



**Asia-Pacific
Economic Cooperation**

Rooftop Solar PV System Designers and Installers

Training Curriculum

APEC Secretariat

March 2015



PROCUREMENT AND PRICING

Photp by marufish (flickr free use)



Photp by kyknoord (flickr free use)

Training of PV Designer and Installer



**Asia-Pacific
Economic Cooperation**



Photp by thomas kohler (flickr free use)



**International Copper
Association**
Copper Alliance



castlerock
consulting

Procurement and Pricing

Procurement : Selecting the right product, the right supplier and supply chain and the logistics of delivery to site and inventory

Pricing : Knowing the actual cost of the product and services and developing a method to calculate gross and net profit through a cost mark up or a profit margin



What is Procurement?

- ❑ Work with engineers and designers to select the right product/services to purchase that meet customer requirements
- ❑ Select the right supplier by evaluating the value-added components instead of only the bottom line price
- ❑ Understand the supply chain and logistics challenges to forecast additional costs and delivery time
- ❑ Develop a method to accurately record the inventory as it is received and as it is delivered to the project site



What is Pricing?

- ❑ The method of pricing one's goods and services to the client so that the company providing the goods and services receive the expected profit
- ❑ Accurately forecast and record all costs associated with particular goods and services
- ❑ When possible, add value for the client while minimizing the cost for the added value
- ❑ Add an appropriate profit margin based on the risks and market value of the goods and services



Product Selection

- ❑ The procurement team must work with the engineers and designers to select the right products and services that meet the specified requirements
- ❑ Supplier selection need to be based on a total value assessment rather than simply the cheapest price
- ❑ Delivery location and lenient payment terms can add significantly to the value of the supplier
- ❑ Record the products and services as received, and if needed once again as delivered to the project location



Supplier Selection

- ❑ Will it be cheaper to buy from the manufacturer directly or a major distributor or a local distributor?
- ❑ What's the value we add at this stage?
 - ❑ Customer does not have to import the components
 - ❑ We ensure the products are genuine and come with a valid manufacturer's warranty
 - ❑ We navigate the complex ordering process to make sure the products arrive as expected
- ❑ How can the supplier help us add these values to our customers at the least cost



Supplier Selection

- ❑ What are the available payment terms?
- ❑ What are the available shipping options?
- ❑ How much of our time is spent in working with the supplier? If their procedures are lacking and cause us to work more, consider a different supplier
- ❑ Bottom line price may not tell the whole story



Determine Cost

- ❑ Cost of Goods Sold must include raw materials, processing costs, manpower costs, and other resources used to produce the goods (or services) offered to the client
- ❑ CoGS can be the only determination of the pricing if other incurred costs are covered by the client and clearly mentioned in the agreement
- ❑ Otherwise, any costs incurred downstream of CoGS to get the product to the client need to be considered



What is Profit

- ❑ Revenue (price paid by the client) – CoGS = Gross Profit
- ❑ Gross Profit – company overhead costs = Net Profit
- ❑ Gross Profit Margin = (Revenue – CoGS)/Revenue

Profit is the difference between the price paid by the client (revenue) and the costs associated with the sale. Without knowing the company overhead costs, calculating only the gross profit can still incur financial losses to the sale/project



Adding Value

- ❑ Long warranty time on the system (must be confident of the design and installation workmanship and quality)
- ❑ Include remote monitoring services
- ❑ Build in the cost of a maintenance visit after 6 months

Just as we look for supplier with value added goods and services, we must create value for our clients. What sets us apart from the competitor, and more importantly what can we provide to our clients that they value highly but we can provide at a low cost to us



Adding Value

By adding services that is highly valued by the client, the price of the goods and services offered can be higher than the market price. As long as these services have a high value to the client, they will likely pay for the additional value.

Value added goods and services compared with the market offering will ensure that we can provide a high quality installation at a sustainable profit margin



How to Price Our Products and Services

1. Consider market price and the competition:
 - a. What do the customer get and how it compares with what we give them
 - b. What price are they getting it?
 - c. Just getting a competitor's price without a specification of what the customer is getting is worthless
2. Calculate our profit margin if we simply match the market price
3. If our profit margin is sustainable when compared with the market price and we can provide better design, product and services, then it is best to match the market price
4. If it isn't set a minimum price to be sustainable, but it means our marketing efforts must focus on what makes us different



Additional info to supplement this session

1. Attain example quotations from different solar PV installation companies for turn key projects
2. Compare them in class and ask participants which they would buy from
3. Ask why one quotation is better than another
4. Provide wholesale prices for the components used in these quotations and ask the participants to calculate gross profit margin, COGS, and have them try to guess at the different overhead costs





Asia-Pacific Economic Cooperation

Project Number : EWG 22/2013A

Produced By

Andre Susanto

Chitra Priambodo

Castlerock Consulting - <http://www.castlerockasia.com/>

For

Asia Pacific Economic Cooperation Secretariat

35 Heng Mui Keng Terrace

Singapore 119616

Tel: (65) 68919 600

Fax: (65) 68919 690

Email: info@apec.org

Website: www.apec.org

© 2015 APEC Secretariat

APEC#215-RE-03.18