

Strategic Analysis of Pacific Hydro Limited

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Abstract. This report focuses on the critical strategic analysis of Pacific Hydro. With the purpose of analyzing Pacific Hydro and proposing its strategic issues objectively, secondary statistics are gathered. The key strategic issues are analyzed by SWOT. Finally, three major strategic issues related to Pacific Hydro are proposed and reasons would be given. The specific recommendations for implementation were then put forward according to the appropriate arenas, vehicles, staging, differentiators and economic logic. It is possible for Pacific Hydro to profitable growth in the emerging market with the right balance of assets, technologies, geographic locations and passionate people.

Introduction

As a leading renewable energy company, Pacific Hydro Limited (ASX: PHY) specializes in extracting clean power from natural resources. With the vision of powering a cleaner world, Pacific Hydro operates several wind farms and hydro projects environmentally and cost-efficiently over the whole world. Along with the increasingly improved wind generation capacity, Pacific Hydro is regarded as the world's largest independent producer of renewable energy.

This report focuses on the critical strategic analysis of Pacific Hydro. With the purpose of analyzing Pacific Hydro and proposing its strategic issues objectively, secondary statistics are gathered. The key strategic issues are analyzed by SWOT. Finally, three major strategic issues related to Pacific Hydro are proposed and reasons would be given.

Identification of Major Strategic Issues

Identification of Key Strategic Issues: SWOT analysis

We analyze the key strategic issues of Pacific Hydro by SWOT. The SWOT analyze of Pacific Hydro is shown in the Table1.

Table1 SWOT analyze of Pacific Hydro

SWOT	Pacific Hydro
Strengths	(1)Recognition as a leading developer in a niche sector with limited competition (2)Innovative design allows commercialization of challenging projects (3) A successful track record of project development that attracts potential partners (4) Ability to source strategic partnerships in overseas markets to provide access to local contacts and financing (5) Long-term contract revenues, earnings and cash flows.
Weaknesses	(1) Power price negotiation (2) Conflicts between IFM and retailer (3) retail energy license

Table1 SWOT analyze of Pacific Hydro (Cont.)

SWOT	Pacific Hydro
Opportunities	(1) Clear worldwide trend toward deregulation energy markets (electricity and gas market) (2) International focus on environmental issues (3) Increasing community expectations and government regulatory pressure towards environmental issues (4) Demand for efficient, cost effective and “clean green” energy technologies (5) The acceptance of ASX 300 index of the Australian Stock Exchange in July 2000 (6) Emissions trading market is facilitated by Kyoto Protocol (7) Carbon credits provide revenue stream for renewable energy project
Threats	(1) low bargaining power with other investors for provided low power price (2) Rejection from local governments, landholders and communities during global reach

Illustration of three strategic issues

From the above SWOT analysis, Pacific Hydro is faced with the following three major issues:

Strategic Issue 1: International expansion of Pacific Hydro grabs a lot attention these days. Along with Pacific Hydro’s successful project development in Chile, Fiji and New Zealand via joint venture, developing, acquiring and operating projects in profitable niche segments of the energy industry should be involved into the future development plan. Additional development and acquisition projects in Australia and overseas are of high importance in simulating the growth of Pacific Hydro. The successful project development in Australia and overseas is beneficial for building a significant portfolio of wind energy assets, thereby providing a secure base of contracted long-term revenue, profit and cash flow. Additionally, the certain market share and good reputation are obtained along with Pacific Hydro’s global reach strategy.

Strategic Issue 2: Government policies and regulations on renewable energy industry play an essential role in impacting the growth of Pacific Hydro. There is a growing trend that Federal and State Governments are strengthening their stance on controlling the greenhouse gas emissions and consumption of fossil fuels. This provides a good stage for Pacific Hydro to operate wind farms and hydroelectric projects across the whole world. The key issues should be the methods of Pacific Hydro to convince the local communities to cooperate with the construction of projects in new markets. Along with the trend, Pacific Hydro needs to make some development plan to present the ways for defending itself against strong global competition and the emergence of product advances. The strategies towards market expansion also important for Pacific Hydro’s strategic directions. For instance, the differentiation strategies which focus on producing the ‘differentiated’ renewable energy electricity products those customers are willing to pay extra for it.

Strategic Issue 3: The broadness of renewable energy types in generating electricity is considered strategically. With the advanced renewable energy generation technology, stable financial support and certain number of market share, as well as the increasing government support and demand towards non-pollution energy, Pacific Hydro needs to consider the exploitation of renewable energy types. The sources of renewable energy include wind, hydro energy, wave, solar, biomass technologies and geothermal technologies. Until now, Pacific Hydro has played an essential role in using wind, hydro and wave energy. Thus strategic issue focuses on the utilization of more kinds of renewable energy. And key questions should be put forward: What are the types of renewable energy? How to exploit the different renewable energy? How to make use of the new renewable energy for satisfying the global increased demand? How to maximize the efficiency in exploiting renewable energy for lower the operational costs?

Identification of Strategic Actions

Strategic Action 1

In terms of corporate-level strategy, it is necessary for Pacific Hydro to add new products, new markets and even enter into different lines of businesses in the whole world. Based on the above analysis, related diversification strategy could be used by Pacific Hydro via seeking out international joint venture opportunities.

There are a number of advantages of joint ventures for Pacific Hydro. Firstly, along with the establishment of joint venture, the emission-free hydro power generation projects would be operated. Locally, they are regarded as attractive alternatives to proposed natural gas-powered stations and as major providers of employment for local inhabitants. Secondly, the joint venture could bring substantial economic effects for companies as well as benefit local communities. To some extent, the project is good for boosting the tourism development in the rugged mountain area. Finally, the electricity generation power would be doubled after construction of the joint ventures' projects in the coming 18 to 24 months.

Strategic Action 2

In terms of business-level strategy, the marketing section should be developed strategically by means of separating the new marketing sector particularly in charge of the international expansion of Pacific Hydro. Acquisition should be put forward for the subsequent action in cooperating with other companies in the other countries.

Pacific Hydro had a good performance on the projects development in Chile and New Zealand via acquisition. Chile is an investment grade country that rates highly in terms of growth and electricity industry opportunities. Pacific Hydro had a successful performance for the acquisition of the Coya and Pangal hydro projects from the Chilean state-owned cooper company (CODELCO) in 2004. Pacific Hydro's current generation capacity was increased from 147.5 MW to 223.8 MW as a result of the acquisition (Pacific Hydro Annual Report 2004). This success presence in Chile could make contribution to exploit other potentially attractive hydro and wind energy development opportunities in Chile as well as other countries. Moreover, Pacific Hydro had a successful diversification in New Zealand of wind power projects development by means of the acquisition of geothermal and cogeneration assets.

Considering the successful experiences of acquisition during Pacific Hydro's international expansion, it is beneficial for Pacific Hydro to make acquisitions with some companies in some countries. However, the feasibility of acquisition is less than that of joint ventures. The reasons are consist of integration of difficulties, inadequate evaluation of target, large or extraordinary debt, and inability to achieve synergy, too much diversification and too large company. Although Pacific Hydro kept a good track record on its acquisitions in Chile, New Zealand and Philippines, it still needs improvement on resolving the above issues. In addition, if Pacific Hydro chooses joint venture as the vehicle, economics of scale and sustainable economic growth would be generated which expresses the appropriate operation in international expansion. Meantime, as mentioned in strategic action 1, the joint venture in China will make a good use of wave energy projects as well as satisfying the governmental target on generating more zero-pollution electricity. In brief, joint venture should be the better strategic action.

Recommendations for Implementation

There are five major elements needed to be considered in implementing corporation strategy (Hambrick & Fedrickson, 2001). In the following, the specific implementation of joint venture is given from these five perspectives.

Arenas

As one of the leading developers and operators of electricity generation projects, Pacific Hydro is good at making innovative commercialization of renewable energy resources. Generally, Pacific

Hydro pursued the strategy that emphasized on developing wind generation projects in Australia as well as operating run-of-the-river hydro projects overseas. In recent years, Pacific Hydro performed renewable energy projects successfully in Australia, Philippines, Chile, Fiji, New Zealand and Brazil. Pacific Hydro primarily serves landholders, energy retail companies and local governments and communities. In the renewable energy industry, Pacific Hydro owns the advanced hydroelectric and wind farms energy technologies that indicate it is in the growing value-creation stages.

Vehicles

In order to strategically enter the international markets, Pacific Hydro developed international expansion via joint ventures in Fiji, Chili and New Zealand (Patrick 2010). In Chile and Philippines, acquisition is the main form for projects development. In Australia, the long-term power purchase agreement is signed between Pacific Hydro and energy retailers.

Differentiators

Pacific Hydro attracts customers and beats competitors by implicating the innovative application and commercialization of proven hydro and wind power technologies. Firstly, the general growth strategies could be capitalizing on the competitive advantage through identifying new resources and developing new hydro and wind power assets. Secondly, Hydro and wind power generation technologies should be regarded as the main growth areas in the short to medium terms. In the emerging technologies, generation of electricity from wave power could be implemented strategically in the medium to long term.

Staging

Along with the possibility of international management, the speed and sequence of moves in Pacific Hydro would be increased rapidly during international expansion. However, the construction of projects should be located in only one region at a time every two years. Besides, the market entry of Pacific Hydro is supported with good community relations and government permission (Pacific Hydro Annual Report 2005).

Economic Logic

The economic logic of Pacific Hydro rests primarily on scale economies and efficiencies of replication. No matter in Australia or other international markets, Pacific Hydro has standardization of renewable energy projects. Moreover, Pacific Hydro’s phased international expansion of project establishment; these issues should be preceded: preliminary engineering design, environmental impact assessment and identification of construction costs; approval from local environmental authorities and local communities.

Based on the whole analysis, the overall recommendations should be listed in the Table2 and Table3.

Table 2 Recommendations for Pacific Hydro (I)

Recommendations	Pacific Hydro
Three sustainable business strategies	(1) Increasing the output and efficiencies of our existing renewable energy generating assets (2) Building the business through new developments and acquisitions using proven renewable technologies (3) Maintaining a watching brief on new and emerging technologies-- might enable Pacific Hydro to secure the leading position as Australia’s leading renewable energy company; And making Pacific Hydro becoming a truly global participant in the international renewable energy industry.

Table 2 Recommendations for Pacific Hydro (I) (Cont.)

Recommendations	Pacific Hydro
Location and development of renewable energy projects	(1)Ensure the location fully meet the requirements of government and expectations of the community—otherwise project might be postponed (2) The long term power purchase agreements need to be signed for providing guaranteed revenue stream form the generation assets (3) At each power station, environmental management plans should be made for balancing environment with economical growth. It is the responsibility of Pacific Hydro to understand local supplier policy, obtain the support from communities via open community consultations.
Prior to submitting a planning application at each wind farm,	Important to assess these issues: (1) construction and transmission (2) Landscape and visual impact(3) Flora and fauna, including birds and bats(4) Aboriginal and non-aboriginal heritage(5) Noise and light effects NOTE: The mitigation measures should be given in detail in the project environmental management plan towards the unavoidable impacts of wind farms

Table 3 Recommendations for Pacific Hydro (II)

Recommendations	Pacific Hydro
Some community stakeholders should be consulted when a wind farm proposal is developed.	(1) Landholders(2) All neighbors within 1Km of proposed generators(3) All community groups nominated by the local council (4) Planning authorities and financiers
(1) Work closely with regional and rural communities during the international expansion (2) Take mitigation measures at all stages of the development, construction and operation of renewable energy power stations ---for giving great confidence to partners	(1)Consultations with communities on environmental management plans--- ensure community input to mitigation measures and minimize private impacts where possible—local infrastructure could be improved

Conclusion

To conclude, this report firstly analyzed the external environment of porter’s five forces model. This is followed by the three strategic issues. With the aim of resolving the strategic issues effectively, the main strategic direction is presented with the subsequent explanation and comparison of two strategic actions. Thus, Joint venture was then evaluated as the better strategic action. The specific recommendations for implementation were then put forward according to the appropriate arenas, vehicles, staging, differentiators and economic logic. It is possible for Pacific Hydro to profitable growth in the emerging market with the right balance of assets, technologies, geographic locations and passionate people.

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