

TAA

Trade Adjustment
Assistance for Farmers
Technical Assistance

Strategic Positioning for Farmers
and Fishermen





Strategic Positioning for Successful Farmers and Fishermen

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What Is Strategy?

- How a business creates value for its customers
- The key questions
 - Who? – customer focus
 - What? – products/services
 - How? – processes/procedures to deliver
- Doing the right thing (doing things right is operations)



Where Will We Go?

- What is strategic thinking?
- Looking outside our business
- Looking inside the business
- Strategic positioning for competitive advantage
- Implementing strategy and assessing risk
- Monitoring and measuring success



Strategic Thinking

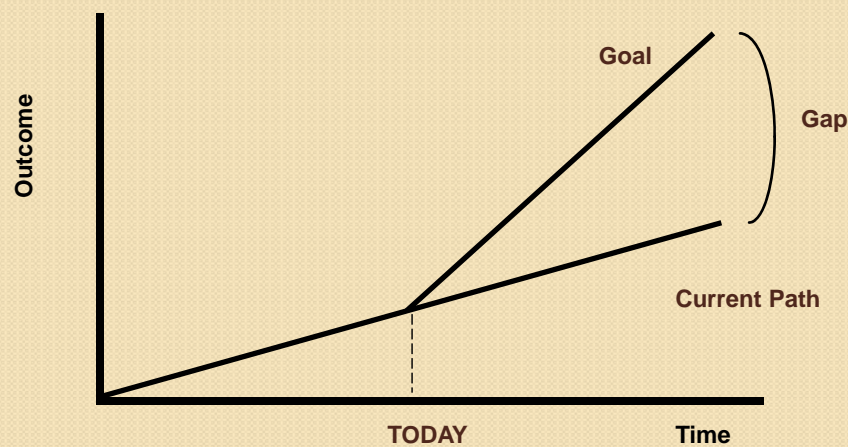
- What does it mean to “think strategically”?
- What are the benefits of “thinking strategically”?
- How does a mission and vision statement help identify and define your firm’s purpose/objectives/reason for being?

What is Strategic Thinking?

- Strategic thinking is all about change:
 - Anticipating the future
 - Shaping the future
 - Capitalizing on the future



The Performance Gap



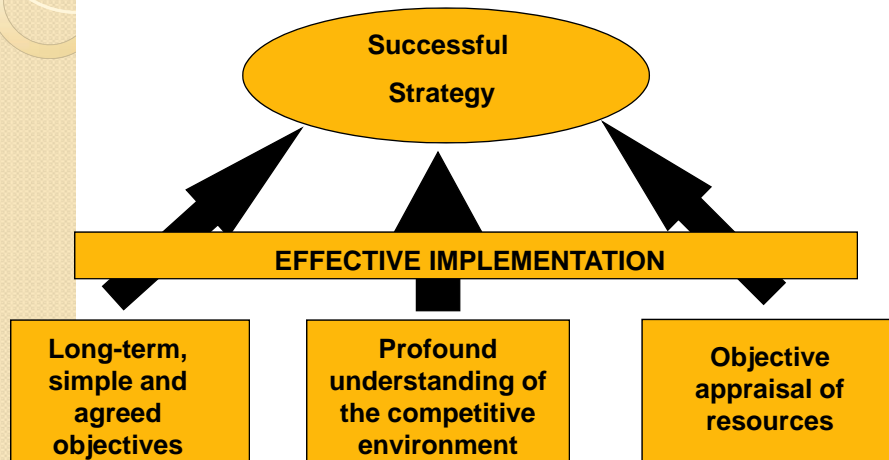
How do we close the gap?

- Define our current position
 - *with respect to customer needs, competitors, the general market situation*
- Determine our goal
 - *where should our firm be in 5, 10, ..., years?*
- Evaluate our firm and our market
 - Strengths, Weaknesses, Opportunities, Threats
- Start down the path that will lead to our goal
 - *short - long-term action steps to move toward our target*

What is strategy?

- Strategy is....
 - Looking longer term
 - Capitalizing on change
 - A stream of decisions
 - Focused on a purpose
 - Managing strategic risks
 - Creating a unique and valuable position
 - Choosing what not to do

Common Elements in Successful Strategy

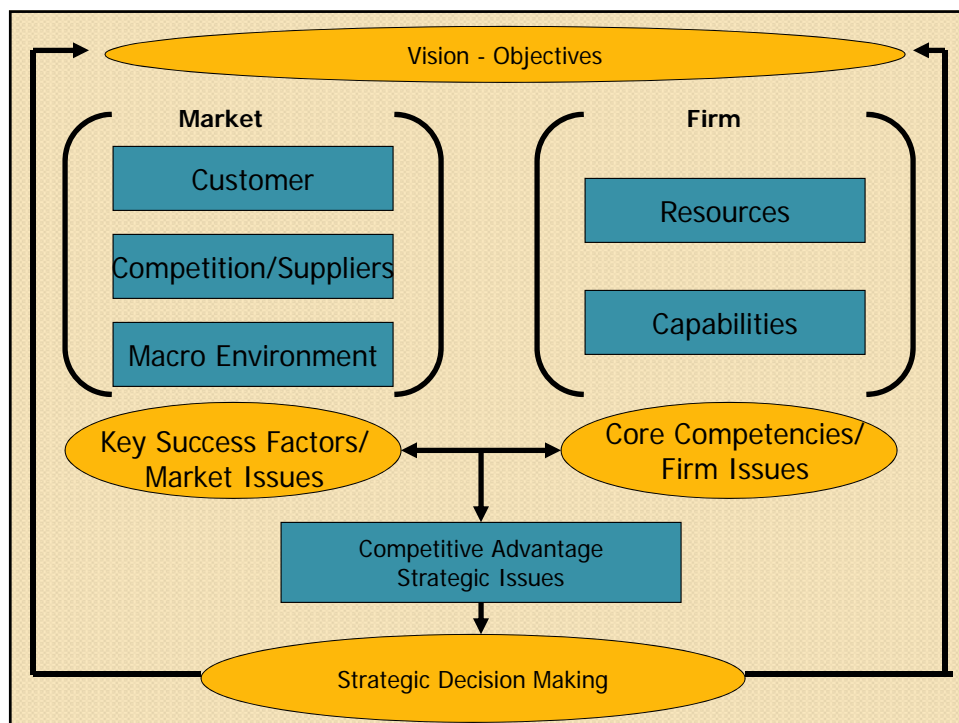


Steps in Strategic Planning

- Develop a clear understanding of what you want to accomplish.
- Look at the business environment to identify potential opportunities and threats to your business.
- Evaluate your business to identify its strengths and weaknesses to compete in this business environment.

Steps in Strategic Planning

- Evaluate strategies that appear to fit your situation.
- Develop a plan of action for implementing selected strategies.
- Identify factors that will be critical to successful implementation to the strategies.
- Recognize the assumptions underlying the selection of the strategies.





VISION/MISSION



Vision/Mission Statements

- Statements that explain who we are
 - *Type of organization*
 - *Products/services*
 - *Needs we fill*
- Statements that explain our direction, our purpose, our reason for being
 - *What difference do we make?*
- Statements that explain what makes us unique
 - *Values*
 - *People*
 - *Combination of products and services*

Developing a Business/Mission

- What business are we currently in?
- Who are our customers, and what are they buying from us?
- How does our business go about satisfying our customers' needs?
- What skills and capabilities is our business especially good at?

Components of a Vision Statement

- Core ideology
 - Core Values - timeless guiding principles
 - Core Purpose - reason for being
- Envisioned future
 - Big Hairy Audacious Goals (BHAG) - clearly articulated goals
 - Vivid description - a graphic description of what success and the future will be like
- Recognition of service to stakeholders
 - Owners/creditors
 - Employees
 - Customers



Carpenter Farms

- Vision

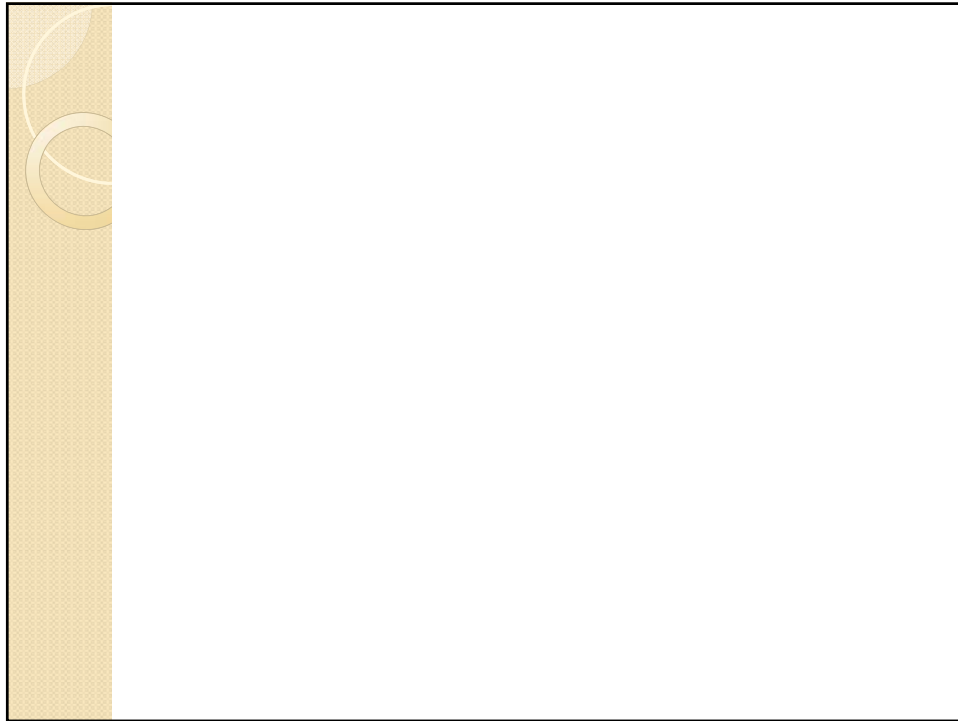
Carpenter Farms is a profit center focused on production of premium quality dairy products for wholesale and retail markets. We strive to be an asset to our community. Carpenter Farms provides a comfortable standard of living for the owners, their children, and employees.



Carpenter Farms

- Mission Statement

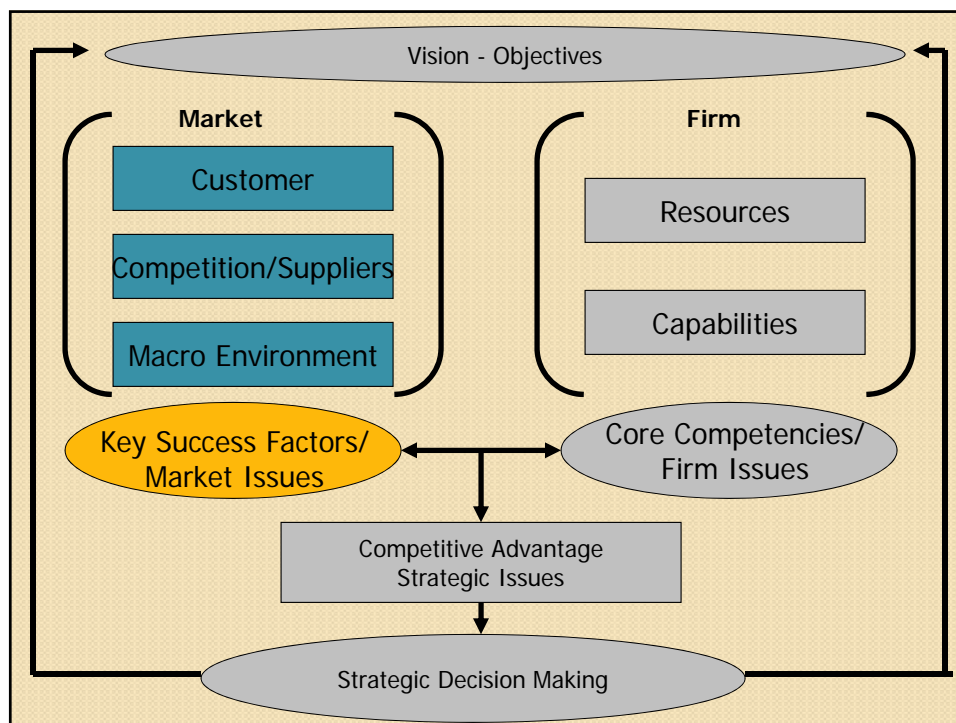
Carpenter Farms is a producer of dairy products and grain. Our mission is to provide a better life for everyone involved in Carpenter Farms. We seek to maximize returns and create value for those involved while at the same time be good neighbors in our community.



**LOOKING OUTSIDE OUR
BUSINESS**
(Opportunities and Threats)

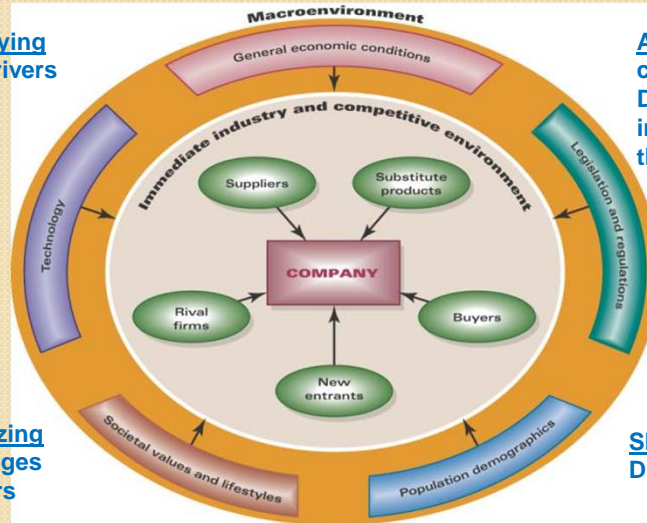
Looking Outside Our Business

- What are the key macro/global shifters and shapers that will impact your industry and thus your business?
- What are the fundamental forces in your industry that will shape your strategy?
- Who are your customers and what do they want from you?
- Who are your competitors and what is their product/service/information offering?



Looking Outside the Business

Identifying
Key Drivers



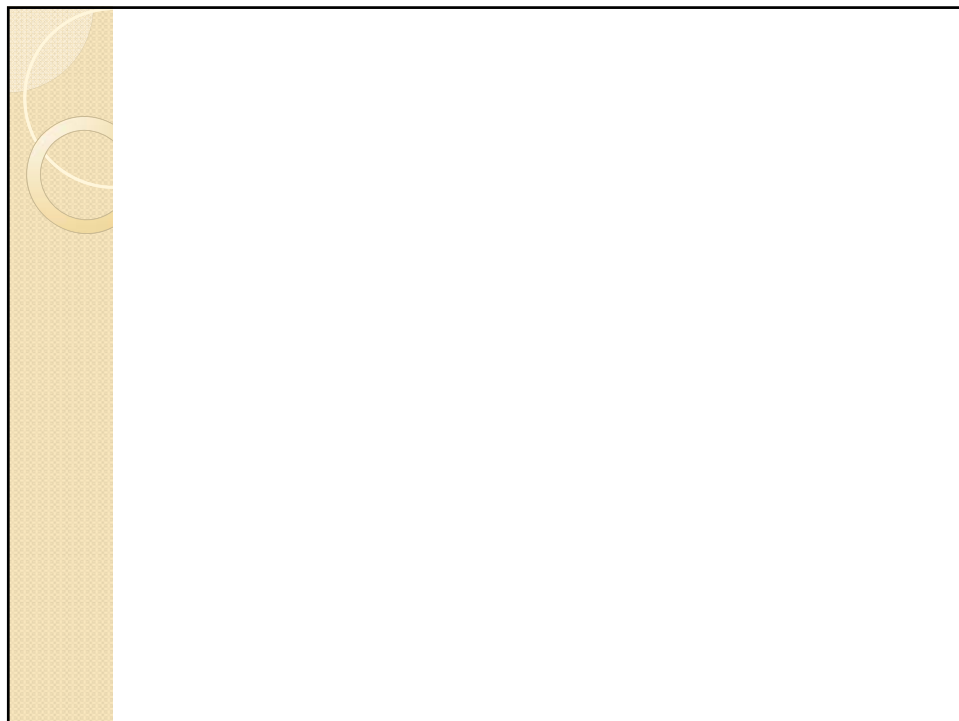
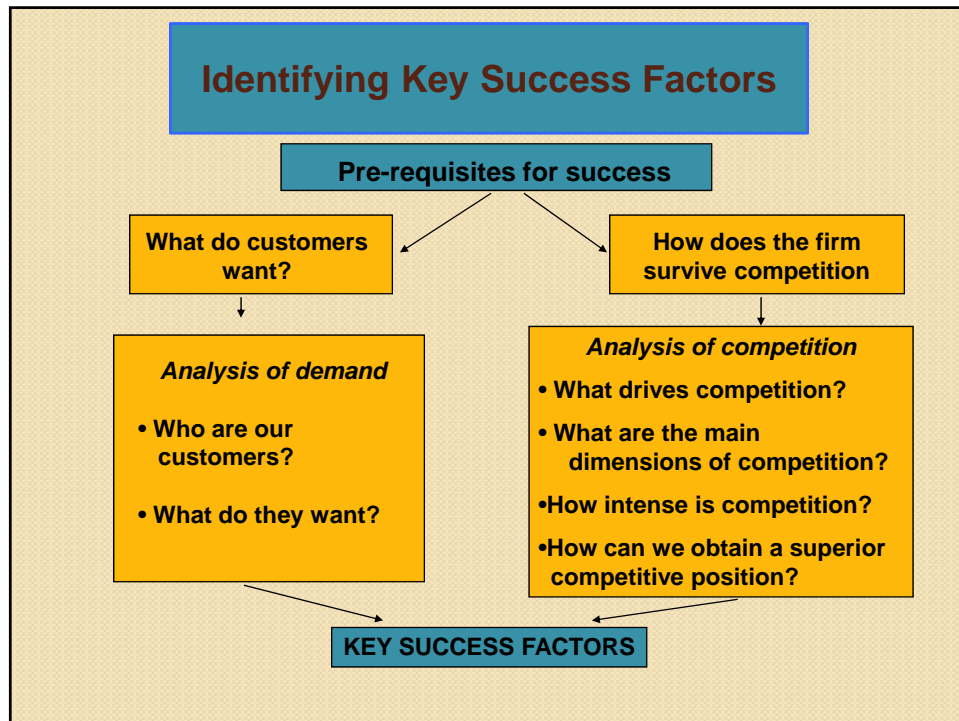
Anticipating
changes in
Drivers and
impacts on
the industry

Capitalizing
on changes
in drivers

Shaping the
Drivers

Fundamental Forces Shaping the Industry

- Business climate
- Energy and agriculture/the bio-economy
- Globalization of production and consumption
- More uncertainty/volatility
- Policy/trade future
- The sustainability imperative
- Consolidation/structural change





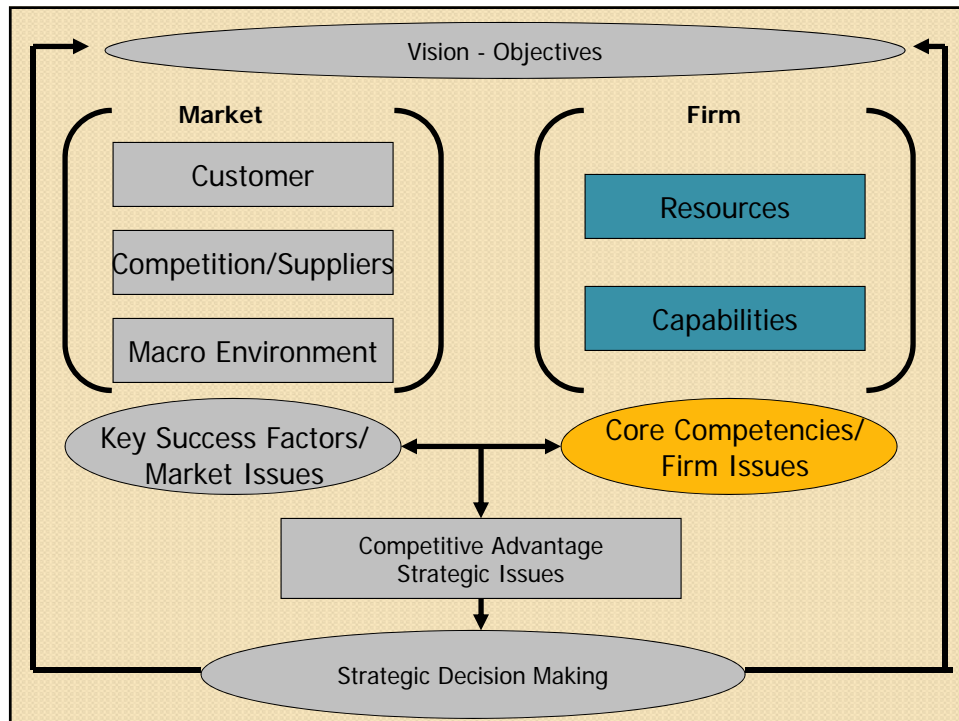
LOOKING INSIDE OUR BUSINESS

(Strengths and Weaknesses)



Looking Inside Our Business

- What resources are the most critical to your firm's success?
- What managerial capabilities are essential for your future?
- What are you better at doing than your competitors?
- What activities do you do that create value and are a source of competitive advantage?



Resources

- Inputs into a firm's production process such as capital equipment, skill of individual employees, patents, finance, and talented managers.
 - Tangible Resources – Assets that can be seen and quantified
 - Intangible Resources – Family commitment, networks, organizational culture, reputation, intellectual property rights, trademarks, copyrights
- By themselves resources do not create a strategic advantage for the firm.



Capabilities

- The firm's capacity to deploy resources that have been purposely integrated to achieve a desired end state.
- Primary base for the firm's capabilities is the skills and knowledge of its employees.
- Just because the firm has a strong capacity for deploying resources does not mean it has a competitive advantage.



Core Competencies

- Resources and capabilities that serve as a source of competitive advantage for a firm over its rival.
- Not all resources and capabilities are core competencies.
- Many suggest that firms should identify and concentrate on only 3 or 4 core competencies.

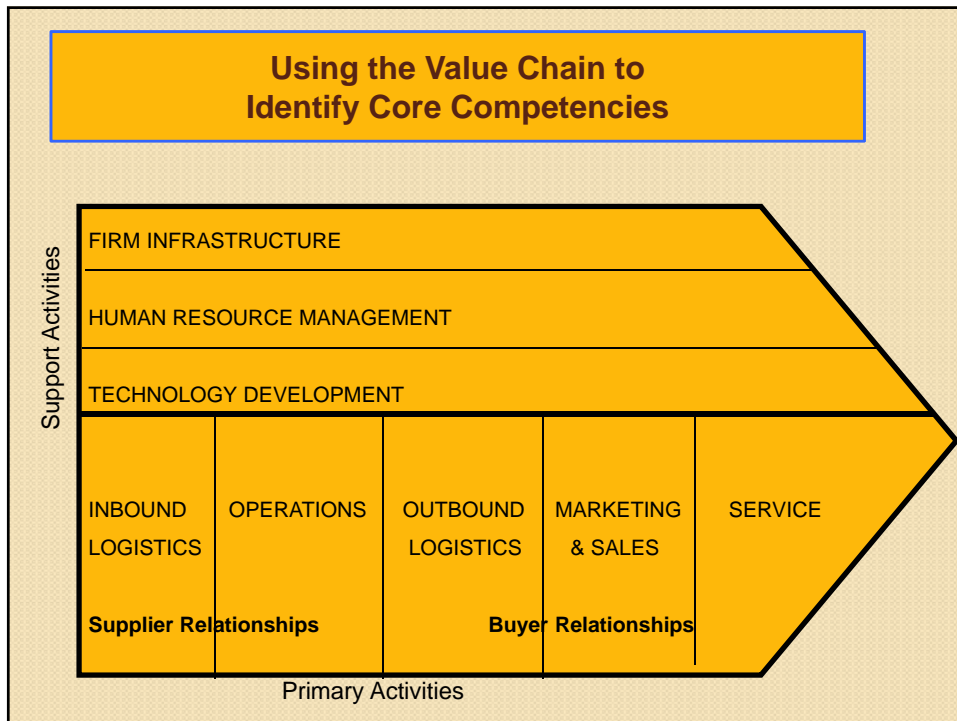
Core Competencies

- Identifying sustainable competitive advantages is the key
- Core competencies are normally the root of that sustainable competitive advantage
- Four requirements:
 - Rare
 - Durable
 - Nonsubstitutable
 - Costly to Imitate

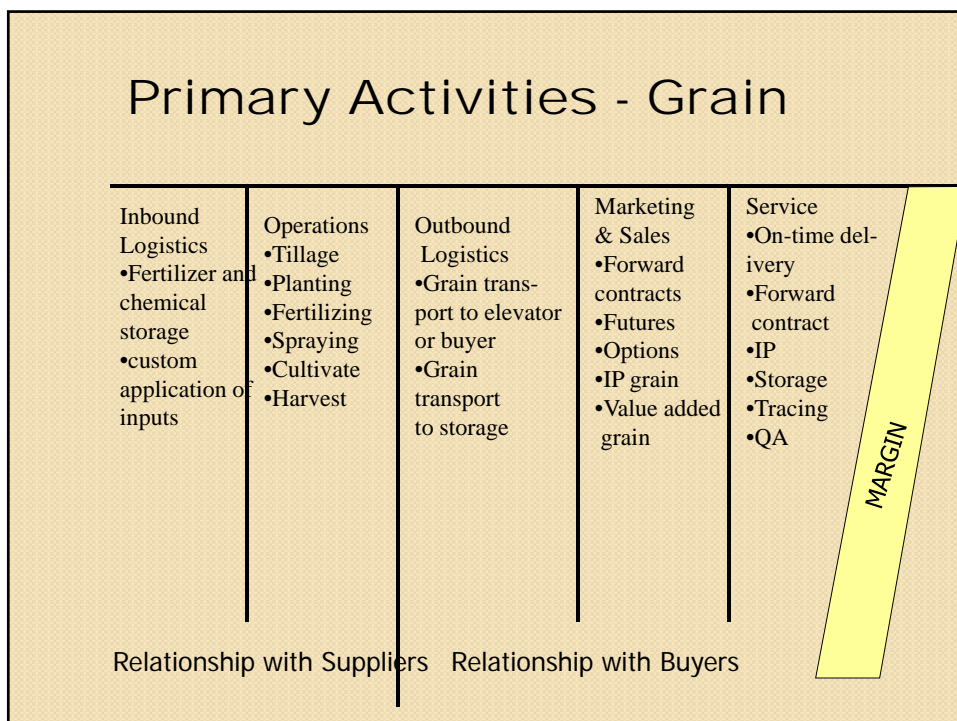
The Value Chain

- **A framework for identifying core competencies**
 - Inside the firm
 - In the supply chain
- **Can be used to:**
 - Identify strengths and weaknesses
 - Identify sources of competitive advantage
 - Identify market opportunities

Using the Value Chain to Identify Core Competencies



Primary Activities - Grain



Supporting Activities - Grain

Infrastructure: management, planning, finance, accounting, governmental regulation compliance, quality control

Technological Development: research and adoption practices for things like GPS, VRT, GMO's, No-Till, the Internet, IP storage facilities

Procurement: Purchasing inputs: seed, fertilizer, chemicals, fuel, land, Machinery, storage equipment, office supplies, parts, tools, insurance etc. with particular focus on negotiating capabilities

MARGIN

Identifying Core Competencies

Key Strengths and Weaknesses

Resources of the Firm

Capabilities of the Firm

Tangible Resources
Physical
financial

Intangible Resources

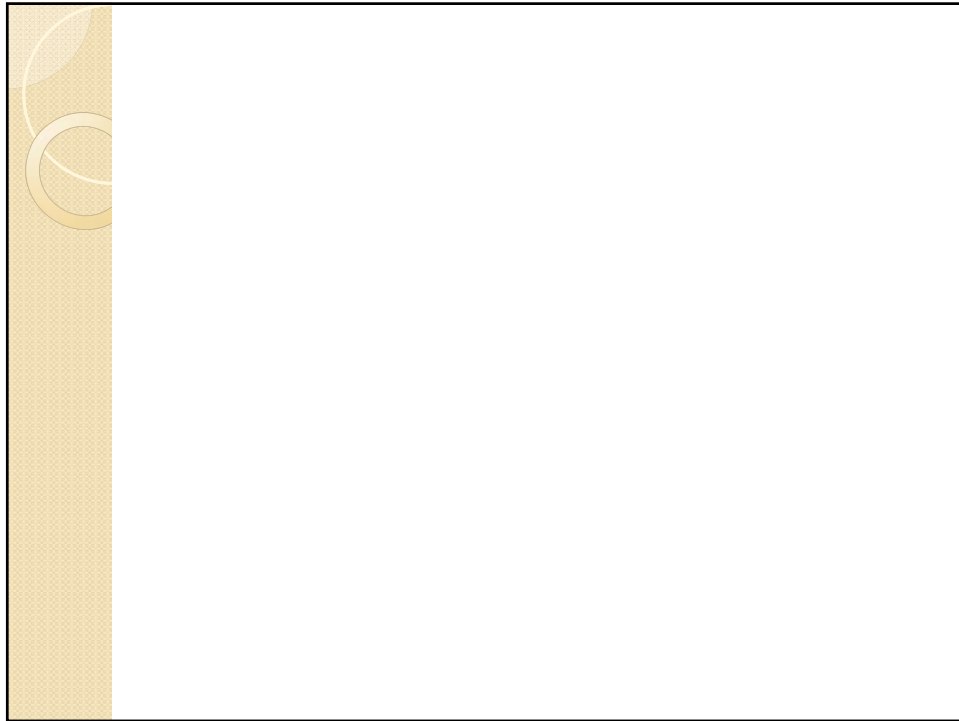
Human Resources

Ability to Utilize Resources

Putting Together the Puzzle

Maximizing the skills of the human resources

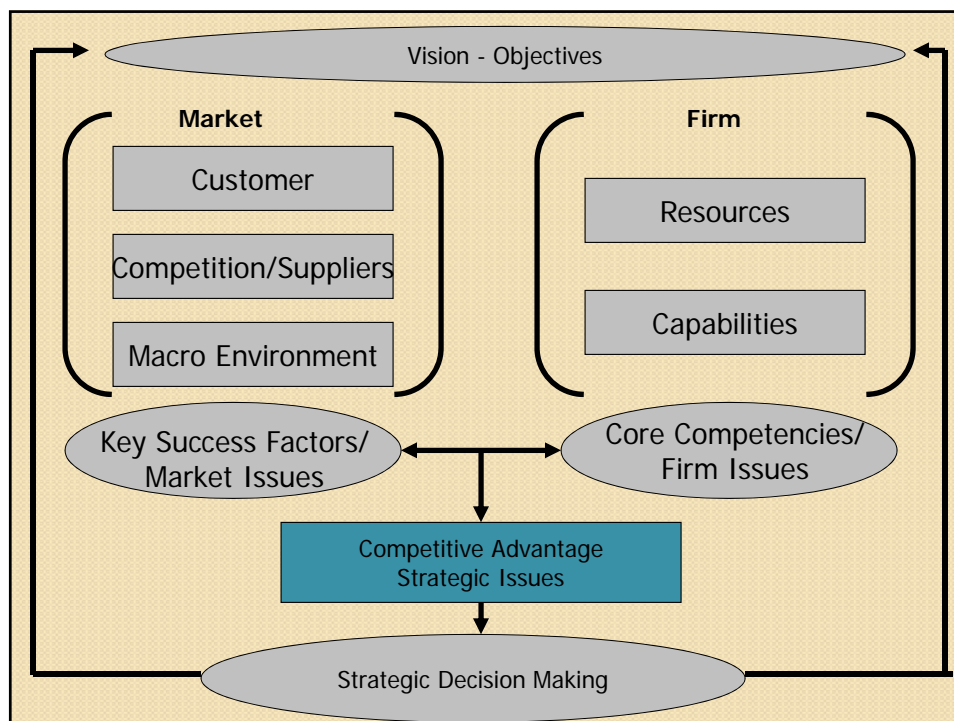
Core Competencies
(Source of Competitive Advantage)



STRATEGIC POSITIONING FOR SUSTAINABLE COMPETITIVE ADVANTAGE

Strategic Positioning

- How do you create value for your customer and profit for you?
- Are you a low-cost leader?
- Are you a differentiator through product innovation or customer intimacy?
- What is your focus if you are a commodity producer? A differentiated product producer?



Strategic Position

Successful businesses will answer a fundamental question:

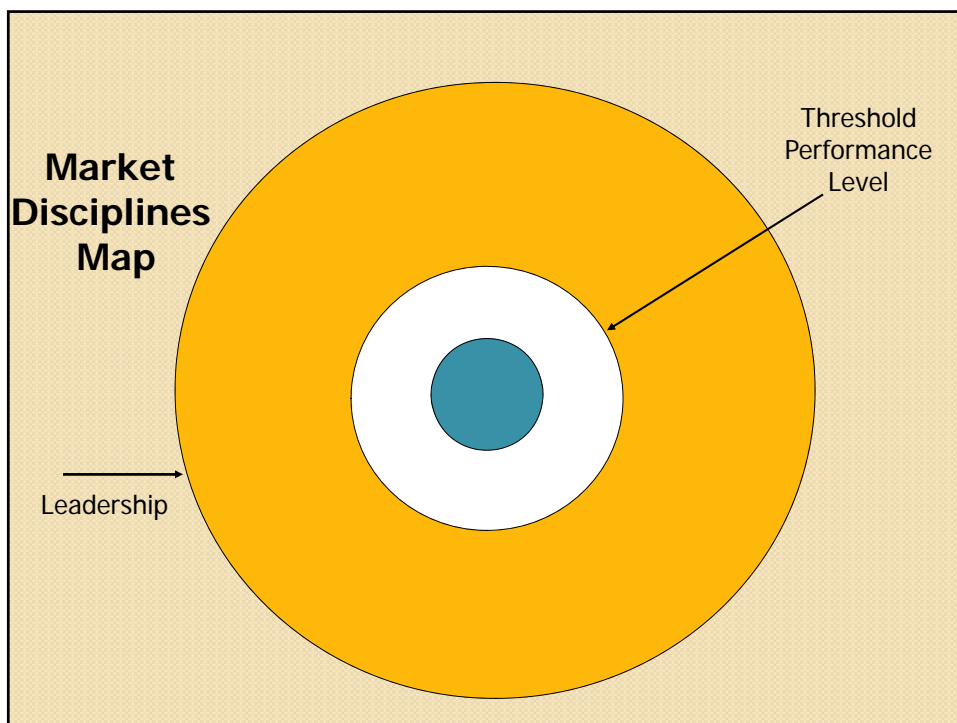
- *Where will my firm focus its resources and its passion?*

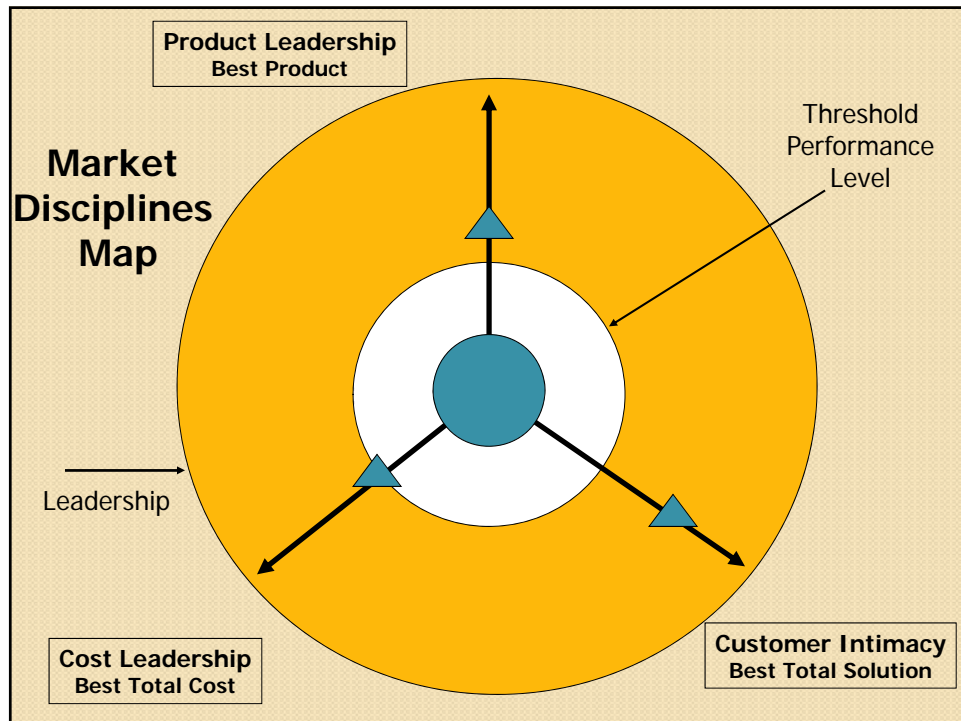
Strategic Position

- Is the way a firm goes to market.
- Is the fundamental way the firm creates value for the customer.
- Is the passion of the organization.
- Drives the organization's resource investment decisions.
- Is built around the firm's core competencies, the firm's primary skills and sources of competitive advantage.

Positioning Options

- Example of Possible Positions in an Agricultural Production Firm
 - Low-cost, bulk commodity producer
 - Customer-oriented specialty products producer
 - Full-service, consumer-focused custom farming operation
 - Efficient, partnership-focused contract animal feeder
 - Technology-focused, cutting-edge animal breeder

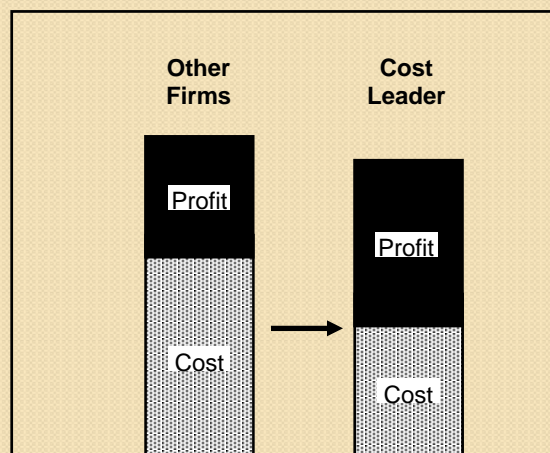




Cost Leadership: Gain sustainable competitive advantage by becoming the industry's low cost producer

Cost Leadership

Ability to generate a market value for products and services that does not sacrifice cost reductions





Cost Leadership

- *When?*
 - Substantial scale economics
 - Price-conscious buyers
 - Commodity product
 - Low-switching cost



Cost Leadership

- *How?*
 - Control 'cost drivers'
 - Capture scale economies
 - Capitalize on learning curve
 - Utilize capacity
 - Changing products, services, labor force, etc.
 - Change value chain
 - Change production process



Low-Cost Leadership

- Organization attempts to outperform competitors by doing everything it can to produce goods or services at a lower cost than competitors
- Emphasis is on operational efficiency
- May be achieved through process innovations
- Results in above average returns



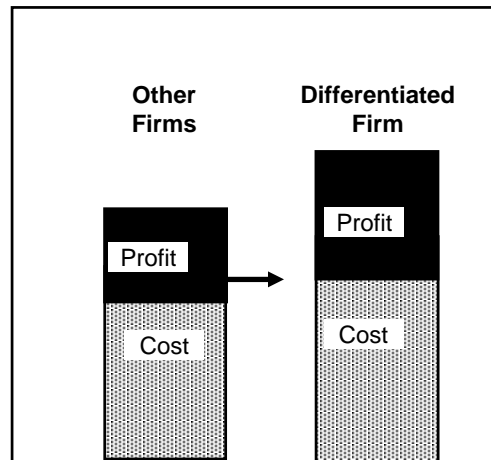
Risks of Cost Leadership

- Price as primary determinant of buyer choice
- Failure to recognize buyer needs
- New generations of technology
- Cost reductions which undermine minimum quality/service standards

Differentiation -- providing something unique that is valuable to buyers beyond simply offering a low price

**Product Leadership/
Customer Intimacy**

Obtaining a price premium from differentiation that is greater than the cost of the differentiation



Differentiation

- *When?*
 - Product/Service can be differentiated and differences are important to buyer
 - Wide range of buyer needs and uses
 - Competitors do not differentiate

Differentiation

- *How?*
 - Change product, process, logistics system
 - Change service activities
 - Lower buyer's total cost of using product or raise the performance the buyer gets
 - Increase buyer perception of value

Differentiation

- Organization attempts to create a product that is perceived by customers as unique in some important way
- Emphasis is on strategic positioning
- May be achieved through
 - Superior quality
 - Superior customer responsiveness
 - Superior innovation
- Results in above average returns through premium pricing



Differentiation

- *Risks?*
 - Uniqueness that is not valuable
 - Too much differentiation
 - Ignoring need to signal value
 - Imitation, commoditization
 - Costs of differentiation exceed value added

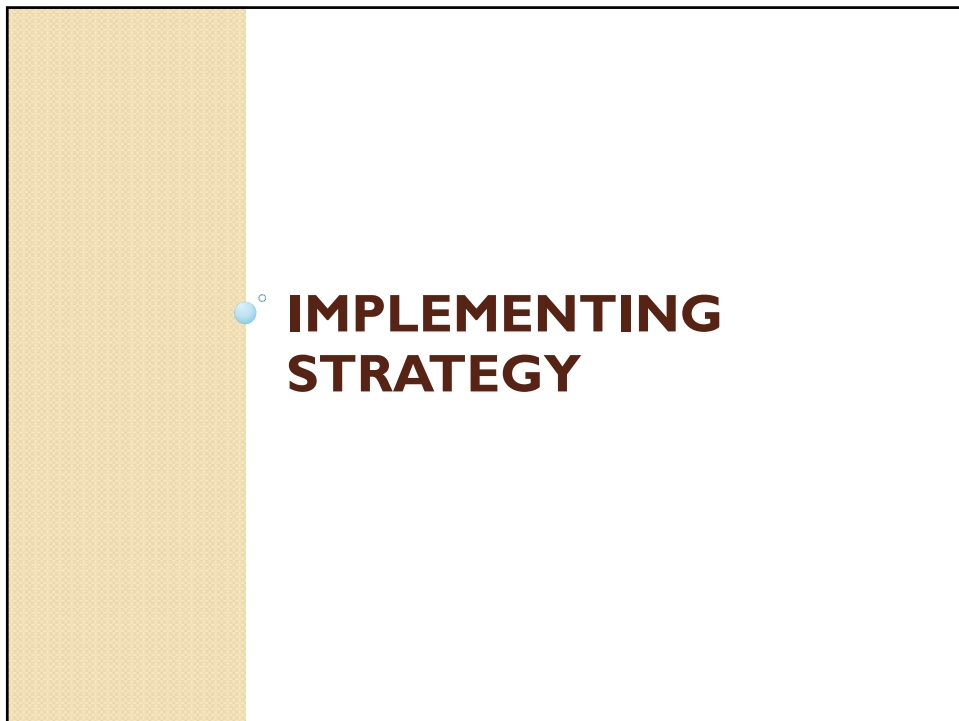
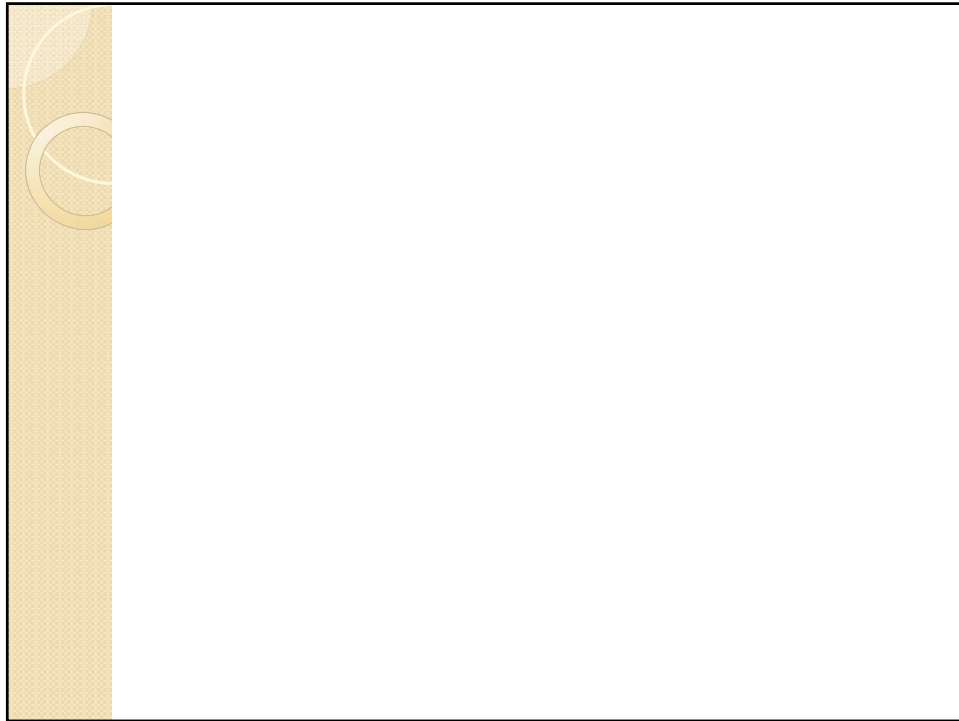
Alternative Strategic Directions

Commodity Product Strategy

- **Production Emphasis** – the focus is primarily on production activities rather than marketing or finance
- **Manufacturing Mentality** – the science and systematic process of producing food products rather than the art of raising commodities is emphasized
- **Low Cost Producer** – cost control is critical to being competitive in a commodity business
- **Large Scale Operation** – larger scale operations generally have cost advantages over smaller scale units
- **Outsource Resources** – land is rented; machinery is leased or custom hired
- **Open/Impersonal Markets** – markets are open to all who meet gross commodity product standards at publicly known prices
- **Downside Price Risk** – excess worldwide production can result in significant downward price movements
- **Independent Decision-Making** - the traditional independent farmer provides most of the managerial and other resources and makes most of the decisions

Differentiated Product Strategy

- **End-user Focus** – the focus is on a final consumer or food processors needs rather than commodities
- **Distribution/Marketing Mentality** – marketing and distribution decisions and expectations of consumers are as (or more) important than production considerations
- **Value-Added Production** – the additional revenue to be gained by further processing and distribution is emphasized
- **Smaller Scale Operation** – a focus on a segmented consumer market and niche markets allows and encourages small scale, more nimble and flexible producers
- **Insource (own) Resources** – more land and other resources are owned because the scale of operation is not beyond the financial resource base of the smaller producer
- **Negotiated Markets** – responding to consumer needs and producing products with specific attributes requires more direct communication throughout the chain
- **Relationship Risk** - contracts can be terminated and alliances severed unexpectedly
- **Interdependent Decision-Making** – the negotiated linkages with suppliers and processors reduces independence and forces joint, interdependent decision-making



Implementing Strategy and Assessing Strategic Risk

- What business/enterprise focus will you have?
- Will you grow your business and how?
- What marketing and channel linkages will you develop?
- What financial/organizational structure will you use for your business?
- What strategic risks will you face and how will you manage them?

The Integrated Planning Process



Key Strategic Decisions

- Business Enterprise Focus
 - Product
 - Production/process technology
- Growth/Downsizing
 - Focus/specialize
 - Intensify/modernize
 - Expand
 - Diversify
 - Replicate
 - Integrate
 - Network
 - Delay/wait and see
 - Downsize

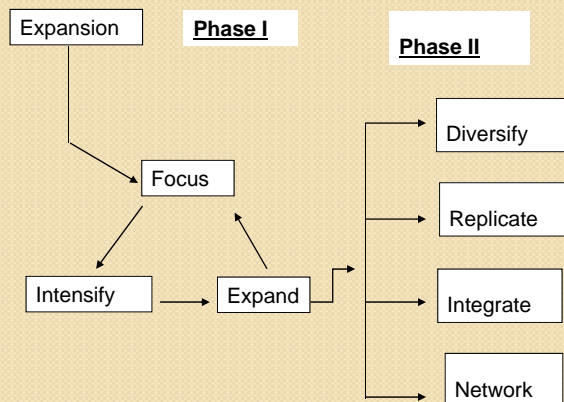


Figure 1. Strategic Growth Options

Key Strategic Decisions

- Marketing and Channel Linkages
 - Sourcing and purchasing resources
 - Merchandising and selling products/services
- Financial/Organizational Structure
 - Business/legal choices
 - Leasing options
 - Equity sources
 - Debt decisions/instruments

Key Strategic Decisions

- Social Responsibility
- Managerial Style/Lifestyle
 - Learning new skills
 - Time/labor contribution
 - Risk/stress level and attitudes
 - Living expenditures

The Strategic Management Process



ASSESSING STRATEGIC RISK/UNCERTAINTY

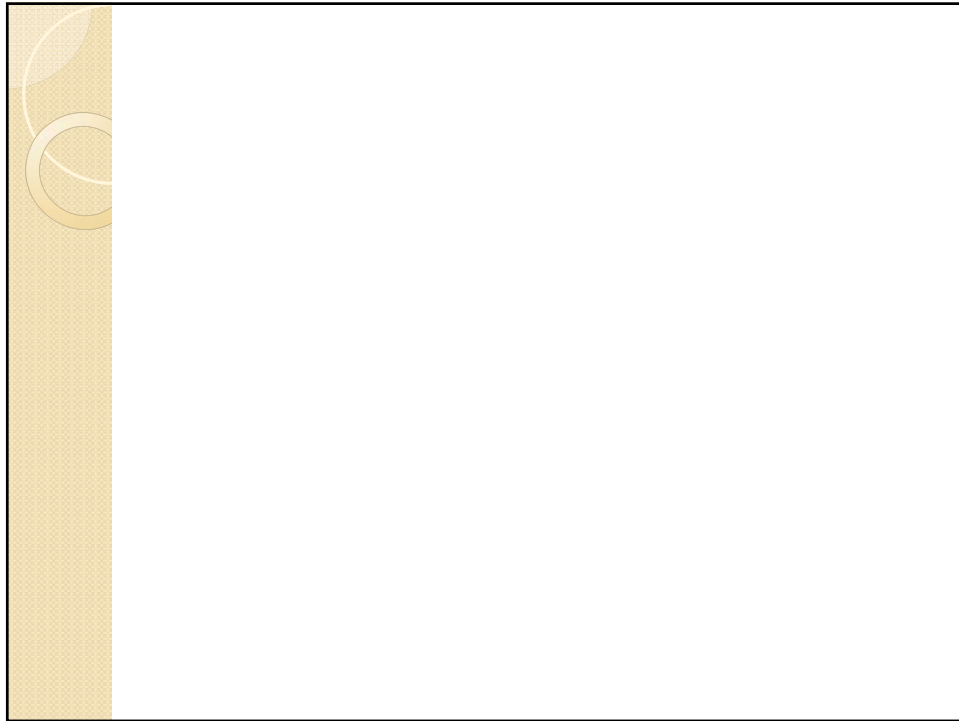
The Universe of Risk

Categories of Risk	Illustrative Sources of Risk
Financing and Financial Structure	Debt servicing capacity, leverage, debt structure, non-equity financing, liquidity, solvency, profitability
Market Prices and Terms of Trade	Product price volatility, input price volatility, cost structure, contract terms, market outlets and access
Business Partners and Partnerships	Interdependency, confidentiality, cultural conflict, contractual risks
Competitors and Competition	Market share, pricing wars, industrial espionage, antitrust allegations
Customers and Customer Relationships	Product liability, credit risk, poor market timing, inadequate customer support
Distribution Systems and Channels	Transportation, service availability, cost, dependence on distributors
People and Human Resources	Employees, independent contractors, training, staffing adequacy

Source: Adapted from Tech, Edward, "Microsoft's Universe of Risk" *CFO*, pp. 69-71, March 1997

The Universe of Risk

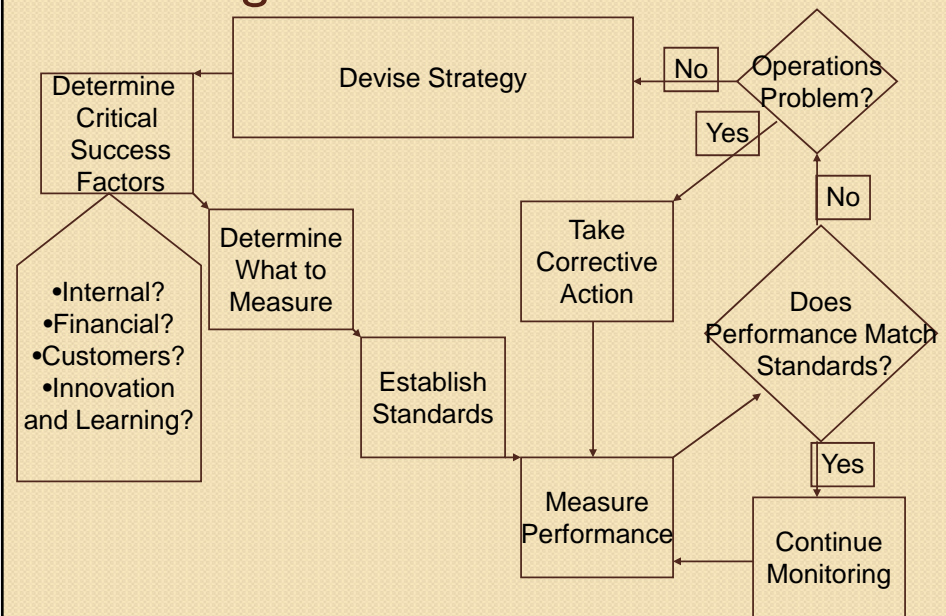
Categories of Risk	Illustrative Sources of Risk
Regulatory and Legislative	Export licensing, jurisdiction, reporting and compliance, environmental
Political	Civil unrest, war, terrorism, enforcement of intellectual property rights, change in leadership revised economics policies
Reputation and Image	Corporate image, brands, reputations of key employees
Strategic Position and Flexibility	Mergers and acquisitions, joint ventures and alliances, resource allocation and planning, organizational agility
Technological	Complexity, obsolescence, the year 2000 problem, work-force skill-sets
Financial Markets and Instruments	Foreign exchange, portfolio, cash, interest rate
Operations and Business Practices	Facilities, contractual risks, natural hazards, internal processes and controls



Monitoring and Measuring Success

- How will you know you have been successful?
- What are your long-term goals?
- What are your short-term objectives?
- How can you measure and benchmark performance in terms of financial goals? Customer goals? Operations goals?

Monitoring and Control Process



Long-Term Business Goals

Goals are open-ended statements of what one wishes to accomplish, with no quantification of what is to be achieved and no time frame for completion.

- They provide targets for assessing progress in achieving the vision

Long-Term Business Goals

Directional – Move you toward the general objectives of our vision statement

Reasonable – Are practical and obtainable; not extreme

Inspiring – Are challenging; affect you positively

Visible – Are easy to visualize

Eventual – Will be fulfilled at a future time

Long-Term Business Goals

Examples of goals might be:

- Maintain a profitable fishing operation
- Be considered the top farmer in the county
- Be on the cutting edge of technology
- Be able to service loans on time
- Create employment for family members
- Obtain a leadership position in the community

Short-Term Objectives

Objective are the end results of planned activities.

- They should state what is to be accomplished by when and should be quantified.
- Achievement of objectives should result in the fulfillment of the mission.

Short-Term Objectives are:

Specific – The objective achieves a particular, detailed result.

Measurable – There is a means to determine the objective.

Attainable – They are within economic and physical capabilities.

Rewarding – They are profitable and self-satisfying.

Timed – They have a deadline

Objectives

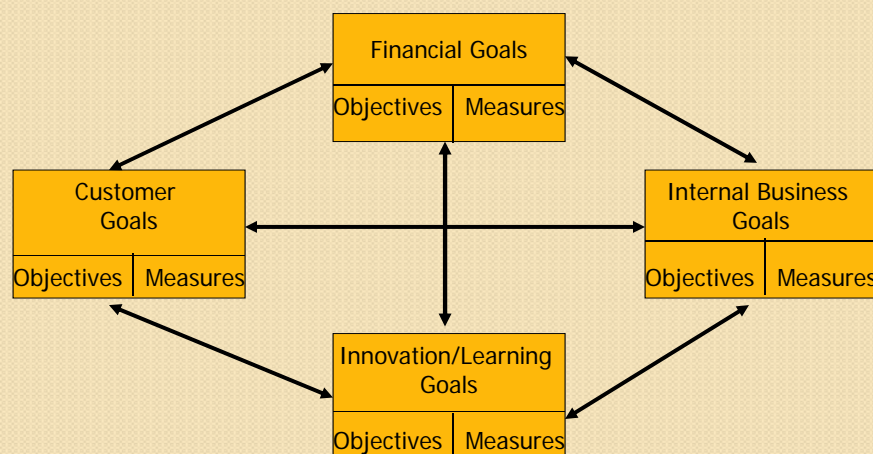
Examples of objectives might be:

- To increase gross revenues 5 percent each year
- To achieve 12-15 percent return on equity within 4 years
- To reduce fixed expenses by 7 percent within 3 years
- To hold a position on the local school board within the next 5 years

Identifying Critical Success Factors

- The few key areas or activities where things must go well if vision is to be achieved
- Should focus on answering:
 - How do owners see us? (Financial perspective)
 - How do customers see us? (Customer perspective)
 - What must we excel at?(Internal perspective)
 - Can we continue to improve and create value? (Innovation and learning perspective)

Balanced Scorecard





Example Measures

- Financial
 - Operating Profit Margin, Asset Turnover Ratio, Return on Equity, Return on Assets, etc.
- Customer
 - Quality, delivery, # of complaints, etc.
- Internal
 - Planting and harvesting timing, weed control, employee satisfaction, etc.
- Innovation and Learning
 - # of seminars attended, R&D investment (evaluation of new products, processes, etc.), etc.



Defining Standards of Performance

- Benchmarking
 - Looking for those businesses that are the best at doing something and learning how they do it so that we might emulate their methods



Benchmarking Principles

- Be sure to understand and appreciate the differences between business environment and cultures.
- Understand how the aspect that is being studied fits with the other elements of the firm.

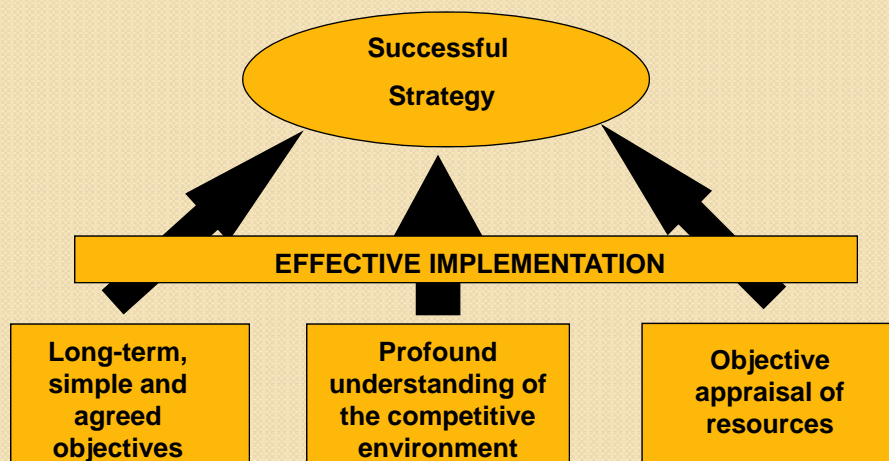


• **FINAL COMMENTS**

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Resources on Strategic Positioning for Successful Farmers and Fishermen

➤ Websites

- Strategic Business Planning for Commercial Producers

<http://www.agecon.purdue.edu/extension/sbpcp/index.asp>

- Center for Commercial Agriculture

<http://www.agecon.purdue.edu/commercialag/>

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- **Positioning the Farm Business**, Purdue University Staff Paper #98-9, June 1998
- **Developing Vision and Mission Statements**, Purdue Extension (EC-720)
- **Strategic Planning: Scanning the Horizon**, Purdue Extension (EC-716)
- **The Competitive Environment: New Realities**, Purdue Extension (EC-717)
- **The Internal Analysis of Your Farm Business: What is Your Farm's Competitive Advantage?**, Purdue Extension (EC-721)

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➤ Publications

- **Farm Business Management for the 21st Century *Checking Your Farm Business Management Skills***, Purdue Extension (ID-237)
- **Farm Business Management for the 21st Century *Are Your Farm Business Management Skills Ready for the 21st Century? Self-Assessment Checklists to Help You Tell***, Purdue Extension (ID-244)

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