

Case Analysis 2

Watt's the Deal?

Page 661 - 662

Yuji Shimojo

MRKT 310

October 7, 2012

## Questions

1. Question 1

Why is it important for Standard Renewable Energy to allow Miggins flexibility in pricing?

2. Answer 1

Because its customers will use the system approximately for 15 to 30 years, the firm needs to build long-term good relationships with its customers and improve customer satisfaction. It would be good for the firm's image that might spread via word of mouth.

Another key reason of flexibility in pricing is for intensified price-cutting competition worldwide. As shown by Chart1 and Chart2 below, Chinese makers have topped the list of market shares in production of global solar cells and wind turbines in recent years.

As a result in this year, Germany's Q-Cells, a solar industry giant, went bankrupt. At one point, the company was the world's largest manufacturer of solar cells; however, Asian competitors in a country like China took the lead years ago by offering goods at competitive prices.

Chart1: Market Share in Production of Global Solar Cells in 2011

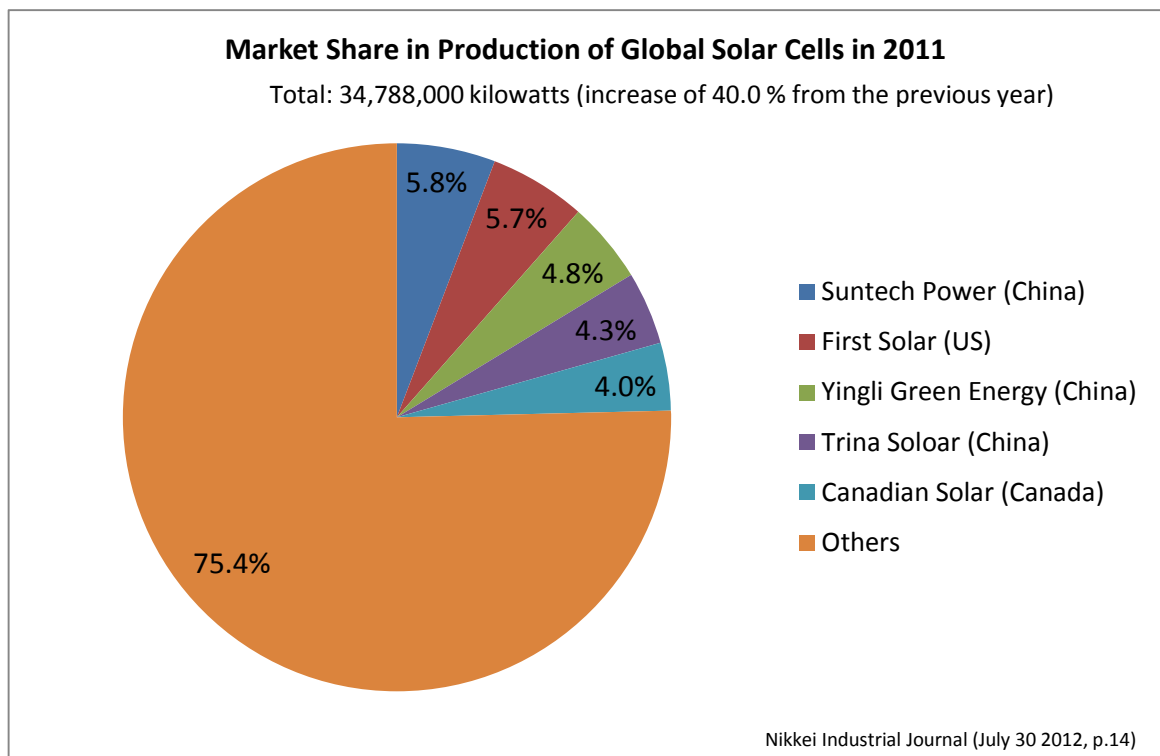
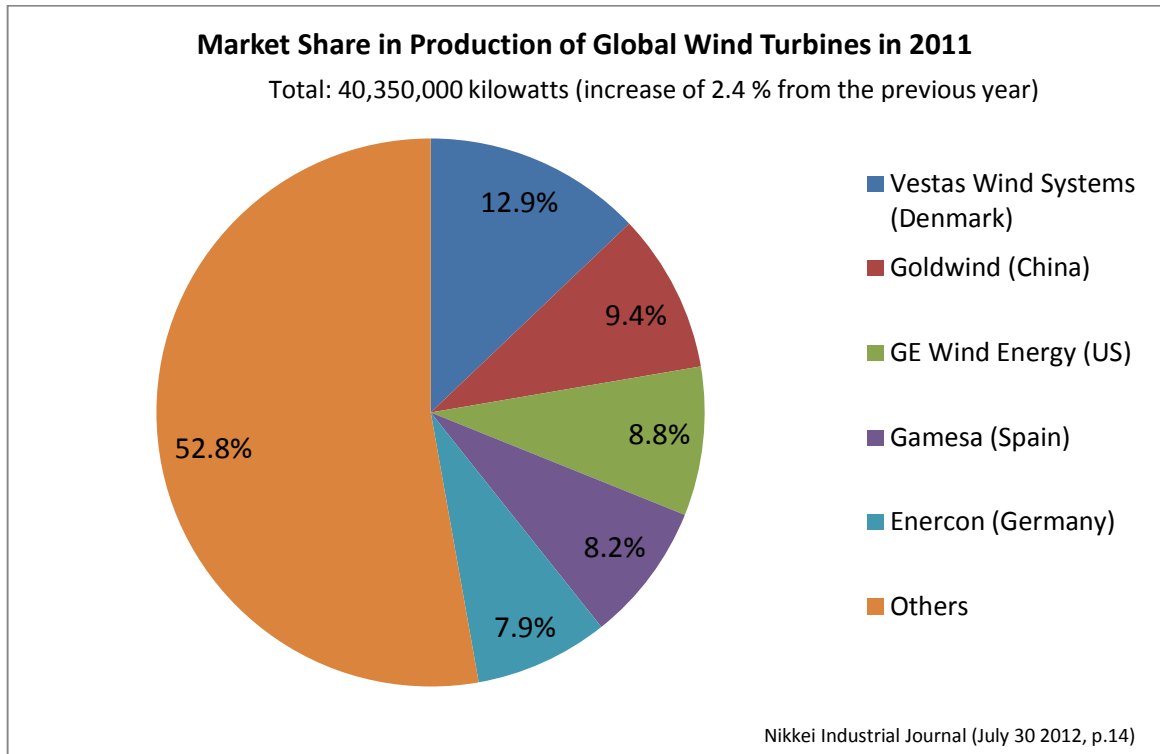


Chart1: Market Share in Production of Global Solar Cells in 2011



3. Question 2

Why is return on investment such an important factor for the consumer choosing an alternative energy system?

4. Answer 2

Choosing alternative energy system is a big purchase like a car for consumers. Payback periods probably are especially of concerns for them.

Actually in Japan, the Feed-in Tariff Scheme for Renewable Energy, including purchase price and surcharge rates went into effect on July 1, 2012. Therefore, calculating return on investment has become much easier.

According to Japan Photovoltaic Expansion Center, average of solar system capacity is 4.56 kilowatts, and average of initial cost for installing solar panels is 496,000 yen per kilowatts. And, government subsidies are 30,000 yen per kilowatts. In addition, generally, average of residential energy production is estimated at 1,000 kilowatt-hours per kilowatts in a year. Based on these data, general break-even point in years is as follows:

$$\begin{aligned}
\text{Breakeven point (in years)} &= \frac{\text{Initial cost} - \text{Government subsidies}}{\text{Annual revenue by selling generated electricity}} \\
&= \frac{(496,000\text{yen/kW} \times 4.56\text{kW}) - (3,000\text{yen/kW} \times 4.56\text{kW})}{(4.56\text{kW} \times 1000\text{kWh}) \times 42\text{yen/kWh}} \\
&= \frac{2,261,760\text{yen} - 136,800\text{yen}}{4,560\text{kWh} \times 42\text{yen/kWh}} = \frac{2,124,960\text{yen}}{191,520\text{yen}} = 11.09523800952
\end{aligned}$$

5. Question3

While one can probably find a better price for the components online, what is the value of choosing Miggins for your solar or wind system?

6. Answer3

Unlike cars, the solar or wind systems are not necessities of your life, so that, low prices are not necessarily the only factor for the consumer deciding the system.

They are likely to be careful in their choice, and place more importance on firms' reliability and whether they can make long-term relationships or not.

It seems to me that Miggins is sincere and more consulting-oriented. He wouldn't only just sell the components, but he would analyze my current residential environment and give me a suited solution.

## References

1. Lois E. Boone and David Kurtz, "Breakeven Analysis (pp. 619)," *Principles of Contemporary Marketing (15th ed.)*.
2. "Market Share (pp. 15)," Nikkei Industrial Journal (in Japanese), July 30, 2012.
3. "The Number of Issued Subsidies of Residential Photovoltaics in PY 2012 (in Japanese)," *Japan Photovoltaic Expansion Center*, July 27, 2012, [http://www.jp-pec.or.jp/information/doc/pdat\\_h24koufu\\_20120731.pdf](http://www.jp-pec.or.jp/information/doc/pdat_h24koufu_20120731.pdf) .
4. "Solar panel maker Q-Cells to file for bankruptcy," *BBC News*, April 2, 2012, <http://www.bbc.co.uk/news/business-17587830> .
5. "Settlement of the Details of the Feed-in Tariff Scheme for Renewable Energy, Including Purchase Price and Surcharge Rates," Ministry of Economy, Trade and Industry, Jun 18, 2012, [http://www.meti.go.jp/english/press/2012/0618\\_01.html](http://www.meti.go.jp/english/press/2012/0618_01.html).