTIONS

The final feasibility study report will present a clear picture of the overall investment project and of all critical elements influencing the risks and opportunities. It will justify the assumptions made and the solutions selected. The study will end in a clear recommendation on whether, and how to proceed with the project. Reporting will meet the requirements of financial institutions and the United Nations Industrial Development Organisation (UNIDO).

CONTENTS OF THE FEASIBILITY STUDY

A feasibility study for an investment project will cover hundreds of elements and aspects. All these can be linked up to constitute the following main issues:

- Background of the project, including a description of the initiator(s) and the motives for starting the project
- The product or service, including the customer needs it will fulfil
- A sales forecast, based on thorough market research
- The marketing strategy for the new products or services
- Description of manufacturing operations
- Management, personnel and organization
- Project implementation schedule
- Investment schedule
- Projected balance sheets and profit and loss accounts
- Proposed financial structure
- Financial evaluation based on profitability and ratios

SPECIAL REQUIREMENTS FOR INVESTMENT PROJECTS IN DEVELOPING COUNTRIES

In a feasibility study for an investment project in a developing country certain specific aspects must be highlighted. These aspects are related to the relevance of the project for the national developing economy, such as:

The amount of local value added:

- A positive foreign exchange balance: the project will generate more foreign exchange because of exports than it will use for the operations
- The use of products from local manufacturers

- Transfer of know-how to local management
- Extent to which local management and labour can be used

If a project is particularly relevant for the national economy, the possibility of obtaining development funds for the preparation and implementation of the project might be available.

REFERENCE LIST OF FEASIBILITY STUDIES CARRIED OUT

Fruit Processing Industry	Cameroon
Fish Breeding	Egypt
Slaughterhouse	Egypt
Airtools Manufacturing Industry	The Netherlands
Clinic for Heart Surgery	The Netherlands
Educational Theme Park	The Netherlands
Furniture Industry	The Netherlands
High-technology Medical Sensors	The Netherlands
Shipyard	The Netherlands
Cement Additives Production	Indonesia
Commercial Weighing Scales Manufacturing Industry	Indonesia
Falsification Detecting Machines Manufacturing Industry	Indonesia
Heavy Diesel Engines Manufacturing Industry	Indonesia
Industry for Sweets and Candies	Indonesia
Paint Application Industry	Indonesia
Photovoltaic Energy Systems Manufacturing Industry	Indonesia
Rattan Furniture Manufacturing Industry	Indonesia
Repair and Maintenance Shop for Oil and Gas Industry	Indonesia
Repair Shop Gas and Steam Turbines	Indonesia
Shipyard	Indonesia
Steel Construction Yard	Indonesia
Travel and Tourist Industry Management Company	Indonesia
Washing Machines Manufacturing Industry	Indonesia
Steel Construction Yard	India
Pharmaceutical Industry	Malaysia
Bus Assembly Industry	Morocco
Pulp and Paper Mill	Nigeria
Dairy Industry	Yemen
Fibreglass Fishing Vessels Shipyard	Pakistan
Flowers and Vegetable Greenhouse	Kuwait
Bakery Equipment Manufacturing Industry	People's Republic of China
Marine Engines Manufacturing Industry	People's Republic of China
Dairy Cattle Farm	Saudi Arabia
Potato Processing Industry	Saudi Arabia
Poultry Processing Plant	Saudi Arabia
Vegetable Farm	Spain
Instant Coffee Production Industry	Thailand
Bus Assembly Industry	Tunisia
Vegetable Greenhouse Project	United Arab Emirate

ASK FOR A FREE-OF-CHARGE OFFER

Depending on the magnitude and nature of the investment project, scope and depth of the study required and the time necessary to collect and assess the material to study, the cost of an investment feasibility study will vary between approximately 1.0% of the total investment costs for a large industry with sophisticated technology and 3.5% for a small industry.

On average, the execution of a feasibility study requires 2 or 3 months, during which 1 or 2 consultants will full time work on the assignment. We will make you an offer with a fixed budget and time schedule, after having acquainted themselves with your specific situation. Such an offer will of course be free of charge. In certain cases it might be possible to obtain government subsidies for the execution of studies with regard to investment projects in developing countries.

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Frans Halslaan 8
1412 HT NAARDEN
The Netherlands

P.O. Box 1373
1400 BJ BUSSUM
The Netherlands

+31-35-6949022 (tel)
+31-35-6952762 (fax)
+31-6-53213924 (mob)