SunBiz Enlighten

Revealed: The key metrics that determine solar business success

sunwiz | OpenSolar Expert Partner

How to use this report

There’s a gazillion moving parts when running a solar business.

But there are some key levers you can pull that can determine your success. You’ve got:
1. the cost of the products you buy
2. your margin
3. the prices you charge as a result

Together these determine the percentage of proposals that convert to sales and the dollars that flow through to your bottom line.

You’d think that high prices would result in low conversion rates. But - as we’ll show - there are businesses out there that have a high profit margin, sell decent quality products, and have a high conversion rate.

First let’s look at the wide range of each of those metrics across the solar industry. Then we’ll see how they relate to one another, and then show how they pull together to determine success.

About the data source

This data is source from the anonymised, aggregated data from over 50 leading businesses that have permitted SunWiz to analyse their OpenSolar proposal data for the purpose of improving outcomes for the solar industry.

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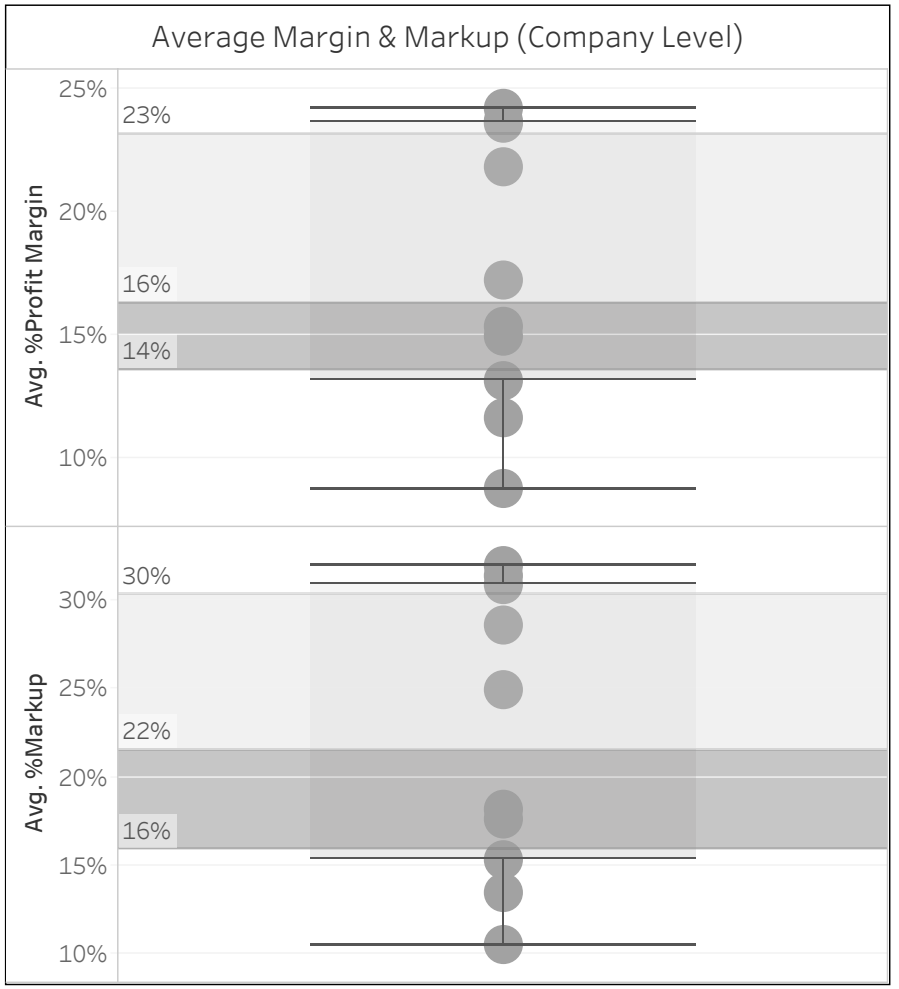
What Profit Margins are Common?

First lets look at the range of profit margins charged out there
You've got businesses that charge as little as 11%
And businesses that charge as high as 24%
The typical business has a 16% margin.
And 75% of businesses have less than 23% margin. Conversely 75% of businesses have above a 14% margin.

Remember: these aren't margin 'goals'. These are actual margins achieved, averaged across all solar sales.

What margin do you aim for?
What margin do you settle for?
What margin do your average out at?
How much higher could your margin be?
How could you make it higher?



Do large businesses have a smaller margin?

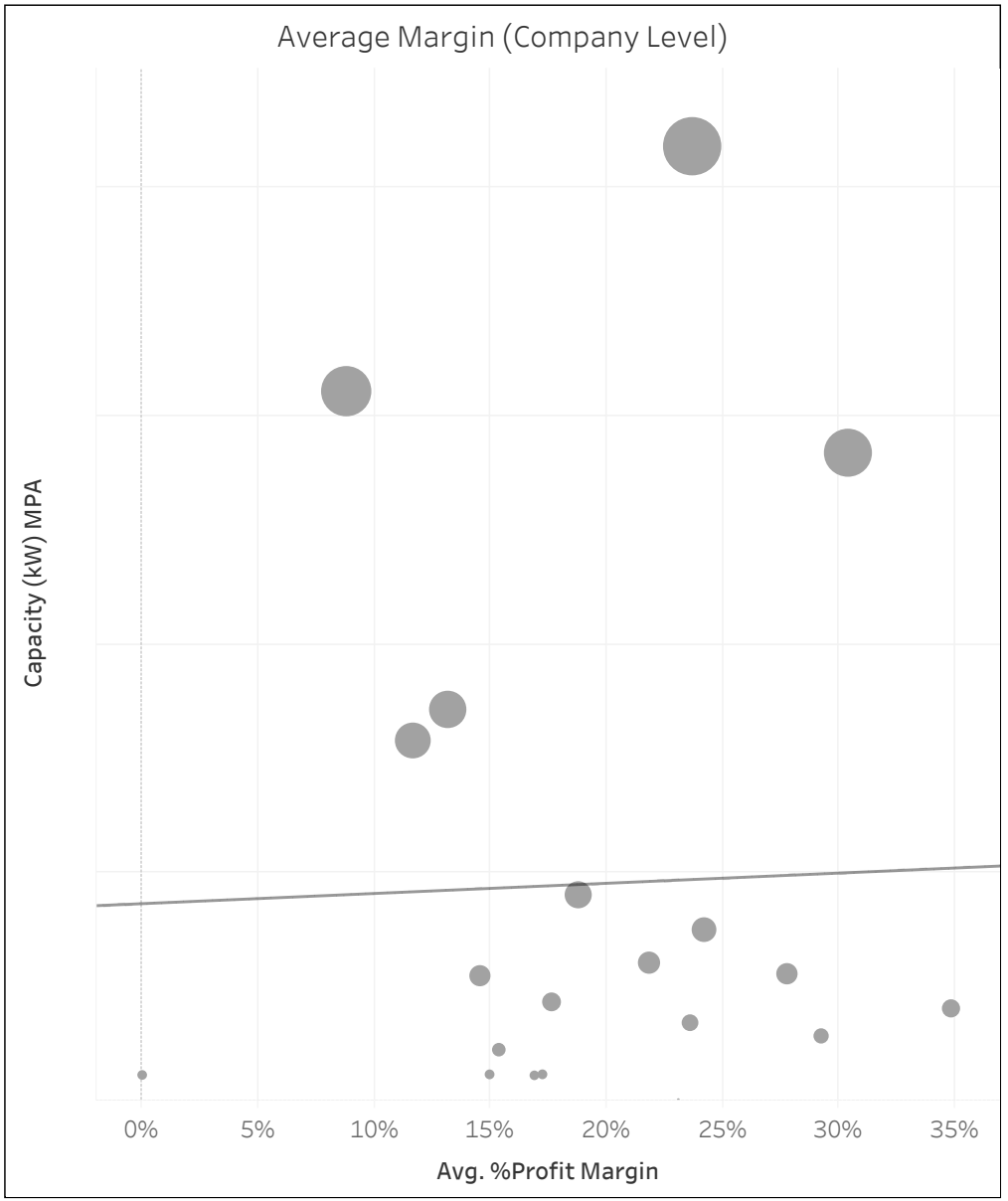
Its true - larger businesses tend to have a smaller profit margin.

In doing so, they are able to price more competitively. This results in larger sales volumes, and grow their empire. The larger they are, the smaller their overheads are as a percentage of sales, justifying lower margins.

Some small companies feel the pressure to price-match and set low margins in the hope they will grow.

But you don’t have to have a high-volume low-margin business. Some businesses are plenty happy with a high-margin low-volume that can be less stressful and provide ample financial reward.

Then there’s the unicorns that are able to have high volume and high margin. Ever wish that could be you?



How does gross profit vary with costs?

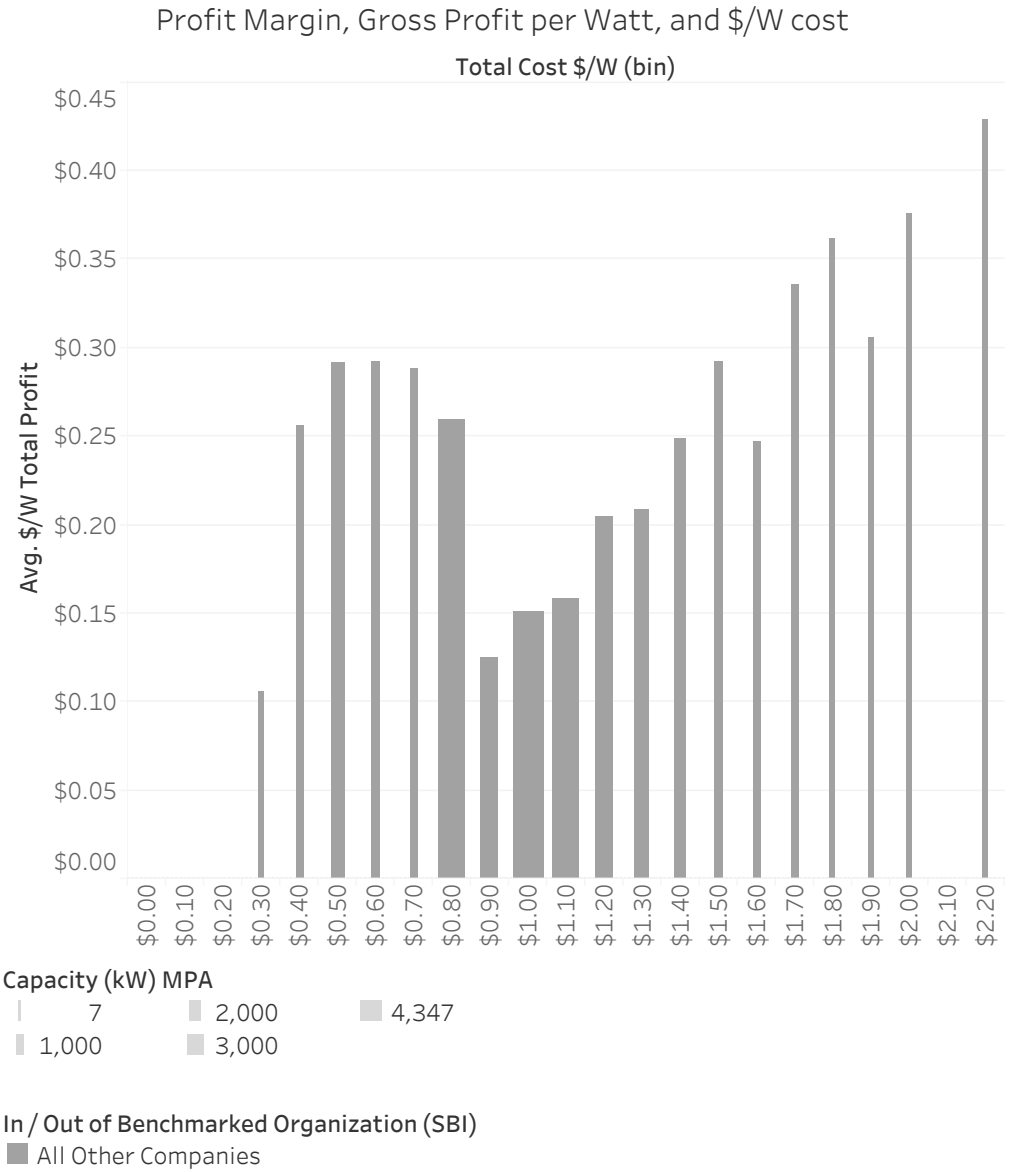
This chart shows the volume of projects at a given margin position for the $/W total cost of said system.

Most volume proposed occurs at a total cost of $1.00/W at an Average profit margin of $0.15/W.

Customers proposing systems that costs more commandeer a higher margin position; however, volume proposed within these higher ranges is significantly lower.

Companies which offer a system at a $/W total cost of $0.80/W - $1.20/W are more likely to realise consistant returns.

Please note we do not track the type of system (roof, ground, carport) here. Hence, are unable to provide commentary on the efficacy of a higher $/W pricing approach. In general a higher $/W total cost demands a higher margin position.



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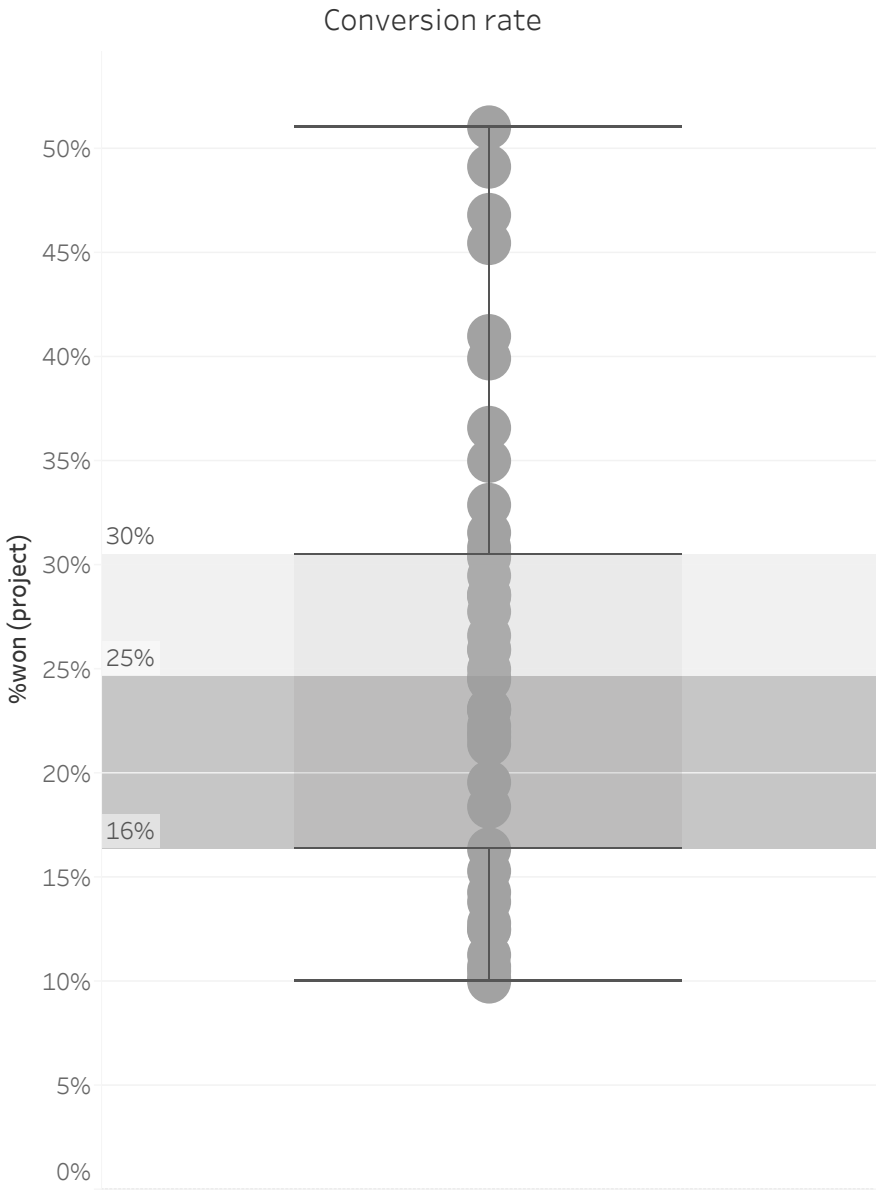
What Conversion Rates are Common?

Next lets look at the range of conversion rates achieved out there.
You've got businesses that convert as little as 10%
And businesses that convert as high as 51%
The typical business has a 25% conversion rate. Only 25% of businesses exceed a 30% conversion rate. Conversely 25% of businesses have less than a 16% conversion rate.

What conversion rate would you like?
What is your actual conversion rate?
How could you make it higher?

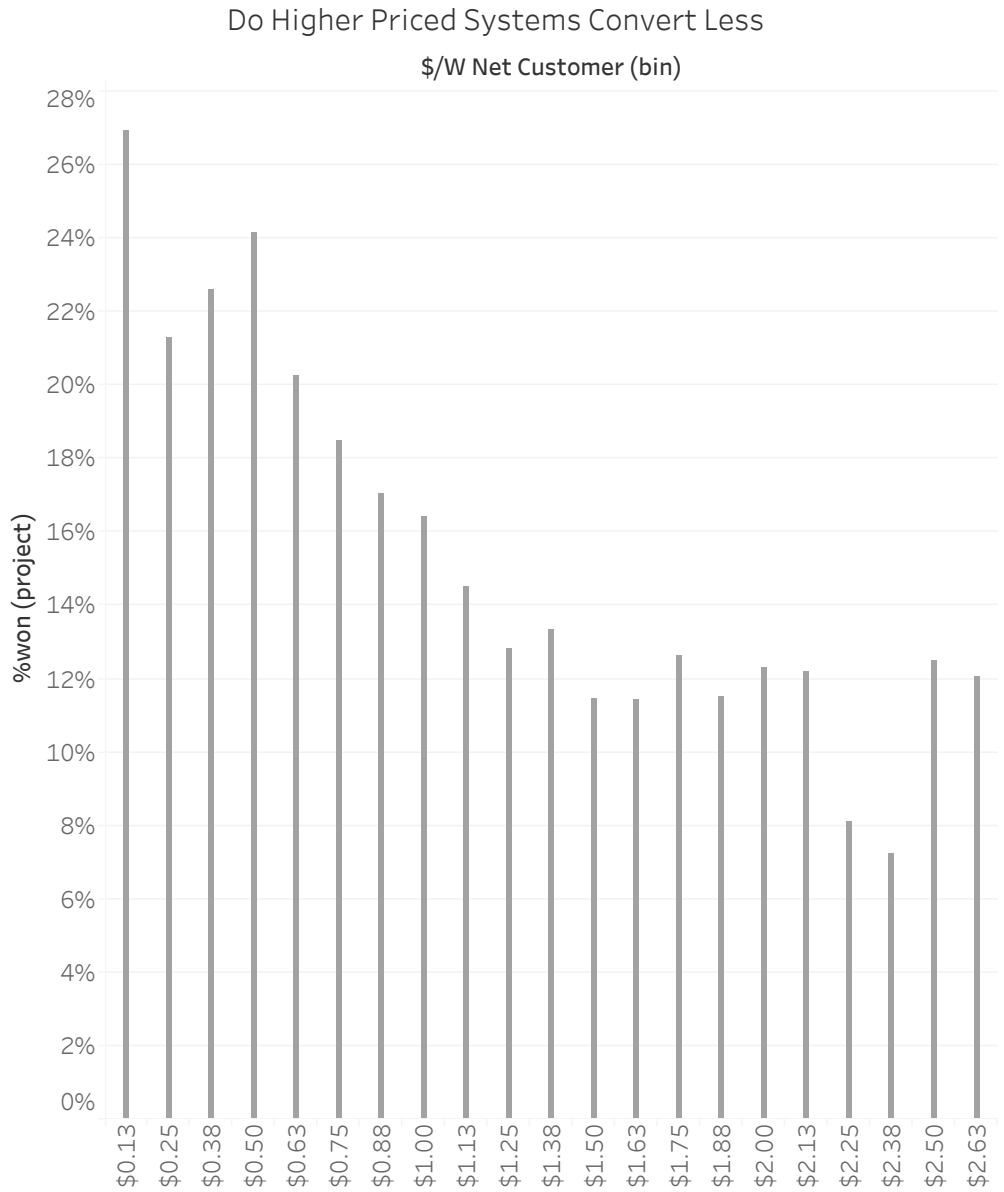


Do Higher Priced Systems Convert Less?

This chart shows that higher priced systems tend to convert less than half as often as lower-priced systems.

But some companies are very good at converting high-priced systems. Would you like to be such a company?

Just having a really cheap system doesn't mean you've got any better conversion rate than a moderately-inexpensive system.



Do High Volume Companies Convert Less

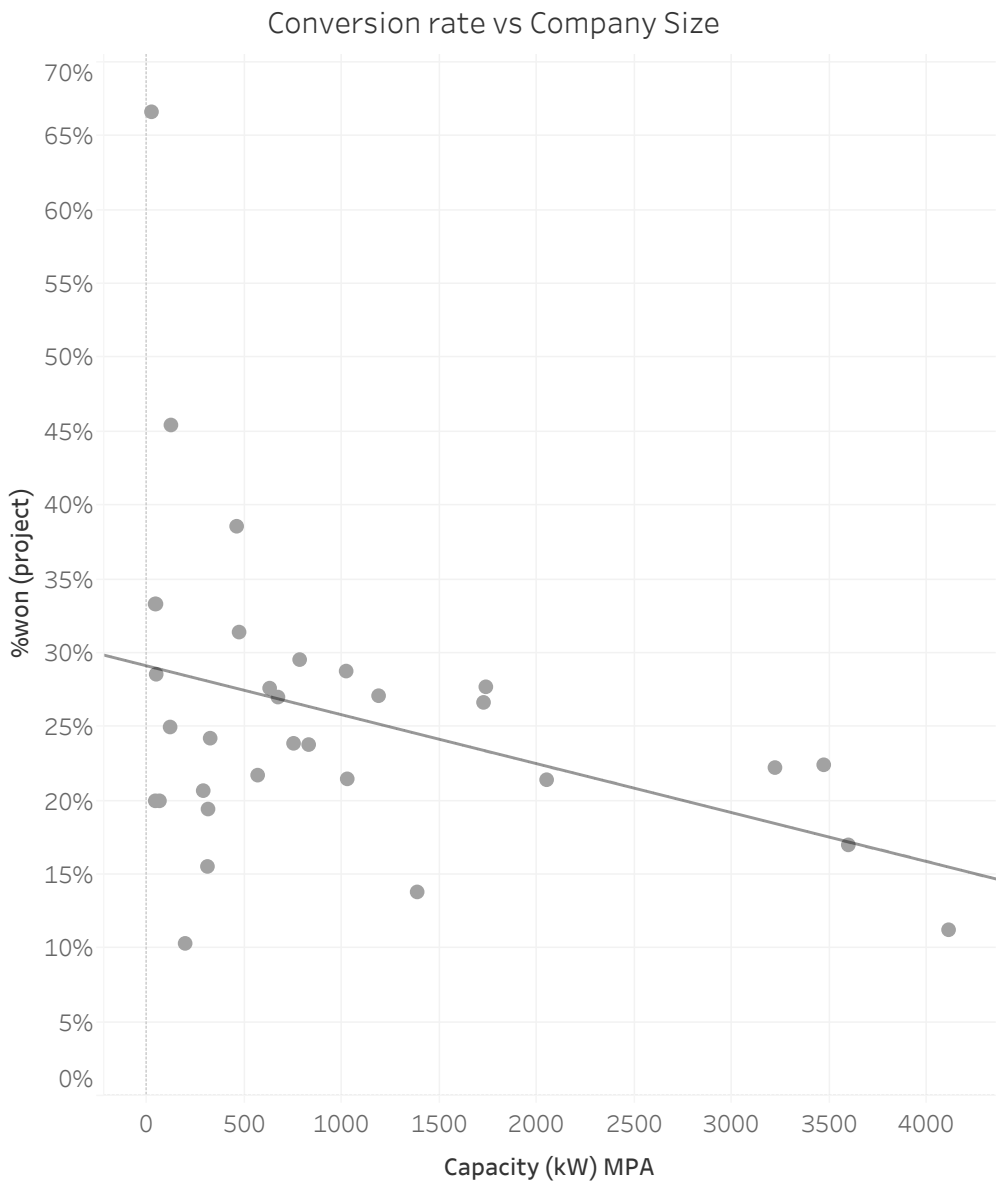
Do High-Volume Companies Convert Less?

You may think that high-volume companies churn through customers less efficiently.

The trend line in this chart suggests this to be true. However, there is a wide variation in conversion rate amongst companies big and small.

Because high-volume companies tend to sell low-priced systems that have a higher conversion rate, we find that high-volume companies have a conversion rate that isn't materially different from low-volume companies.

So size of company isn't the primary influence over conversion rate



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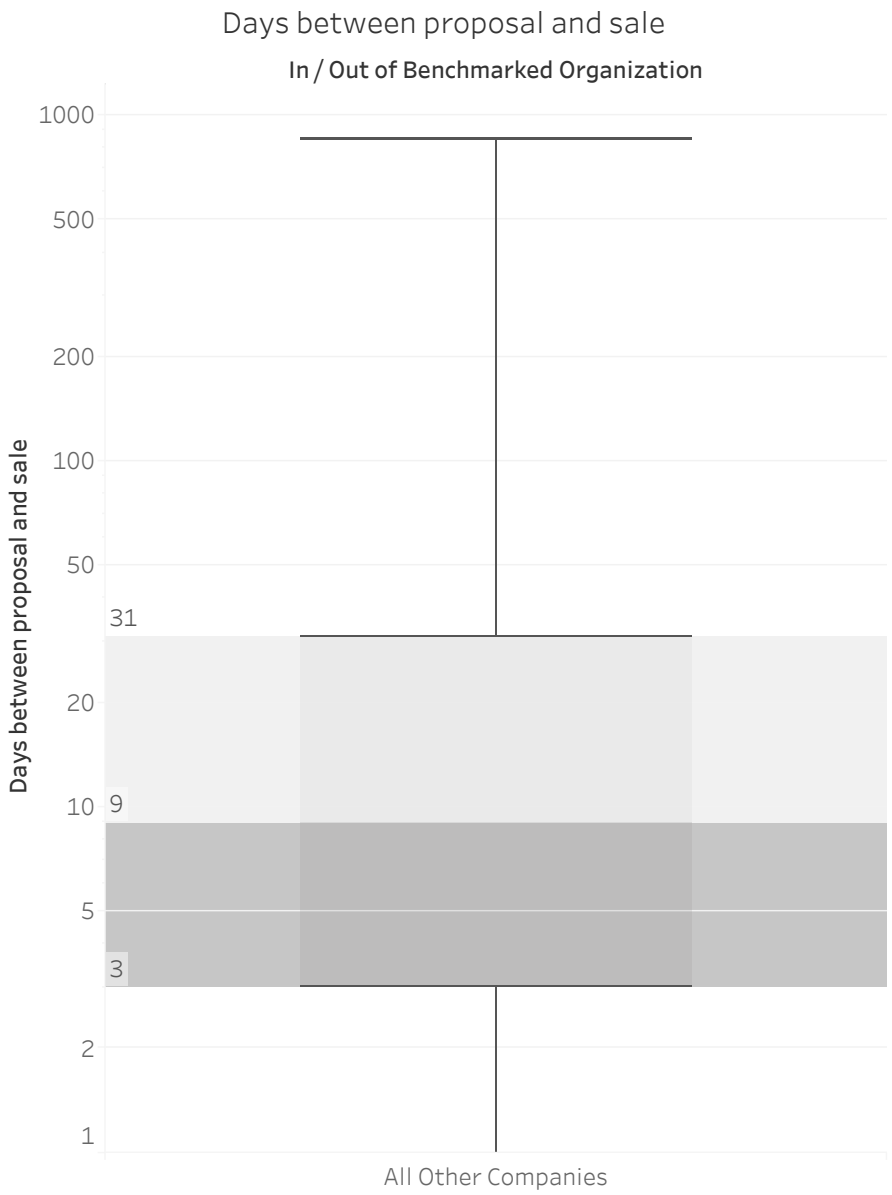
How long does a sale take?

Next lets look at how long a sale takes to convert
The typical sale takes 10 days to convert. 25% of sales take more than 31 days to convert a sale. Conversely 25% of sales convert within 3 days of proposal.

How long do your sales typically take?
How would your business benefit if sales were quicker?



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Can I Charge a High Margin and still get a Decent Conversion Rate

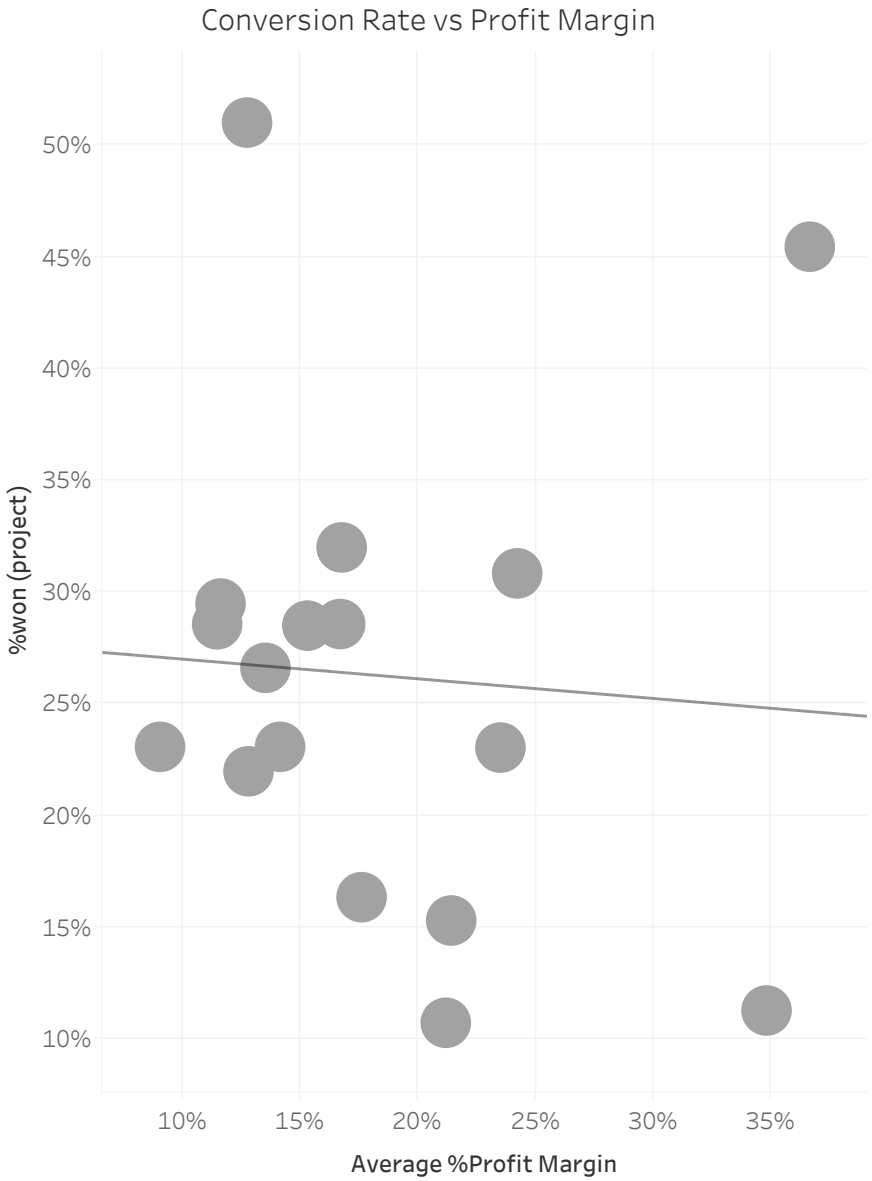
Does Charging a High Margin mean I will get a lower conversion rate?

The trend shows this to be the case: higher-margin businesses tend to have a lower conversion rate.

However there are wide discepencies - some companies with a low margin (e.g. 13%) getting 22% conversion rate while others only get 51% conversion.

And there are plenty of companies converting 16-32% of proposals, for whom margin ranges from 9% to 24% - that's a wide variance!

Do you want to be the company that gets a high profit margin and a high conversion rate?
What actions do you think will best deliver that?



Should I try my hand at commercial sales?

A lot of companies find that commercial sales are difficult to convert. This chart confirms that higher commercial segments convert less often.

Residential <10kW systems have the highest conversion rates as well as higher profit margins. This means their Expected Profit per Watt proposed is the highest of any segment. (The expected profit per watt proposed is the $/W job on a proposal multiplied by the chance of winning the job)

Should I sell Batteries?

The market for batteries is much smaller than the market for solar power systems.

Though we see a wide variance in a companies adoption of selling batteries, when averaged across the market our data shows that the win rate on battery sales is practically the same as on PV systems. And because the revenue per sale is much higher, the expected profit per residential prospect is much greater on battery systems.

This may make it worthwhile getting good at selling storage. Especially as feed-in tariffs continue to decline.