

A Marketing Analysis of SolarAttic, Inc.

[FOCUS - PCS1 Swimming Pool Heater]

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Executive Summary

SolarAttic, Inc. was incorporated in 1986 and currently has three employees. The Elk River based company manufactures and sells attic-based heat exchange systems. They have three products all holding U.S. patents - the PCS1 swimming pool heater, a domestic space heater and a combination solar space heating / ventilation unit. **The main product is the pool heater and with it I will focus my analysis.**

The company has an aggressive 5-year plan that includes 46 people being employed by 2002. In order to reach these goals they will need a great deal of capital which means a likely IPO. The company is preparing for this and for the long term. **My analysis will be more short term in focus due to the length of this project and my limited knowledge of the firm.**

The use of the Internet and world wide web will be a major component for the future success of the company. Trends point to this source as being more and more important and it is a very economical way to provide information and promote business - just what this company is looking for.

The gaining of market share is the overall objective of the firm as the product has a very small representation among U.S. swimming pool heaters. The company has approximately 130 PCS1 pool heaters out in 29 states.

Effectively utilising a key resource, a list of 600,000 addresses of pool owners, will be one of the main components of the marketing plan. Direct mail will be the major form of promotion in the near term until a distribution channel that includes retailers is implemented. Financial resources are limited and have a distinct effect on marketing efforts.

The PCS1 swimming pool heater is featured in *exhibit 1*.

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Current Marketing Situation

The major components of SolarAttic's current marketing plan are:

- a) direct mail to pool owners from their internal database. 15,000 of the 600,000 pool addresses are on the database at this time.
- b) establishing a long-term distribution network for products through local dealers
- c) web site resources
- d) internal public relations via fax & web broadcast
- e) marketing brochures & databases
- f) media relations public relation effort via Business Wire
- g) use of an ad agency for advertising

Current marketing efforts are focused on direct mail. The company recently completed a direct mail campaign to three markets: Tampa / St. Petersburg, Florida; Phoenix, Arizona; and New Jersey. Oversized postcard mailers were sent to 500 pool owners in each market. *see exhibit #2* With the promotion buyers in New Jersey would have to do the installation themselves. In Tampa Bay/St. Petersburg installation is available at an extra cost (roughly \$600 to \$1200). In Phoenix the sale price includes installation as the company has a willing and trusted contractor to handle this.

The company has participated in trade shows - typically 1 to 2 each year where they shared a booth with other companies. They also have a booth at the Minnesota State Fair. According to the company trade shows have barriers to start up companies. They are relatively expensive and are limited to the exposure a company receives.

My first thought of getting this product out was through *new* pool construction. Simply attempt to build a strategic alliance with established pool builders and watch the sales go. According to SolarAttic the existing pool builder network does not seem to be an option *at this time*. Most pool builders are unaware or unfamiliar with SolarAttic's technology. With the relative few number of units that are on the market cracking this network will be difficult. According to Jim Stanley, director of Sales and Marketing, "It is going to take time and money to educate the pool builders. Besides, they are more interested in selling a \$20,000 pool than a \$2,500.00 heater."

Stanley also said that it is common for pool salespeople to *avoid* discussing heaters. Many will state, "You don't need to heat the pool." This probably makes sense as the client is already making a significant outlay and adding cost may lessen the chance for a sale. The only way, according to Ed Palmer, CEO, is to get the end users to ask for the product.

Some pool statistics¹:

- The average household income for in-ground pool owners is \$67,000. At an average price of \$20,000 for a standard sized pool this is a significant outlay.
- The average life of pool heaters is about 10 years.
- It is common for people to spend \$200 / month heating by non-solar means.
- The average length of ownership for in-ground pools is 10.4 years.

The company has a business relationship with an individual that has over 35 years of experience in the industry. His feelings are that SolarAttic will not be able to successfully market the pool heater through the "industry" until they start to take market share away from them. He believes this will happen when the company is selling 10,000 units annually.

According to SolarAttic the main objective at this time is to determine how to best achieve sales presently while building a distribution or dealer base for the future.

Market Situation

According to *the* trade association for the swimming pool industry, National Spa and Pool Institute (NSPI), there are 6.6 million residential pools in the United States -3.4 million are in-ground, 3.2 million are above-ground. Of the in-ground pools, 35% have a heater. Only 4% of the above-ground pools have a heater.¹ These percentages indicate roughly 1.2 million in-ground pools currently have a heater. Of this it is estimated that 20% or 250,000 are heated by solar panels. The other 80% are heated by natural gas (majority) and electricity. We do not know the growth rate of each of these sectors.

Although I do not have hard data as to the growth rate of the number of pools being built or heaters being installed, etc., the industry is growing very slightly, if at all, according to Jim Stanley. The National Spa and Pool Institute has a 30 page marketing analysis but costs \$225 for non-members. At this time SolarAttic is not a member but plans to be in the future.

There are several market segments that SolarAttic could pursue:

1. pool builders
2. pool accessory dealers
3. existing residential pool owners without a current heat source
4. existing residential pool owners with a solar heat source
5. existing residential pool owners with a non-solar (gas, electric) heat source
6. individuals planning to purchase a pool

There are roughly 2 million in-ground pools that *do not* have heaters. Here is an opportunity.

Product Situation

SolarAttic is still in the early stages of marketing this pool heater, thus, profits do not exist and historical sales data would not be meaningful. Retail price of the unit runs from \$3000 to \$4000.

¹ Residential Pool and Spa Market Overview.

Competitive Situation

SolarAttic's *closest* competitors are the solar panel companies such as Fafco, Suntlet and Bio-Energy Labs. There are about 8 to 10 solar panel companies in the market.² According to Fafco's web site they claim to have 125,000 pool heating systems in the United States - twice as many as the nearest competitor. They are the *closest* competitor as the buyer has chosen to heat their pool with the environmentally friendly technology rather than burning fossil fuels. Identifying and capturing these type of buyers would probably be the best. Fafco and Suntlet have an established link to dealers and float to the top when accessing 'swimming pool' on the Internet.

Companies that sell natural gas and electric heaters are the other main competitors. They also are the largest with an estimated 80% of the pool heater market. This equates to roughly 950,000 pool heaters.

Pool builders would be another competitor. Why would the builders be a competitor? Remember their tendency to *discourage* the inclusion of a pool heater?

According to Jim Stanley many people that own gas or electric heaters don't use them because of their high cost. Is this another opportunity?

Distribution Situation

The distribution situation is one of the most pressing barriers for SolarAttic. Establishing and maintaining a distribution chain is the key to the company's future. Being a Minnesota-based company that markets mainly to the sunbelt states certainly does not help the distribution system although, as Jim Stanley states, "that impact has been somewhat minimized by the fact we have a unique product with patent coverage." Nevertheless, buying from a small company in another part of the country may be a concern for potential buyers. The lack of being able to *see* and *touch* the product (a \$3000 to \$4000 product!) should also be considered a barrier and be considered in the distribution strategic planning.

² Jim Stanley, SolarAttic

SolarAttic is very conducive to client orders. They may be done via the web, fax or by phone. Major credit cards are accepted.

Macroenvironment Situation

Again, the pool industry is not growing significantly. However, the future can only get better with respect to the political/legal issues and the environmentally friendly solar power versus the fossil fuels. The trend, which is evident in California, is toward the restriction of fossil fuel burning. This is not a trend with an expected near-term impact, however. Another force is the existence and trend toward 'restrictive covenants' that prohibit solar panels from appearing on roofs within certain communities.

There is also the issue of natural gas prices. Again, likely trends would favor SolarAttic. More people are becoming more environmentally conscious which favors SolarAttic. As long as there isn't a revolution in solar panel efficiency (where a panel the size of a cookie sheet could heat a pool) this product remains attractive.

There is also the issue of having a lock on the technology because of the patents.

A downturn in the economy would almost certainly mean a downturn for this company. Either potential clients would be reluctant to take the financial plunge to convert from their gas heater to SolarAttic's product or to address their current lack of heat. A downturn would also mean fewer swimming pools would be built which would reduce the potential number of units being sold.

Overall, I would have to say the macroenvironmental forces favor SolarAttic. They should be carefully monitored and used in the strategic marketing process.

Opportunity and Issue Analysis

Strengths/Weaknesses Analysis

Ed Palmer, President and Jim Stanley, Vice President of Sales and Marketing filled out the

Checklist for Performing Strengths/Weaknesses Analysis See exhibit #3 and 4³

Strengths/Resources:

According to the Checklist for Performing Strengths/Weaknesses Analysis items that were considered a major strength and high importance were:

- Innovation effectiveness
- visionary capable leadership
- dedicated employees
- entrepreneurial orientation

Other strengths/resources that are evident are:

- patented technology
- a great, unique product! Long-term costs are very low relative to gas heaters. Compared to heaters sold by solar panel companies they are attractive. Would you like to have one half of your house covered with solar panels? SolarAttic can offer solar heat for a pool for around \$10 per month (gas heaters can easily run \$150-\$200 / month) without having to put unsightly panels on the roof. Another advantage is that the system removes a large portion of the heat load off the ceiling of the house, thereby reducing air-conditioning cost. One SolarAttic customer said his monthly summer electric bills have been reduced by about 18% since he started using the PCS1 pool heater.
- the list of 600,000 addresses that have pools.

³ Philip Kotler, Marketing Management - 9th Edition. (New Jersey: Prentice Hall, 1997), 83.

- a good, established web page - **www.solarattic.com**. This is a great and cheap source of information for potential clients.

Weaknesses:

According to the *Checklist for Performing Strengths/Weaknesses Analysis* items that were considered a major weakness and high importance were:

- market share
- distribution effectiveness. Distribution is a major competitive disadvantage along with being a manufacturer of a predominantly sun belt product in Minnesota.
- sales force effectiveness

Other weakness include:

- the lack of capital to aggressively pursue marketing and sales.
- unfamiliarity of buyers with the technology.
- location away from the market. Is there a need to see and feel the product? Especially a product with a price tag of \$3000 to \$4000?
- the need to install the system . Assembling this unit is not the same as assembling a tricycle. Most people will need assistance with the installation. How do you ensure quality, professional installation when you must contract this work? Would the reputation of SolarAttic be hurt if the installation process did not go smoothly?
- According to SolarAttic 90% of sales thusfar have been from leads from media articles. This *could* be viewed as a company weakness. Does this indicate a too large of a dependence on this source for sales? This also could be viewed as an opportunity. I will deal with that later.

Issues Analysis

The plan should address the following issues:

- Building market share is key. Sales, not profits are key at this point. The company, as long as they remain public must, be continue to be very cost conscious.
- The website should be leveraged to the hilt.
- How do you select from a list of 600,000 pool owners to get the most bang for the direct mail buck?
- The 2,000,000 pools that do not currently have heat are an opportunity.
- Leveraging newspaper and magazine articles written about the company and the technology. This has been a great success in the past.
- Answer the 'Competitive Differentiation' questions - how does the company effectively differentiate from the solar panel companies?

Objectives

Financial Objectives

The objectives of SolarAttic are as follows:

By the end of fiscal year 2000

- Sales of \$5.7 million
- Net income of \$1.4 million
- Total Assets of \$3.2 million
- 29 full-time employees
- ROA of 49%

Marketing Objectives

Complete an IPO by the end of fiscal 1998.

By the end of fiscal year 2000

- sell 1650 units at an average price of \$3500
- hold a market share of 6%.
- have a relationship with a 37 dealer distribution channel.

Marketing Strategy

SolarAttic should take the strategy of market penetration. Again, according to SolarAttic the main objective at this time is to determine how to best achieve sales presently while building a distribution or dealer base for the future.

Target Market:

Initial efforts should include owners and builders in areas that prohibit solar panels and municipalities that prohibit fossil fuel burning. The ability to *identify* is key.

Pool owners in areas where the company has sold units and have received positive feedback.

Positioning:

The preferred residential pool heating source.

Product line:

The company currently produces three products, the PCS1 pool heater, domestic space heater, and a combination solar space heating / ventilation unit. Market the domestic space heater and ventilation unit through a builder network.

Price:

The PSC1 retails for \$3,000 to \$4,000 which falls in the mid price range of a typical solar panel installation. The operating costs run about \$10 per month. Solar panel heaters will average around \$3,000 to \$3,500 (installed) with an operating cost of also around \$10 per month. The PSC1 is somewhat more expensive than a typical gas heater which typically costs \$1,500 to \$2,000 installed. The operating costs, however, can easily run \$150 to \$200 per month.

This difference in operating costs translates into a payback period, depending on the length of the customer's pool season, of anywhere from 2 to 4 years when compared to a gas heater. The average payback would be about three years, figuring a 6-7 month pool season in a market such as Florida.

Distribution outlets:

Half of sales are directly from the manufacturer, SolarAttic to the client. The other half are some sales through dealers.

Sales Force:

Add two travelling sales reps to establish and cultivate the dealer relationships.

Service:

1-800 number and web service as first option. Service available from installation contractor.

Advertising:

Web advertising via hypermedia links to 'swimming pool'. Magazine exposure in pool builder publications.

Sales promotion:

Offer 'finders' fees of \$200 to those that currently have purchased units.

Research and development:

Increase budget by 45% to develop the domestic space heater and ventilation unit.

Marketing Research

Small business consulting firm specializing in market penetration techniques.

NSPI source books.

Action Programs

Continue to concentrate on making the web page A1. The quality of the page tells, to some degree, the quality of the company. Web activity and use as a advertising and promotion vehicle will continue to grow. *Leverage!*

Identify magazines that capture buyers and builders/dealers. Use the Business Publication Advertising Source for assistance on circulation numbers and editor names. The company has had great success in the past in dealing with magazines and newspapers. A syndicated columnist's article resulted in 600 phone calls. Begin a campaign immediately to identify and prioritize the desirable magazines and other print media. Put together a top quality press release that includes past articles (such as the LA Times article, *see exhibit 5*). Send to the editors of these magazines. SolarAttic's marketing director should keep an attitude of 'this is a mutually beneficial situation' when dealing with this. This technology and product is one of quality and would make an interesting and beneficial article for any magazine.

Specific magazines include Aqua, Aquatics International, Pool & Spa News, Swimming Pool / Spa Age.⁴ There are also solar energy and home improvement magazines.

I believe the company was wise in selecting three different markets (New Jersey, Arizona and Florida) to begin their direct mail campaign as they are in the discovery phase of this endeavor. The next state that they target should probably be California. The reasons? One is that although they do not have the greatest *per capita* pool ownership, they do have the greatest number of pool owners. *See Table 1 below.*⁵ The main reason is the presence of restrictions on fossil fuel burning in some municipalities. Santa Barbara and Irvine are two such municipalities that prohibit gas heaters.

Target pool owners in Santa Barbara and Irvine, California including (if possible to obtain) the portion of the statute that “forbids the burning of fossil fuels.” This should appear as a bold, customized quote on the oversized direct mail post card.

Try to locate other municipalities in California with similar statutes. A call to the Hamline Law Reference Library resulted in a lack of a ready resource for locating this type of information. It also would be difficult to determine the communities (cities probably do not have these) that have restrictive covenants on installing solar panels on one’s roof. This would be very similar to the gas restriction. This would be a *fantastic* opportunity and advantage for the company to discover these markets. Again, bold, customized quotes should appear on the direct mail post card.

Put testimonials from past buyers that live close to the target market whenever possible. Use the street map CD ROM that the company owns to assist with this. Also use the street map to market in neighborhoods of current satisfied owners. Ask current owners (or be willing to pay

⁴ Residential Pool and Spa Market Overview.

⁵ Residential Pool and Spa Market Overview.

them a small fee) for the privilege of using their address in a quote that appears on the direct mail literature. The quote would be similar to, but much more ‘catchy’ than “Your neighbors at 1769 Pleasure Pool Lane are saving money.....”

Consider paying \$100 to \$200 to current owners of the product when their referral results in a sale.

TABLE 1 IN-GROUND POOLS BY STATE⁶

<u>RANK</u>	<u>STATE</u>	<u># IN-GROUND POOLS</u>
1.	California	816,000
2.	Florida	640,000
3.	Texas	228,000
4.	Arizona	183,000
5.	New York	170,000
6.	New Jersey	134,000
7.	Pennsylvania	103,000
8.	Massachusetts	82,000
9.	Ohio	76,000
10	Georgia	71,000

Summary of Action Plans

<u>What</u>	<u>Who</u>	<u>When</u>	<u>Cost</u>
Web Page Development	Palmer / Stanley	Immediately, Continuously	\$3200
Campaigning to editors of key magazines	Stanley	9/97	\$1000
Direct mail to California	Stanley	1/98	\$2500
Hone Direct Mail Process - Implement Referral Fee Program	Palmer / Stanley	7/97	\$2000
	Stanley	7/97	\$2500

⁶ Residential Pool and Spa Market Overview.

Projected Profit and Loss Statement

Fiscal 2000 - Projected P & L

Sales	5,769,162
Cost of Goods	379,822
Manufacturing Overhead	<u>10,868</u>
Gross Profit	3,025,146
Other Expenses	<u>1,114,278</u>
Operating Profit	1,910,868
Net Profit Budgets	<u>515,934</u>
Net Before Taxes	1,394,934
Taxes	<u>517,202</u>
Net After Taxes	877,731

Controls

SolarAttic currently does not have a set procedure for evaluating marketing efforts. They do code mailers so when a potential customer phones they can track what he is responding to. A strategic review of the March 1997 direct mail campaign is needed. What was effective? What was not?

The company has a client contact log. *see appendix 6* How can this be improved?

Marketing plans should be reviewed at least annually. Do a 5-year rolling financial statements.

Regularly review the competition's website.

RECOMMENDATIONS

- Be certain that the website address sticks out in all company communications. This is a strength of the company and an efficient method to get information to the potential customers.
- Become an NSPI (National Spa and Pool Institute) member. The organization has 4,500 members.⁷ There are many benefits to becoming a member including:
 - the ability to place the logo on literature and advertising access to market
 - consumer surveys such as the NSPI Market Study which includes results of extensive consumer surveys including sales, demographics and characteristics of the US residential pool and spa marketplace for \$15.
- Use others - friends, associates to critique the website.
- The company should be open to and pursue strategic alliances. Companies with access to capital and distribution channels would be attractive.
- The likelihood of the company realizing their sales goals over the next five years would be next to impossible if they do not establish another level (retailers) between them (the manufacturer) and the client.

WEBSITE RECOMMENDATIONS

- A color photo of a 'pool enjoyment' situation on the web page is needed. When checking the websites of the competition the pictures drew me in. Regarding the photo that is included - should it be a family enjoying the pool or should it be an attractive woman in a floating lounge chair sipping a cool beverage? Considering the extremely high frequency of the buyer being

⁷ Encyclopedia of Associations - 31st Edition. 1996. p. 400.

male the latter may be advisable. If placing a photo can be done relatively inexpensively it should be considered.

- Another possibility is to display two houses - one with solar panels on the roof, the other without. A caption similar to, but again, much more catchy than “Which house would you rather sit by when enjoying your solar heated pool? would be used.
- Use *Guerrilla Marketing On-line* www.gmarketing.com for ideas on how to design attractive web pages. Suggestions on shapes and colors to use.
- Regularly look at the competition’s website. How are they changing? Also look at other websites. Examples might be Owens Corning (www.owenscorning.com). They have a product, fiberglas insulation, that is similar to SolarAttic in that it is an energy saving product. How do they try to sell their products? SolarAttic’s president, Ed Palmer, has designed a good website. How can it be improved? Can they use someone else’s idea? Plagiarism - the American way!
- Visit the library and check out Internet marketing books. Determine how to leverage this tool as much as possible. Ask “How can the site be improved to increase sales?”

On-line, just like with any other kind of business, you want to make it as easy as possible for people to order. Make it possible for them to get as much information on-line as they might possibly need. Doing so makes it easy for them to make the full buying decision without leaving your site. It also increases the odds that they will order during a visit to your site. Make sure your order forms are easy to use and understandable. A trick that’s worked for one of the authors of this book is what he calls the “intelligent 15-year-old” test. This test involves checking out your forms, copy and any other aspects with a relatively intelligent 15-year-old.⁸ .

Marketing on the web is not unlike traditional marketing.

When you’re marketing on the Net and the Web, you’ll need to do the same kinds of customer and product analyses that you do with traditional marketing. Here are some questions you should be asking.

⁸ Walter H. Bock & Jeff Senne, *Cyberpower for Business - How to Profit From the Information Superhighway* (Boston, MA.: Career Press, 1996), 62.

- Who are we trying to reach?
 - What do we want them to do?
 - Why should they?
 - How can we make doing this easy for them?
 - What product features really matter to our customers?
 - What are the key benefits?⁹
- Create a ‘payback graph’ for a ‘standard sized pool’ and put on the website. This *colorful* graph should contain Total \$ cost on the y-axis and Years on the x-axis. Plot cost versus time for two heaters, SolarAttic’s PCS1 and a gas unit. Use the average length of ownership 10.4 years¹⁰ to illustrate the dollar savings versus gas heat. You may want to discount using 6% as someone that purchases a pool knows that a dollar today is not worth a dollar tomorrow. Footnote or provide a hypermedia link to figures to display impartiality and allow detail to those that want it.

And don’t forget to provide the information in lots of different ways. Why? You’ll want to make getting the information people want as easy for them as possible. So give them several options.¹¹

- A suggestion box on the website may be beneficial. What can we do better? Involvement builds commitment.

The web page has a hypermedia link to the city of Elk River’s home page. This is a very cost effective method to ‘paint a picture’ of a family, midwestern values company. This partially addresses the issue of a Minnesota-based company selling to the sunbelt states.

⁹ Cyberpower for Business - How to Profit From the Information Superhighway , 62.

¹⁰ Residential Pool and Spa Market Overview.

¹¹ Cyberpower for Business - How to Profit From the Information Superhighway , 80.