

## Solar Power Systems Inc

*Cleaner energy for a brighter future*



### Business Environment & Breaking News



### Trial Trading Period & Trading Period 1

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## **Welcome to the Board of Solar Power Systems Inc.**

You may want to allocate roles to each of your team members to divide work and responsibilities between you. Here are some examples: CEO, Director of Strategy, Marketing Director, Finance Director and Director of Production might be suitable roles for each of your team.

Solar Power Systems was set up as a social enterprise, a business that makes a profit but has a social purpose that is at the core of its objectives. In this case, SPS has a clear objective to bring solar power to every community in the developing world by 2025.

While SPS has a social purpose, it also has shareholders who have invested heavily in its development and expect a return on their investment. The business is sitting on a lot of cash and one of your jobs as a new Board Director is to make a plan for making the business more profitable. The business needs to make profits in order to attract the renewed investment it needs in the future to deliver its core objective.

In order to be successful your Board of Directors will need to take a close look at the Company Profile and Management Report provided. This will tell you a lot about your revenue streams, your cost structure and your customer/market segments. You will also need to consider how you work with partners such as suppliers, large charities and NGOs to deliver value to your customers. You should plan for expansion and assess how your financial investment strategy should be divided between key activities such as production, marketing and product development.

You are in a competitive market place with seven other companies competing for the same business as you. (For further information on this aspect, please refer to the Simulation Reference Guide). So the Board will need to consider its value proposition carefully. Pricing is obviously key, but so is the quality of your product and your marketing spend - which is essential to build market awareness of what you offer.

You have a lot of information in the Management Report (to be found in Read Your Company Profile) about how the business performed in the six months prior to your joining the Board. So take a good look at this before making any decisions about how you will run the business in the future.

**So how will your company performance be judged? To find out the criteria that will be used, please see the Adjudication Criteria and Rules in your board room section 4: Simulation Guide and Additional Information.**

## **The Business Environment**

Generally speaking, the business environment is difficult but there is a lot of pressure on governments to invest in clean energy so businesses in this industry sector are doing well. Institutional investors, such as pension funds, are keen to be seen to be investing in companies that have a benefit to society as well as producing a good return on their investment. So, companies like Solar Power Systems are in a good position both in terms of attractiveness to investors and industry sector growth.

In terms of the market for sustainable/clean energy, the gap on renewables spending between richer and developing countries narrowed. Two-thirds of the 138 nations that now have clean-energy targets are in the developing world.

*Breaking News: London* - An authoritative and detailed analysis of global investment in renewable energy is published today, revealing record global investment (\$285.9bn last year up 5%), record capacity installed (134GW, up from 106GW two years ago) and – perhaps most strikingly – for the relative importance of developing countries.

Developing economies invested \$156bn in renewables last year, up 19% on the previous year, an all-time high and 17 times the figure for ten years ago. By contrast, investment by developed economies slipped 8% last year to \$130bn. This is the first time that the emerging world has out-invested the richer nations.

The biggest regional surge in investment was in the Middle East and Africa.

## **Financial Information**

In order to run the company effectively, the Board needs to have certain financial information about the business. This includes various costs and rates which will impact on the profitability of the business. These will change with each trading period.

### **Note on the Trial Trading Period:**

The Trial Trading Period is the opportunity for you to practice making decisions and see the outcome as they do not count towards your final result. So if you have missed the Trial Trading Period, do not worry.

You will make your first decisions that actually count towards your final result for Trading Period One. For this Trading Period, you must use the same information you used for the Trial Trading Period, i.e. the Management Report in the Company Profile (not the one you get with your results for the Trial Trading Period) plus the additional information below.

**Key Financial Information for the Trial Trading Period and Trading Period One**

The Board will need the following information in order to make decisions:

1. Warehousing costs	£2 per unit
2. Carriage & packaging Costs	£2 per unit
3. Cost of buying competitive information	£10k per unit
4. Maximum price changes	+/- £8
5. Current bank loan	£12m
6. Bank Interest rate	8%
7. Corporation tax rate	21%
8. Bad debts	5%

**Notes on financial information:**

- 1. Warehousing costs** - There is a fixed cost of **£50,000** each Trading Period, plus a charge **per 100 units** of 'Finished Goods' and 'Materials Units' held in stock in your warehouses **at the start** of the Trading Period. You will be notified when the cost of warehousing changes.
- 2. Carriage and Packaging** - The packing and shipping of your products to your markets will cost a specific amount, for example **£2** per unit of the Product sold and this will be charged to your Profit and Loss Account. You will be notified when the cost of carriage and packaging changes.
- 3. Competitive information** – If you want to know what your competitors are up to you need to buy market research and competitive information. There is a cost for this per category of information. The cost will change each trading period. You can see what information you can purchase in your Simulation Guide.
- 4. Maximum price changes** – This figure shows the range of prices you can charge for your products each trading period. For example, if you priced a product at £50 last trading period your lowest price on your decision form will be £42 and your highest price £58 as price flexibility this trading period is +/- £8. The range of prices will change each trading period.
- 5. Current bank loan** – This is the bank loan you have inherited from the previous Board of Directors.
- 6. Bank interest rate** – Bank Loan Interest will be charged to your Profit and Loss Account each Trading Period and will be calculated on the Loan outstanding at the

end of the Trading Period. The appropriate % rate will be indicated in various financial news updates issued throughout the Trading Periods.

7. **Corporation tax rate** – At the end of each financial year, i.e. Trading Period 2 and 4. You will be advised that Tax is due in your Company Management Report.
8. **Bad debts** - It is a sad fact of everyday business that bad debts may occur, i.e. an amount owed to the business is written off as a loss because the debt cannot be collected and all reasonable efforts to collect it have been exhausted. You will receive periodic updates indicating when Bad Debts need to be written off by your Company. The % of Bad Debt for your Company will be clearly indicated each Trading Period and will be charged directly to your Profit and Loss Account.

### Breaking News – Earthquake in Java

**Following a major earthquake in Java many communities are without electricity.**

*According to William Young, a research engineer at the Florida Solar Energy Center: "the importance of electricity during and following a disaster is not always appreciated until the power actually goes out. It is not only vital for keeping streets lit, but it is necessary for medical services and communications. When power lines are down, citizens cannot be promptly informed of hazards, and it's difficult to notify emergency workers of situations that require their attention. Electrical power is also crucial to medical clinics, which must operate such electronic equipment as vaccine refrigerators, other medical equipment, and emergency lighting."*

The charity Global Citizen has asked for companies to tender for a **contract to supply 70,000 community solar power systems - PowerRhino (Delta) units** - to its headquarters in the UK for onward transportation to Java. The Board must decide whether it wishes to bid for this contract. **Before doing so it is essential that you read the rules about supplying contracts on page 17 of the Simulation Guide.**

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### Note on Simulation Coach, Company Profile, Management Report and the Simulation Guide:

If you haven't already done so, please listen to your simulation coach, look through and familiarise yourself with the Company Profile, the Company Management Report for the last six months of trading and also the Simulation Guide. All of these contain all the basic information that you require to get started and understand how the UBC Round 1 simulation works.