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BUSINESS **9609/33**

Paper 3 Case Study **October/November 2019**

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Chee Solar Panels (CSP)

Chee Solar Panels (CSP) is a public limited company based in Europe that manufactures solar panels and related products. Solar panels capture energy from the sun in order to generate electricity. Home owners and businesses install solar panels, often on the roofs of buildings. Although the panels are expensive to install, expenditure on energy decreases in the long term. In some cases, solar panels provide electricity in regions where other sources of energy are limited.

Marketing the product portfolio

CSP emphasises the environmentally friendly nature of its products in the company's mission statement: 'Making the world a cleaner place with greener energy'.

The Marketing Director recently commented that: 'the greener energy mission statement is the most important factor in the success of our solar panel marketing.'

CSP's pricing strategy for solar panels is never to offer discounts or promotional prices. CSP's relatively higher prices are, the company believes, justified by the longer guarantee period it offers compared to competitors. CSP's solar panels are distributed through businesses which specialise in solar panel installation. CSP's Marketing Director spends most of the limited promotional budget on online marketing.

CSP's main product is solar panels for buildings, but it also manufactures a range of small solar panels. These are used in solar lamps and mobile (cell) phone chargers, which are popular with consumers such as long distance travellers to countries with unreliable power supplies. CSP outsources the production of the components for these related products and then assembles them at the main factory, incorporating its small solar panels. The phone chargers and lamps are sold through supermarkets and specialised travel accessory suppliers.

Recent technical developments

Solar panel technology has improved the efficiency of converting solar energy into electricity. The same size panel can now generate more power and also capture solar energy from weaker sunlight. CSP invests enough in research and development to keep up with the latest technological advances.

Changes in the energy market and government policy

Conditions in the European market for energy are changing. Energy consumption is still rising, but at a slower rate than in the past. This is due to electrical appliances and machinery becoming more energy efficient. Imports of solar panels to Europe from Asia are increasing by 15% per year.

CSP has benefitted from government grants to help with investment. Individuals and businesses have also received subsidies to help them buy and install solar panels. Governments are keen to increase electricity generation from renewable sources, rather than coal and other non-renewable resources. However, this year, many European governments are withdrawing grants and subsidies for renewable energy companies. These organisations have grown fast and are now well established and profitable. Therefore, it is argued, they no longer need financial support. Subsidies to individual and business customers, for using renewable energy, have also been reduced and, in some cases, removed.

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Finance

CSP has been highly profitable over the last few years, but financial prospects for the future do not look so positive. CSP's Chief Executive Officer (CEO), Tammy, recently called an emergency Board meeting. She opened the meeting with the following statement: 'We have enjoyed a very successful five year period for the company, but there are challenging times ahead. Our customers still want to install our solar panels for cheaper electricity, but subsidies will soon disappear altogether. If we want to guarantee the survival of our company, we must have a contingency plan in case the market for solar panels declines suddenly, due to external influences. We must also keep in mind other possible risks, such as fire, if we do not insist on high quality standards.' Tammy went on to say that she was investigating new opportunities for CSP and was optimistic for the future. Some financial data is shown in Appendix 1.

A special order

CSP has been approached by a major company, X Tours, which sells travel products to consumers worldwide. X Tours specialises in equipment for journeys to remote locations. It wants to purchase 10 000 CSP solar lamps. CSP would have 12 months to meet this order. X Tours is offering to pay a unit price of $7, which is considerably lower than the usual selling price to retailers. The finance and capacity data is shown in Appendix 2.

Human resources

Production employees at the CSP factory work in teams, each supervised by a team leader. Tammy believes in worker participation and welcomes suggestions from employees to improve quality and efficiency. Employees are encouraged to join the ECE trade union and the local trade union representative takes an active role in negotiations over pay and conditions at CSP. Production employees are currently paid using piece rates, but Tammy has asked the Human Resource Director to start negotiations about linking pay more closely with profits and high quality work.

Future strategies for growth

Tammy is considering two possible options for further growth of CSP:

Option A: A joint venture with a social enterprise organisation, to supply solar lamps and mobile phone chargers. This social enterprise works with a big international charity to bring electric light and other improvements to villages in rural Africa. The joint venture would set up a small factory in one of the southern African countries and supply products to all the neighbouring areas.

Option B: A takeover of a small competitor which not only produces solar panels but also owns some solar farms. A solar farm has a large number of panels installed on an area of land, generating electricity to be sold to consumers in the surrounding area. The company also operates a small number of wind turbines.

Tammy's personal opinion is that CSP should choose option A, given that the company cannot afford both strategies. She considers that option A would enhance the company's image as a socially responsible organisation. However, she intends to collect some relevant data and make the strategic choice together with the other directors. The data collected so far is shown in Appendix 3.

Appendix 1: Financial data for CSP

Financial indicator	Actual data for 2018	Forecast by CSP Financial Director for each of the next three years
Revenue	$70m	$72m
Operating profit	$20m	$10m
Share price per share	$6.50	$5
Total dividends paid	$5m	$3m
Total number of shares issued	10m	10m
Capital employed	$120m	$110m
Gearing ratio	45%	49%

Appendix 2: Financial and capacity data for CSP solar lamps

	Existing data
Selling price	$10 per unit
Outsourced component cost	$4 per unit
CSP raw materials cost	$1 per unit
CSP labour cost	$1.50 per unit
Allocated fixed costs to solar lamp department (annual)	$32000
Solar lamp production level (annual)	Maximum capacity 44000 Current production 32000

Appendix 3: Extract from research data for Options A and B

	Option A Joint venture with a social enterprise organisation	Option B Takeover of a small competitor company
Set-up cost ($m)	11	30
Estimated probability of success	60%	40%
Expected monetary value ($m)	5	20
Major constraining forces	Difficulties of overseas production	Potential culture clash
Major driving forces	Links with CSP mission statement	Economies of scale

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