Organizational Diagnostic Models

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DISCUSSION

Analysis of Key Metrics

In the simulations of SLP2 and SLP3, the ranges are 2008 - 2012, 2013 – 2017, 2018 – 2022 and 2023 – 2025. The module price is the same at $0.13, and the revenue to process improvements is 5% of the revenue. There is a provision of 5 years to advance up to the last range where it is to end.

The module price can affect the company in one of two ways. If the price is higher than that of the competitors, then the company will lose the revenue from customers who are cost sensitive. This will shrink sales as the consumers will opt to purchase from the competitors who offer lower prices.

If the price, however, is lower than what is charged by the competitors then the company will benefit from the revenue of the cost-sensitive consumers.

The module price should be one that factors in dynamics such as the market average cost and the costs of production; both direct and indirect.

Below is a table comparing total revenue and improvements for all four decision points:

Range	Module price	Improvements	Speculated units to be sold	Total revenue
2008 - 2012	$0.13	$32.5	5,000	$650
2013 - 2017	$0.13	$65	10,000	$1,300
2018 - 2022	$0.13	$130	20,000	$2,600
2023 - 2025	$0.13	$195	30,000	$3,900

The above data is under the assumption that the cost of the improvement is 5% of the total sales before any deductions and that the firm will reap sustainable profit levels and therefore enjoy a progressive increase in sales throughout the ranges.

Decision 1 (2008 – 2012)

The inputs for both SLP 2 and SLP 3 are the same therefore the behavioral pattern is also the same. However, with the introduction of the new competitors, there are factors to be considered such as the module price of the competitor.

If the module price for the competitor is lower than the market average, the existing suppliers will be affected since the consumers are likely to opt for the cheaper product offered by the new entrant. However, if the module price of the new entrant is higher than the $0.13 offered by the existing suppliers, the market share will not be affected at all since the consumers will remain loyal to their suppliers.

Take a scenario where SLP 3 increases its modular price by $0.01 to $0.14:

	Market share	Unit cost	Modular price	Units sold	profit
SLP3	30%	$0.11	$0.14	300,000	$9,000
SLP2	50%	$0.11	$0.13	500,000	$10,000
Difference	20%	$0.00	$0.01	200,000	$1,000

The above data is under the following assumptions:

1. The total market consists of 1000000 consumers.
2. The larger market share is 50% while the smaller market share is 30%.

Taking into account the above data, it is evident that an increase in modular price causes a negative effect on the market share and also affects the level of profit. Therefore, considering the price set by competitors is an important step before setting a modular price.

Decision 2 (2013 – 2017)

In the second simulation, the values for the modular price for SLP 3 can be reduced to 0.12

	Market share	Unit cost	Modular price	Units sold	Profit
SLP 3	50%	$0.11	$0.12	500,000	$5,000
SLP 2	30%	$0.11	$0.13	300,000	$6,000
Difference	20%	$0.00	$0.01	200,000	$1,000

The above data is under the same assumptions as mentioned above.

Taking the above data into consideration. SLP 2 still makes a higher profit than SLP 3 even with the lesser market share. This means that in the setting of a good modular price, the costs involved in availing the goods must be properly factored in and marked up to enjoy a favorable profit that will enable the company's future growth. Take the following example of a new entrant with better production methods that make it cheaper to produce the same product of the same quality.

	Market share	Unit cost	Modular price	Units sold	Profit
SLP3	50%	$0.11	$0.12	500,000	$5,000
SLP2	30%	$0.11	$0.13	300,000	$6,000
NEW ENTRANT	20%	$0.09	$0.14	200,000	$10,000

In the above table it is evident that with streamlined production costs that are cheaper than the competition, the new entrant can reap the most profits even with the least market share. It is therefore imperative that during the market analysis, the company should also compare production cost and the production processes that are most likely to give the best profits.

Decision 3 (2018 – 2022)

In the third simulation, the new entrant is considered and the effect on the existing companies. Several factors are to be considered with the entry of a new competitor into an existing market.

If the new entrant offers a better product at the same price as the existing suppliers, the consumers will opt for the new entrant's product. This will increase the market share for the entrant and cause problems for the existing suppliers. This, however, does not imply that new entrants or competitors will enjoy better profitability than existing companies since the production cost might be higher and hence narrow profit margins and higher operational costs.

Supposing that the production cost is similar across the board when it ascertains that new entrants will enjoy better profitability than existing firms. Another scenario is when the new entrant sets a price that is higher than the existing competitors. This can have some effects.

One is, assuming that the production cost is similar to the existing companies or suppliers, the new entrant will enjoy greater profits. If on the other hand, the new entrant incurs higher operational and production costs, the company may break-even or make low returns and profits. If the cost of production is lower for the new entrant and their price is set a notch higher than the standard market price, it is highly likely that the new entrant will make a profit.

See the table below:

	Market share	Unit cost	Modular price	Units sold	Profit
SLP3	50%	$0.11	$0.12	500,000	$5,000
SLP2	30%	$0.11	$0.13	300,000	$6,000
NEW ENTRANT	20%	$0.09	$0.14	200,000	$10,000

Decision 4 (2023 – 2025)

In the fourth simulation, the effect of price movements is examined:

	Market share	Unit cost	Modular price	Units sold	profit
SLP3	50%	$0.11	$0.12	500,000	$5,000
SLP2	30%	$0.11	$0.13	300,000	$6,000
Difference	20%	$0.00	$0.01	200,000	$1,000

In the above data, the cost of production for both SLP 2 and SLP 3 is the same at 0.11. The market share, however, is different and the modular price is as well. Take a case where the company with a lower market share increases their modular price. The assumption is that the company is a luxury goods company which has very high prices and a very small market share as well.

This brings to light the factor of exclusivity and branding. For consumers who are not cost sensitive, they like to spend money where the general public cannot and therefore they like the prestige that is associated with exclusivity, and they do not mind paying for it. Therefore, in the market analysis stage, the company should aim to demarcate its niche and align its goals with the consumers that the company is targeting to serve.

The Significance of New Entrants in the PV Industry

New entrants in the photovoltaic industry are likely to shrink the market share for the company particularly when they offer low-cost, better quality products, and enhanced customer service. On one end, they are likely to offer a favorable, low-cost for products and commodities. And on the other, new entrants will feature a strategic market entry prices and costs. Hence, the cumulative profits and returns for the company are likely to shrink as consumers shift to the competitor with the highest quality products and low-cost PVs. New entrants may also offer products at a fairly higher cost to cover marketing, distribution, and sales expenses (Entrepreneur, 2006). Hence, the company may not necessarily incur additional costs and expenses in the face of competition. This is so particularly as competitors and new entrants charge higher costs to cover for their operational expenses in areas like product design, manufacturing, processing, packaging, and distribution.

Strategic Recommendations

The company should conduct a market analysis on matters such as:

Pricing by Competitors for the Same Product

The company should be well versed and aware of what the competitors charge for the same product assuming that the quality is the same and that the consumers consider quality as a factor on whether or not to purchase an item. If quality is not a pertinent factor, the company can look at the most appropriate ratio between the selling price and production costs to make the best profit.

Consumer Buying Behaviors

The company should be aware of the type of consumers that they are dealing with such as cost-sensitive consumers or consumers who are more concerned with quality or those who are more worried about branding. This will help the company to tailor their products best for their target customers.

Potential Market Segments

The company should be conversant with the various market segments such as certain age groups of consumers and gender-focused products. A better understanding of different market segment will help inform the company's strategies in multiple aspects such as market penetration, consumer segments, and demographics, pricing structures, and marketing (Entrepreneur, 2006).

Production Methods

The company should carry out extensive research on the available production methods and compare them to find the most suitable method for the target market and the most efficient method for the realization of profits.

References

Entrepreneur. (2006). *Competitive Analysis*. The Entrepreneur Official. Retrieved from https://www.entrepreneur.com/article/25756