SolarCity: External Environment Analysis

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All action plans to reflect the future. If planning activity is undertaken, then the future speculations are the driving forces in any step. However, strategic planning involves making good decisions to attain the desired future. In business, managers must make assumptions about the future. All the attention must be diverted to what business environment requires. Moreover, the requirements of the company must be considered. The analysis of External Environment is very much important in strategic management (Bischof, 2016).

SolarCity is a company located in the United States of America and dealing in solar installation and leasing. Moreover, the company finances and designs solar power installation. The company was founded in 2006 and now has more than thirteen thousand employees. Furthermore, SolarCity has more than 285, 000 consumers of its goods and services. Many more customers are expected to transact with the company. Hence it is number one solar provider in the United States of America and trusted by many Americans. Another reason for their position may be due to the longest warranty services, and good performance of your system is guaranteed(Hoium, 2015).

**The Five Forces Analysis**

The Five Forces analysis shows how competitive industry is to a company. Therefore the attractiveness of the industry can be determined by looking at the intensity of the competition present in the industry. Therefore, a company can draw business strategy from this analysis to facilitate its thriving in the same industry. SolarCity is company that operates in the solar industry. The company only installs solar panels, finance it and offer solar panel services to the consumers. On the contrary, the company does produce or manufacture solar panels. Therefore, the manufacturers of the solar panels are the main suppliers of the items in the industry. We must consider these factors: SolarCity does not operate in all divisions of the solar industry, they do not make the solar panels. They only do Installation, providing services and financing the solar system are their role in the market. Solar panel manufacturers are the main suppliers for the company. The factors are essential for the Five Force Analysis.

**New entrants**

SolarCity operates in solar industry ofUnited States of America where there are High barriers to the entrants since the need for high investments of capital prevent many investors from venturing into the industry. Therefore, the company that must invest in the Solar industry needs to compete favorably with SolarCity by investing heavily in the industry.However, the solar industry segment is so differentiated that it offers avenues such as the installation of the solar panels to consumers, producing and manufacturing of the solar panel. A brand new company can decide to invest in one of these divisions of the solar industry without posing competition to SolarCity. Hence these segments lower the threat of competition that a new entrant into solar industry in America can pose to SolarCity. SolarCity enjoys the presences of the different segments of the solar industry.

**Suppliers’ Power**

Suppliers of solar panels in the Solar industry of United States of America have low power. The main reason for the low power is the presence of backward integration in the solar industry. Backward integration lowers the powers of the suppliers. The potential of a huge number of suppliers is big. Also, a huge number of competitors exist in the industry. The presence of a different number of suppliers and competitors create forces that dictate the attractiveness of the segments where SolarCity carry out its operations. SolarCity can find other suppliers if the current one has no competitive prices. Moreover, the company decided not to venture into the production of solar panels since it has a low level of the unattractiveness of the segment of the industry. **Buyers**

The idea that there are undifferentiated solar panels in the entire industry makes the buyers have medium power. Moreover, there are no huge differences between the solar panels sold by SolarCity and another company in the industry. Also, the solar panels have a very insignificant quality difference in the industry. The consumers of the solar products being homeowners, the buyers are many. Brand loyalty is low because homeowners purchase solar panel once. Moreover, the quality of solar panels does not vary. The buyers may have medium power in this industry. SolarCity provides long-term leasing contracts. Therefore, terminating the contracts becomes costly and expensive. The consumers cannot change the solar service providers in the industry. Therefore, the power of the consumers may range from medium to low.

**Substitute goods**

The solar industry in the United States of America may have substitute products from the wind power, hydroelectric power and may nuclear energy. Therefore, the substitute goods are plenty. Hence the threat is high. The threat of substitute goods is very high. Solar energy is more expensive than other sources of energy. Substitute threat is important because of its two sides. Currently, solar energy may be expensive to the public. Also, it is not reliable during the winter season or when there is no enough sunshine during the day. SolarCity still operates under government subsidies and this shows how investing in the industry is capital intensive. However, the threat of solar panel substitutes may be considered as low because the Solar industry has long-term income and its supplies energy to the public.

**PESTEL Analysis**

The analysis of PETSEL is a tool used for evaluating the external marketing of a company. The results of the analysis make decision-making easy. Six forms of environment influence are used for analysis and strategic management alike. They include Political, Economic, Social, Technological, Environmental, and legal factors. Let us consider how the PESTLE influences the strategic planning in the SolarCity Company.

**Political Factors**

The role of politics in business is huge. The balance between the free market and system of control affects the company’s operations. The political factors that affect company are Stability of the government in place. SolarCity is based in America whose political environment is very stable. No civil war is experienced in the country. There is peaceful coexistence. The business operates well where peace reigns. America is a peaceful country. This environment favors the operations of the SolarCity Company. Also, the Tax Policies favor the operation of Solar City. The good Tax Policies promotes a good external environment of SolarCity. Thirdly, the social policies promote installation of Solar systems for homeowners. Lastly, the trade regulations have the favor onSolarCity much more than its competitors. The government subsidizes the capital of SolarCity. It is an advantage over its clients (Bullis, 2012)

**Economic Factors**

The economic state changes over time. Unemployment, inflation, and economic growth affect business environment. The credit accessibility may not affect SolarCity because it installs the solar Systems at the most affordable prices to its customers. Moreover, the interest rate does not affect the operations of SolarCity because much of its operations are funded by the government of America. Unlike other Solar Energy providers in America, SolarCity is affected little by the economic factors presented.

**Social Factors**

The mentality of the Americans about the solar industry is affected by the efficiency of solar systems. SolarCity enjoys the population demographics because many people trust the company. Secondly, the lifestyle changes and trends are favoring the operation of the company. Many people are embracing clean and renewable energies at home. Solar Energy is a clean and renewable source of energy. The government is also diverting attention from nuclear to solar and wind energy. Lastly, many Americans are educated and are aware of the benefits of clean energy like solar. This is favoring SolarCity operations.

**Technological Factors**

The technological advancement in the solar industry has been enhancing to date. Most efficient solar systems have been invented. The idea has attracted many customers to Solar Energy. The Solar industry is here to stay with the inventions of solar bulbs and good solar panels. Today, the streets are lit using solar street lights. The government has also embraced the new technology. SolarCity operations are highly recognized by the government.

**SWOT Analysis**

SWOT is an acronym that stands for Strength, Weakness, Opportunities, Threat. SWOT Analysis is a study through which an organization uses to identify strengths and weakness within and opportunities and threats without. In that case, we will consider the SWOT analysis for SolarCity company. The findings can help the company to develop strategies that are useful in the thriving in a given industry.

**SWOT- Strength**

The SolarCity aids their customers to save money because they do the installation of solar panels on the rooftops. The consumer can either lease or buy the solar panel. SolarCity has a high technology of energy services in comparison with other Solar Energy companies in America. The solar systems have a low cost to acquire. SolarCity is trusted by many customers, and hence they enjoy the market. The company also has backward integration which lowers cost of operation. Below is the strength of SolarCity.

* Larger a number of customers. Many potential customers have trust in the company. Some of the customers include the US government and Walmart.
* SolarCity has management with good track record. Elon Musk is the chairman of the company. Besides, he founded PayPal, SpaceX, and Tesla Motors. Some of the members in the management include Peter Rive and Lyndon who have also founded Everdreamcompany.
* The company has customer referral programs. This one way to find new customers.
* Provides prices below utility rate to its customers.

**SWOT-Weakness**

Besides strength, the company has weaknesses as well. The company highly depends on the government for subsidies. The business may be affected by the delay of funds from the government. Subsequently, the business operations of the installation of new solar systems may be delayed alike. Therefore, the competitors are most likely to take advantage of such opportunity. Below is a list of the weaknesses.

* The company borrows money to pay for the solar installation services
* The customers may pay for the installation services provided by SolarCity
* The solar panels are unpopular in the areas where there is snow falls almost throughout the year.
* Bad weather such as hurricane affects the installation of the solar panel on the roof of household located in the areas prone to bad weather.
* The company has not yet achieved a state of economies of scale.

**SWOT-Opportunities**

The various opportunities can be seen in the need to embrace clean energy. The fact the climate change awareness has taken the direction to look for clean energy such as solar. The company has that opportunity of going international. The world is looking for clean and green energy just like solar energy. Hence, the company can expand internationally. This will increase profitability. Also, the company can improve communication to create knowledge of the company and its products to the public domain. Below are the opportunities:

* An international expansion where the economy moves towards replacing the traditional electricity with the solar energy generation. Especially countries in the equatorial regions.
* Countries want to reduce the environmental pollution resulting from the coal power and nuclear power.
* SolarCity is capable of acquiring other companies in the solar industry.
* The invention of electric vehicles that require being recharged; solar energy is the best alternative for ordinary electricity since it is clean and relatively cheap.
* Since 2011, the solar power cost has been falling, and it is expected to take a nosedive in the coming years.

**SWOT- Threat**

Some of the threats that SolarCity is expected to face are present despite the numerous opportunities in the industry. The company may face threats from the other companies offering low-cost solar systems. The low-cost rivals are a threat to the business. The improvement in technology of alternative renewable energies is a threat the company. It implies that consumers will opt for the alternative sources of energy, renewable just like solar energy.

• Another recession.SolarCity suffered losses in 2008 and 2009 when there was a recession in the United States of America.

• The rise in the rate of interest rates will increase the capital cost of SolarCity company.

• Reduction in the cost of electricity and other renewable energy such as the wind.

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| Key Success Factors | Weight | **SolarCity** | **Sunnova** | **Sungevity** |
| Score | WeightedScore | Score | WeightedScore | Score | WeightedScore |
| Brand Name | 25% | 4 | 1.0 | 4 | 1.0 | 3 | 0.75 |
| Advertising | 20% | 3 | 0.40 | 3 | 0.60 | 4 | 0.80 |
| Customer Service | 10% | 4 | 1.0 | 4 | 0.80 | 1 | 0.30 |
| Innovation | 25% | 3 | 0.88 | 3 | 0.05 | 2 | 0.10 |
| Total |  |  | 3.20 |  | 2.23 |  | 1.43 |

Competitive Profile Matrix of SolarCity

EFE Matrix External Factor Evaluation

|  |  |  |  |
| --- | --- | --- | --- |
| Opportunities | Weight | Rating | Weighted score |
| Increase in use of solar panelsIndustry consolidationInternational trade | 11%12%16%15%5%10% | 432312 | 0.440.360.320.450.050.10 |
| Threats |
| Substitute goodsNew entrants Rivals offering low-cost solar products |
| Total Weighted Score |  |  | 1.87 |

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