GE Power

Market Analysis, Market Strategies and Investor Business Models, Software Strategy

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AGENDA

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Team Overview

Faisal Seraj
- Sloan Fellow’18
- International Development practitioner with work experience in Africa and Asia.
- Focuses on holistic approach towards poverty reduction
- Have experience combining for-profit and not-for-profit activities for greater inclusiveness and impact

Prasad Savarapu
- Sloan Fellow’18
- Technology Strategist, Thought Leader, and Client Partner focuses on significant process changes, operational improvements and improved ROI to large corporations through enterprise transformation, cloud and data solutions.

Peipei Qiu
- MSMS’18
- Bachelor in Finance & Spanish
- Former Program officer in National Development and Reform Commission

Jean-Jerome Peytavi
- EMBA’19
- Skilled in developing integrated marketing strategies, business strategy plans, optimizing budgets, and effective communications. Financially savvy, results-oriented leader possessing strong analytical and interpersonal skills.
Company Overview

• In FY’17, GE generated $117.4 billion of total revenues.
  • Of these, GE Power generated $26.8 billion revenues, 29% of the total GE revenue
  • With 85,000 employees, GE Power generates 31% of industrial segment revenues
  • Fairly new-entrant to the Africa market for renewable energy

• **GE Power** - Offers a wide spectrum of:
  • Heavy-duty and aero-derivative gas turbines, steam power systems including boilers, generators, steam turbines, and air quality control systems.
  • Advanced nuclear reactor technologies solutions, including reactors, fuels and support services for boiling water reactor.
  • Water treatment, wastewater treatment and process system solutions and power services.
Company Overview
Global GE Business Model - Present State

How GE Industrial Business Makes Money?

Cost Elements | Company | Business Offerings | Business Segments
---|---|---|---
Cost of Services
R&D expenses, manufacturing, engineering and logistics costs.

Selling General & Administrative Expenses
Marketing expenses, Partnership expenses, selling expenses, administrative and other direct and indirect expenses.

Other Costs & Expenses
Restructuring & Retiree and Impairment expenses.

GE

- Sale of commercial & military jet engines, and, commercial systems. Maintenance, component repair and overhaul services (MRO) & spare parts replacement.
- Direct & partnership product revenues (SAFRAN & Engine Alliance) and, long term MRO contractual revenues from commercial & military segment.
- Sale of Turbomachinery, subsea drill systems, sensor based measurement & control, surface and, downstream technology solutions & services.
- Direct products & services (project milestone) revenues from oil and gas segment customers.
- Sale of gas, steam, and, nuclear power systems, water processing technologies and maintenance, service and upgrade solutions.
- Energy production and water reuse products and services revenues from power generation, industrial, government and other customers worldwide.
- Sale of freight and passenger locomotives, mining equipments, motors for land and offshore drilling rigs and software solutions, data analytics advisory services.
- Products and services revenues from railroad, mining, marine, stationary power and drilling industries.
- Sale of technology and services for the onshore wind power industry.
- Product & services revenues from onshore and offshore wind, hydro, and emerging low carbon technologies industries.

- Aviation
- Oil & Gas
- Power
- Transportation
- Renewable Energy

Source:[1] www.revenuesandprofits.com  Revenues and Profits
Company Overview

Business Landscape

Product
- Commercial
- Community
- Residential

Partnerships
- Electricity
- Entrepreneurs
- Government and Public Sector
- Financial Institutions
- IT/Mobile Money

SDG Outcomes
- 8 Decent Work and Economic Growth
- 3 Good Health and Well-Being
- 7 Affordable and Clean Energy
- 13 Climate Action
- 11 Sustainable Cities and Communities
- 17 Partnerships for the Goals

5/17/2018
Problem Statement - Background

• For years, GE has struggled to innovate and diversify its key revenue streams of conventional power generation and grid.
• Resulted in extremely small "new energy" divisions compared to peers (i.e. Tesla, First Solar).
• This threatens the company with low performances and negative impacts of the company's shares.
• Meanwhile, global society has created an uncertain future for our environment, including climate change, air pollution, and habitat destruction. Therefore, compelling business creation within GE is critical for its competitive relevance in the future the energy market.
Problem Statement - Focus

GE Focus
- To generate $1M in from emerging market small scale solar business or $2M, with near-term scale to >$100M and long-term scale to >$1B

Project Focus
- Our project focus is to help GE Power realize the market potential in Africa, by conducting a preliminary market analysis of Africa Microgrid development, proposing a business model and offering recommendations of further market research, marketplace establishment and partnership strategy.

Product Focus
- Diesel/Solar Hybrid MicroGrid
- Power System
Problem Statement - Approach

• Our approach involved interviews, market analysis, market conditions of key players, competitors, entrepreneurs, economic conditions, institutional organizations, supporting policies and government incentives

• Our team interviewed -
  • GE Chief Data Officer that handles the strategy for business model,
  • Africa Market Leader that is involved in creating the business model and leading the to-be-proposed solutions; and
  • MIT Energy team that studied the landscape of access to electricity in Africa and the importance of micro-grids and off-grids market

• Studied GE’s present state business model as outlined in the slide to focus on developing a matured business model
Market Analysis - Africa

• 1.2 billion people around the world have no access to a power grid.[2]
• Lighting and phone charging alone costs about $27B a year and some estimates put total annual energy costs at more than $60B.
• Potential global solar energy market of $422B by 2022 from $86B in 2015 with CAGR of 24.2%
• Africa is lagging, with less than 40% of African households connected. [3]
• Leading players include: Greenlight Planet, d.light, Off-Grid Electric, M-KOPE Solar, Fenix International, and BBOXX
• Major Entrants: Schneider, ABP, EDF and Engie[4]

Source:
[3] International Energy Agency and Reuters Data (link is available below)
Based on conversations with GE, three countries are being particularly looked at: Kenya, Nigeria, and Ethiopia.

**Kenya**
- **Facts**
  - High insolation – 5 to 7 hours of sunshine per day
  - Off grid market estimated at over 40MW
  - Mainly seen for rural installation and off-grid market
  - The government plans the installation of 300,000 new solar systems by 2030
  - The government invested $1.2 billion in solar and is partnering with private companies

- **Context**
  - Commercial and industrial demand is growing
  - Needs to target communities and individuals
  - Convince the government and NGOs for preferential tariff on solar

- **Solution for GE**
  - Actively pursue this market through the government
  - Acquire a local solar company for off grid markets

**Nigeria**
- **Facts**
  - Africa's most populated country – 2nd African economy behind South Africa
  - 12.5GW of installed generation capacity
  - High potential – 6 hours of peak sunshine per day

- **Context**
  - Electricity distributed through the grid
  - Many individuals have generators
  - Solar products mainly distributed by local companies

- **Solution for GE**
  - Convince the government and NGO’s for preferential tariff on solar
  - National health is in danger
  - Needs to target communities and individuals

**Ethiopia**
- **Facts**
  - One of the least developed countries in Africa though the economy is fast growing at a rate of about 10% per year
  - Increasing electricity demand
  - Ethiopia Telecom is a major user of solar systems

- **Context**
  - Government wants the country to be a middle income country by 2025
  - Significant investment from developed country governments, private firms, and NGOs
  - Ethiopian Telecom is a major user of solar systems

- **Solution for GE**
  - Ethiopia has gained traction from developed country investment
  - Government has expressed interest in solar
  - GE should find a local partner to invest and develop in Ethiopia
Market Analytics Dynamics and Inferences

- Increased Competition
- Demanding Market and Heavy Prices
- Demand is driven by Supplies and Customers
- No Marketplace Platform
- Low Customer Experience
- Commercial, Residential, Household Customers
- First-to-market-Platform
- Innovation through Growth
- Demand for High Efficient Batteries & Raw Material
- Service Processes
- Cx Thin Order to Deliver to
- Low Innovation and Market
- Freedom to Market
- Political Instability and non-sunny days
- Climate change due to
- Climate instability total production
- Reliability, Total production
- Adoption is affected by
- Global corporate 2018 funding in the solar sector, including VC/PE, debt financing, and public market
- FInancing raised, fell in solar sector by 65% in Q1 2018 to $2 billion from $5.7 billion raised in Q4 2017
- Global regulation around carbon reduction
- Political Instability and Freedom to Market
- Low Innovation and Market Capital
- No Marketplace Platform
- Heavy Prices
- Demand is driven by
- Increased competition
- Public and Corporate Partnerships
- Source: [12] Solar Builder 2018

Solar PV installations are expected to reach 107 GW in 2018 from 98 GW in 2017 with China leading and other countries becoming significant markets.

The future of solar deployment in Africa will be driven more by immediate electricity demand than by global regulation around carbon reduction.
Market Analysis - Five Forces

Market sizes:
- East Africa: 236MM
  (Kenya, Tanzania, Ethiopia, Mozambique)
- West Africa: 229MM
  (Ghana, Nigeria, Mali)

Industry
- Positive for the industry
- Neutral
- Negative for the industry

Threat of New Entrants
(+) Need strong political ties to enter those markets
(+) Important initial financial investments needed
(-) Strong sensitivity to the community to gain market share

Supplier Power
(+) Other renewable – Not always popular
(-) Gas – Other large consumers
  producers and strong consumers

Threat of Substitutes
(+) High customer retention
and high level of innovating
(-) Need to exercise low price
(-) High because of level of substitutes

Bargaining Power of Customers
(+) High because of level of substitute
(-) High because of level of substitute

Established Rivals
(+) Rapide evolution
(-) Highly competitive

(+/-) Strong sensitivity to the community
(+/-) Important initial financial
(+/-) Need strong political ties
(+/-) Strong investments needed

To gain market share
- Strong investments needed
- Important initial financial
- Need strong political ties
Customer Segments and Analysis

- **Off-Grid**
  - Communities where there is no electricity. They are a key actors and customers.
  - Nigeria = 40.2%, Ethiopia = 57.3%, Kenya = 44%, Ghana = 20.7%
  - Develop mini grids, individual or telecommunication solar solutions
  - Cost key factor of decision
    - Positive as prices decrease for solar systems
    - One of the main issues is the lack of expertise.
    - One of the main issues is the lack of expertise. [14]
    - Nigeria – Cost of extending the current grid is a losing proposition for building blocks for the future national grids
    - Isolated grids – Villages where electricity is distributed mostly from diesel generators

- **Private Organizations and Power of Governments**
  - Today, they embrace green and cheaper solutions that can attract funding and have a positive impact on the economy. They are a key actors and customers.
  - Building blocks for the future national grids
  - Develop mini grids, individual or telecommunication solar solutions
  - Nigeria = 40.2%, Ethiopia = 57.3%, Kenya = 44%, Ghana = 20.7%

- **Isolated Grids – Villages where Electricity is Distributed mostly From Diesel Generators**
  - Cost key factor of decision – Positive as prices decrease for solar systems
  - Nigeria = 40.2%, Ethiopia = 57.3%, Kenya = 44%, Ghana = 20.7%


A geographic segmentation will allow GE to categorize communities in terms of urban, per-urban, and rural areas.

Within each category, GE will target clusters of populations and users.

Each cluster may for example contain residential, community, and commercial users.

Once segmented properly, GE in the first stage will start with their current proposed product which is primarily suitable for community users such as village markets, community hospitals, and industrial complexes.

In the following stage, GE will target the individual users through minigrid entrepreneurship. In this stage GE may also consider new products suitable for individual households.
The business model that we derived provides the baseline of

- Key ‘partners’, ‘activities’ and ‘sources’ - that GE could rely on to build an efficient hybrid business model to achieve success

- GE ‘value proposition’ driven by revenue goals aligned with SDGs and the needed touch points such as key ‘customers’, ‘channels’ and ‘segments’ are taken into consideration to improve the focus on building a strengthening model

- ‘Cost Structure’ defines what GE should focus on to build this hybrid business model that could have significant positive growth under the mentioned ‘Revenue Streams’

- While all the activities may not be needed to build a unique model, it is important for GE to further study which initiatives are necessary to move towards success
## Business Model Canvas - Proposed

### 1 Partners
- Entrepreneurs
- Government and Public Sector
- Financial and Educational Institutions
- IT /Mobile Money Platforms
- Innovative Centers
- Suppliers & OEMs
- Distributors

### 2 Activities
- Produce and Support Efficient Off-Grid / Micro-Grid Devices for African Countries
- Build a Digital Platform and Strategize Efficiencies to Reach Millions of Customers
- Acquire funding for advanced research and innovation

### 3 Resources
- GE Power Capital and Off (Micro) Grid Transformation Fund
- Design Innovators and New Ideas
- In-House Research
- GE Global Network

### 4 Value Proposition
- Integrated Solutions for Africa Rural Outreach
- Renewable Energy at Prices Below Utility Rates
- Advanced R & D to leap into Renewable Energy through High Efficient Batteries
- Sustainable Solidarity through products and Empower Economy

### 5 Customer Relationships
- Long-term Customer Agreements
- Financing Facilities
- On-going Service and additional Efficient Solutions over time
- Cost Savings based on Spending

### 6 Channels
- Efficient Marketing
- Partner Network turning into Platform Network
- Direct Platform Sales
- Customer Loyalty Programs

### 7 Customer Segments
- Government and Public Sector
- Institutes such as Private Universities and Innovation Centers
- Commercial Customers
- Residential Customers

### 8 Cost Structure
- Manufacturing and Distribution Costs
- Customer Acquisition Costs
- Installation and Operations Costs
- Research & Development of Energy Efficient Solutions

### 9 Revenue Streams
- Platform Charges and Customer Analytics
- Customer Loyalty & Long-term Margin
- Customer Lifetime Value
- Target Growth & Flexible Terms such as Pay-As-You-Go Services
- Additional from Innovation and Economic Growth
### Marketplace Recommendations
#### Proposed Solutions

<table>
<thead>
<tr>
<th>“Go Big” Non-Conventional</th>
<th>Conventional</th>
<th>Innovation EpiCenter</th>
</tr>
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<tbody>
<tr>
<td>A digital platform of GE products and Competitor products with sources from GE Power, Competition, Partners and Customers.</td>
<td>A platform to create a unique experience to customers - serve customers with the help of impact partners (US Power Africa / EC of Nigeria)</td>
<td>An epicenter of innovation with entrepreneurs, small business owners and distributing partners come together.</td>
</tr>
</tbody>
</table>

- Sell Products of GE Power, Partners, Competitors
- Sell GE products to customers through institute funding
- Sell GE Products only with advancement of research

- Broaden with a mobile app for buyers and sellers
- GE becomes the command center with efficient financing
- Loyalty Partnerships, Scalable Products, Innovation Hub

- SaaS Model, Competitor Dependency, Customer Loyalty
- Customer Loyalty, Product Affordability, Partnerships
- Loyalty, Effective Partnerships, Community Leader

- Customer Analytics through “data network effects”
- Cross-side Sales through New and Resale of Products
- R & D Focused Approach

- DisAdv: Tech Investment, Higher Customer Acquisition Costs
- DisAdv: Tech and Customer Acquisition Costs, Tenured Partnerships
- DisAdv: R & D, Tech and Customer Acquisition Investment

### Platform - First to the Market

### Improved Cx through Service

### Growth Partnerships
Marketplace Proposal - “Go Big”

- Non-conventional platform with the combination of products from GE, Competitors, Partners and Customers.
- Platform becomes central from Order Management to Delivery and later Customer Service

- As opposed to attracting a single side of buyers or sellers, we propose GE to broaden the digital technology along with a mobile technology app. and open it for both buyers and sellers

- Due to the fact that the market is demanding, there are many local players. However, there is no single common platform in the region, which makes this option of GE-Power-Marketplace-Platform unique.

- Benefits:
  - GE Ownership and GE becomes the data master for the market
  - Households, institutes, government and private entities are captured by GE digital entity
Marketplace Proposal - Conventional

- Platform to sell GE Products Only by having supporting customers (B2B or B2C) through finance by impact investing or institutional partnerships
- Institutes customers fund where GE sells products and charges customers either on a fixed capacity basis or on pay-as-you-go basis
- The Off-Grid and Micro-Grid costs are usually high and customers pay high monthly installments, along with usage costs.

Benefits:
- GE becomes the central hub of partnership with public and private institutional entities
- GE will have the advantage of unmatched power partnerships with no product cost risk
- Improved Customer Loyalty and as needed, resale of products can be added activity
- Product Affordability by Customers
Marketplace Proposal - Innovation

• While there is heavy competition, the market is growing with many entrepreneurs across the regions of Africa especially from East Africa

• GE becomes the epicenter of innovation where entrepreneurs, small business owners and distributing partners can come together to innovate.

• GE continues to sell products through the digital platform. GE gains advantage over crowd innovation and finds high scalable products. GE acquires / partners through the innovation center.

• This will make GE an innovation partner to the region to establish the much needed power for Rural Africa. GE will also become a key player in strengthening ties with the communities to bring bright products to the market.

• Benefits:
  • GE becomes Innovation Epi Center which is essential for the region’s sustainable economic growth
  • GE becomes a powerful partnership organization
  • R&D focused approach leading into successful long term future
  • Innovation can bring affordable products to the market
Recommendations
Market Research

• Our proposed solutions are based on the market data publicly available

• We recommend GE to perform a market research that would cover
  • Segments of importance – with customers in the categories of Commercial, Households, Public / Government entities
  • Total market value that could make GE aware of investment needed
  • Competitive landscape of existing major / minor players and new entrants
  • Evaluate other organizations and their market share
  • Thought-process to understand whether to enter the market as a new player or idealize the formation of a partnership with a much bigger player or validate the idea of acquiring an established organization
  • Finally come up with strategic initiatives that could have value of higher significance
# Recommendations

## Partnership Strategy

**Government**

Government is the primary investor of large scale power investment. They will be interested in a private-public ventures for cost sharing. This will reduce infrastructure cost for the project. Government will also have access to local resources to help GE scale-up.

**Entrepreneurship**

The financial sustainability of GE will depend on uptake of its product by electricity entrepreneurs. These entrepreneurs can purchase GE product for either providing pay-per-use electricity or to sell individual products to the communities.

**Financial Institutions**

A credit support will make the costly GE products viable for both entrepreneurs and consumers. SME and Micro-lending are two relevant standard products. They are widely offered in the countries of primary target by GE. We would not recommend exclusive partnership with any financial institution. Rather, GE should mobilize financial institutions available in each specific community.

**Technology/IT:**

Apart from the digital platform, this is required for the payment system. For this, we would recommend an exclusive contract with a reliable mobile money vendor. Mpesa in Kenya for example has the best outreach and already a system for consumer payment.
Appendix - References

1. www.revenuesandprofits.com
2. International Energy Agency
3. IEA Data
6. Africa-EU Renewable Energy Cooperation Programme (RECP)
8. Africa-EU Renewable Energy Cooperation Programme (RECP)
12. Solar Builder 2018
13. The World Bank Data
Case Study

Mission: to sustain and facilitate the spread of renewable energy technologies

Input from stakeholders and IRENA

- Information of interest: projects with certain investment criteria, financing sources, advisors according to specific needs of a project
- Information of relevant entities, projects or financing instruments
- Project development tools and data on markets, regulations and incentives
- Expertise in developing renewable energy in Africa
- ...

Services for Stakeholders

- Efficient search for information such as projects by the specific criteria for an investor, by financing sources or by advisors according to specific needs of a project;
- Easy access to most relevant entities, projects or financing instruments and their contact information;
- Direct consulting service with IRENA on specific needs and interests;
- Easy access to project development tools and data on markets, regulations and incentives.

IRENA Sustainable Energy Marketplace

- Project assessments
- Project development and matching
- Tools: Project Navigator+REsource

66 projects in the marketplace
1108MW combined capacity of the projects
2.7 billion US$ total investment

Source:
Prasad: My primary goal to attend the courses is to deepen my knowledge of impact by innovation. MIT provides a action paced environment to understand the importance of sustainability. I have learned well from the Sustainability Initiative, System Dynamics Group and Students discussions in the classroom. Special thanks to the instructors and admin staff who have been very helpful.

Faisal: Coming from a non-corporate background, it was inspiring to see how big corporations are embedding sustainability into their mission.

Jean-Jerome: I decided to embark in this project to learn and help a major company tackle a key issue for the African continent. My knowledge about renewable energy was limited and I learned a great deal from the team and the company. GE can be successful in this market if the company pushes its products strategically. I think the team contribution to this project is valuable for the company's future in the African market.

Peipei: I learned a lot about energy market dynamics in Africa, technical knowledge and analysis approaches from both the sponsor and my team members. It will be more constructive if we could have built more organic and measurable connection between GE’s business and Sustainability goals.