

STRATEGIC MANAGEMENT

**Positioning the Farm Business Through Strategic Thinking:
Tools and Frameworks**

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Director

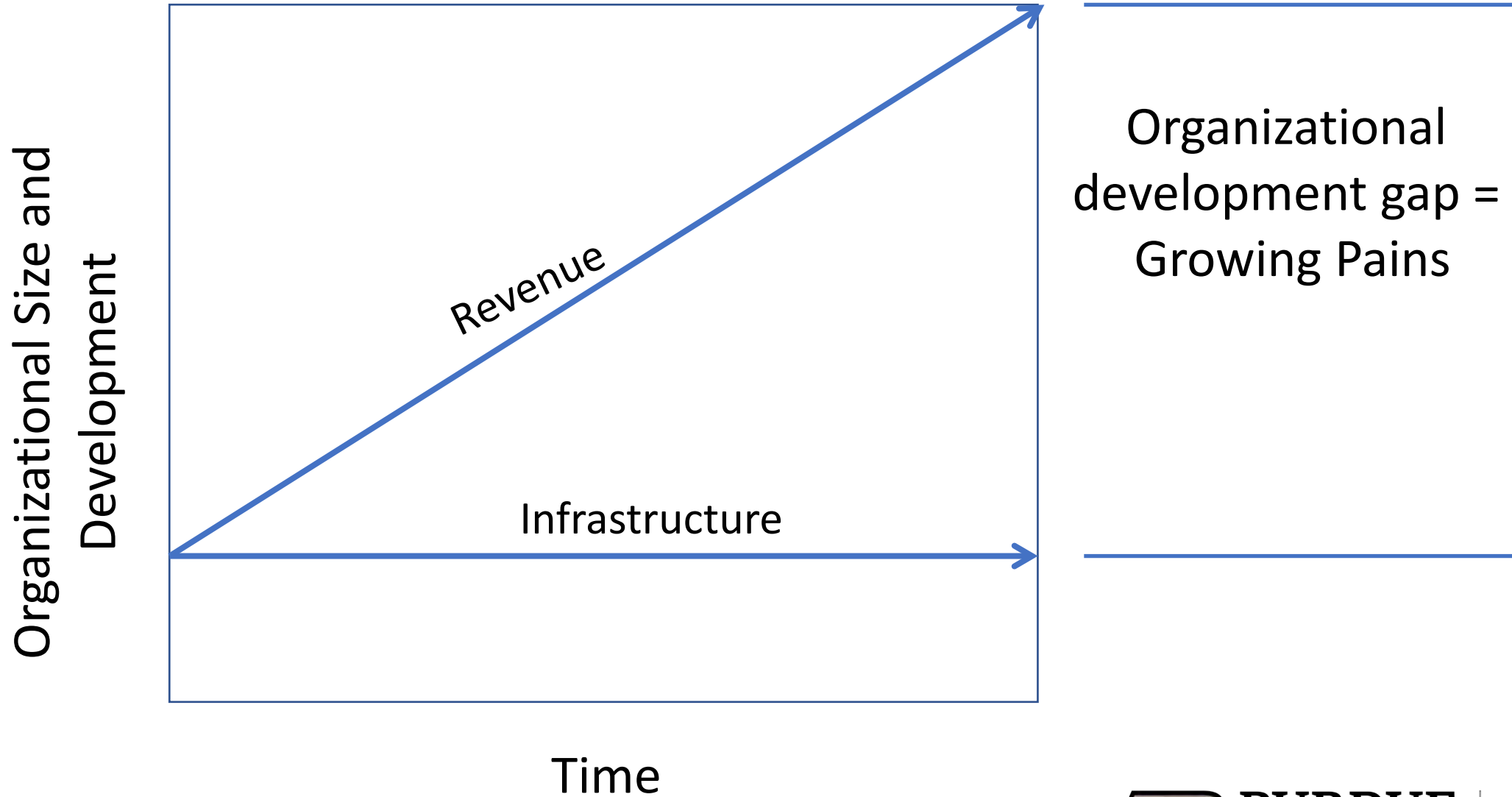
Center for Food and Agricultural Business,
Purdue University

Today...

- What are Growing Pains and Do You Have Them?
 - The case for professionalizing our approach to the business
- What is Good Strategy?
 - Diagnosing the issue, developing a guiding policy, and creating an action plan that will win in the marketplace?
- What Organizational Structure Will Support the Strategy?
- How Do We Manage the Organizations Performance as We Grow?

What are Growing Pains?

Discrepancy Between Growth and Development



Ten Most Common Organizational Growing Pains

- There aren't enough hours in the day
- Too much time “putting out fires”
- Don't know what others are doing
- Don't know where the firm is headed
- Not enough good managers
- “I have to do it if it is to be done right”
- Meetings are a waste of time
- Very little follow up on plans so things don't get done
- Some feel insecure about their place
- Sales are growing but profits aren't keeping pace

What does your farm look like?

- Take a few minutes to read the definitions of the growing pains that are attached to the survey handout.
- Thinking about your business, answer the survey.
- Fill out the scoring section of the survey

What does your score say?

Score Range		Interpretation
10-14	Green	Everything OK
15-19	Yellow	Some things to watch
20-29	Light Blue	Some areas that need attention
30-39	Red	Some very significant problems
40-50	Purple	A potential crisis or turnaround situation



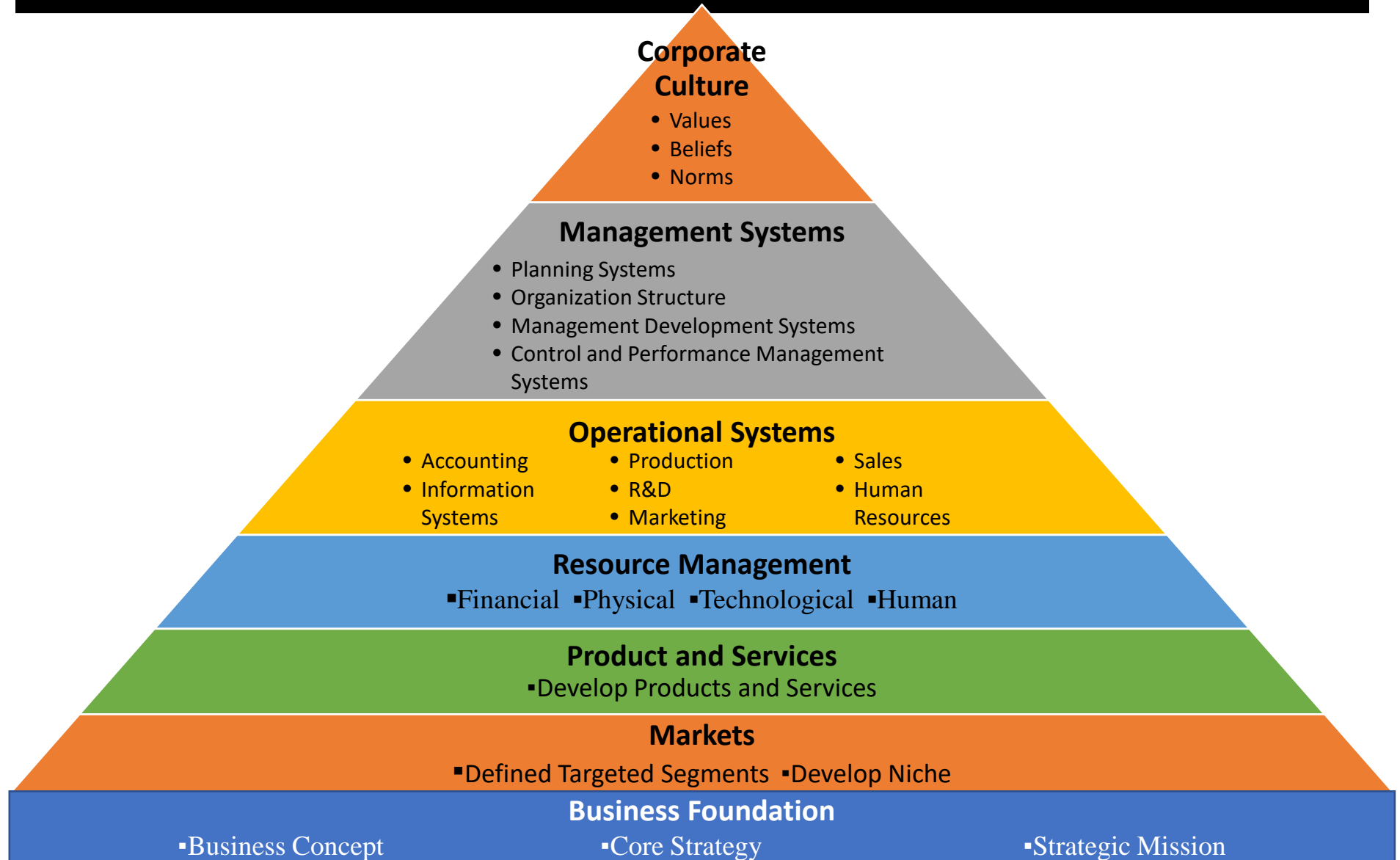
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The Challenges of Entrepreneurs

- As an Entrepreneurial firm grows it faces Growing Pains:
 - Sales expand rapidly and the firm's resources become stretched
 - Needs for more inventory, space, equipment, people and funds
 - Day-to-day activity tends to take on an almost frenzied quality
 - Operational systems (marketing, production, service delivery, accounting, credit, collections and personnel) are often overwhelmed.
- The Firm is lacking **Organizational Development**

Pyramid of Organizational Development



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Stages of Organizational Growth and the key developmental Tasks

- Stages of Growth
- Stage I -- New Venture → • Approximate Organizational Size (\$Million of Sales)
• \$0.3 – 441 Acres
- Stage II -- Expansion → • \$0.3 to \$3.3 – 441 to 4800
- Stage III -- Professionalization → • \$3.3 to \$33 – 4800 to 48,000
- Stage IV -- Consolidation → • \$33 to \$167 -- > 48,000



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Stages of Organizational Growth and the key developmental Tasks

- Stages of Growth

- Stage I



- Stage II



- Stage III



- Stage IV



- Critical Development Areas

- Markets and Products

- Resources and Operational Systems

- Management Systems

- Corporate Culture



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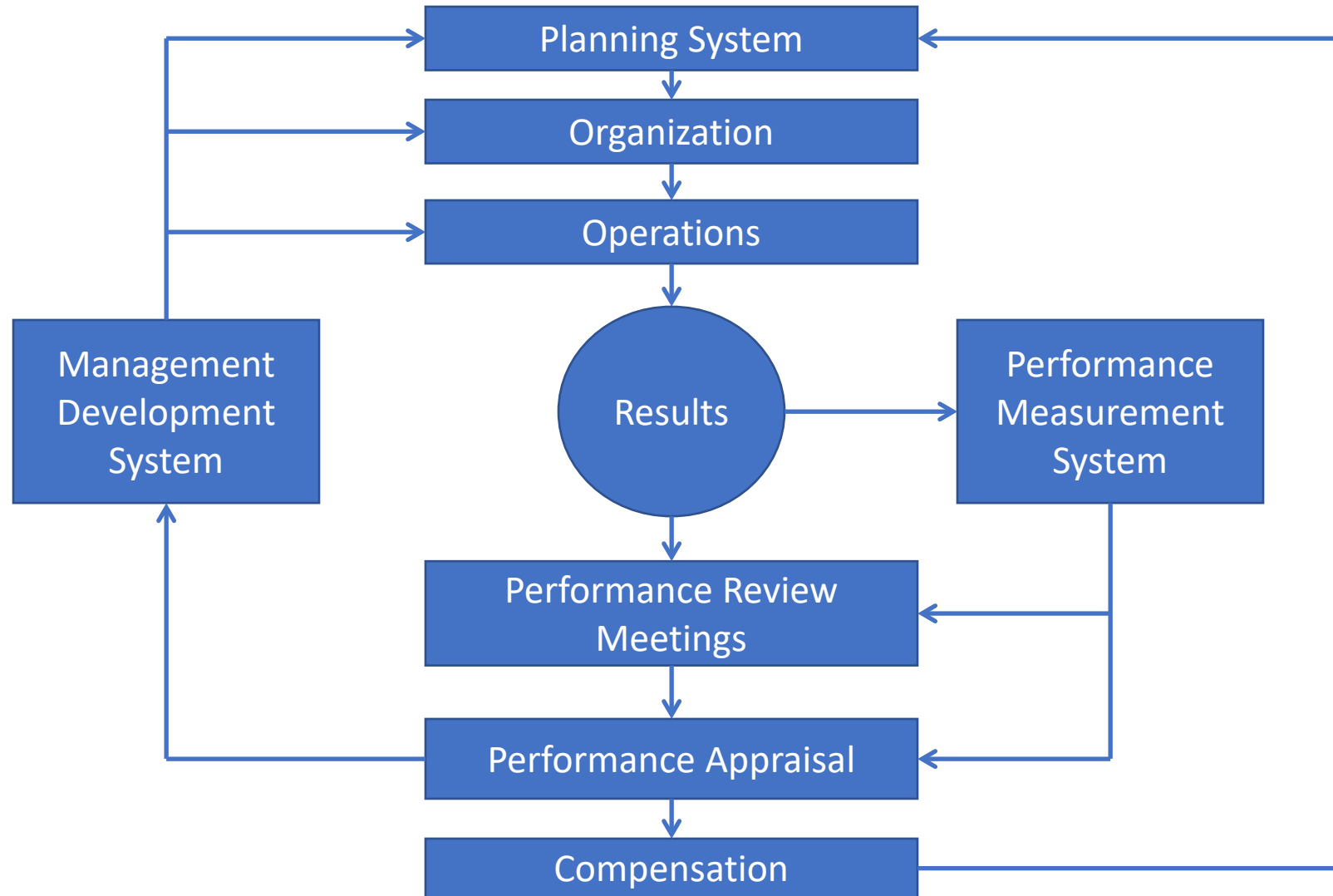
Professional or Entrepreneurial?

Key Result Areas	Professional Management	Entrepreneurship
Profit	Profit orientation; profit as an explicit goal	Profit as a by-product
Planning	Formal systematic planning: <ul style="list-style-type: none"> • Strategic Planning • Operational Planning • Contingency Planning 	Informal, ad hoc planning
Organization	Formal, explicit role descriptions that are mutually exclusive and exhaustive	Informal structure with overlapping and undefined responsibilities
Control	Formal, planned system of organizational control, including explicit objectives, targets, measures, evaluations, and awards	Partial, ad hoc control, seldom with formal measurement
Mgmt Development	Planned Mgmt. Development: <ul style="list-style-type: none"> • Identification of requirements • Design of Programs 	Ad hoc development, principally through on-the-job training

Professional or Entrepreneurial?

Key Result Areas	Professional Management	Entrepreneurship
Budgeting	Management by standards and variances	Budget not explicit; no follow-up on variances
Innovation	Orientation to incremental innovations; willingness to take calculated risks	Orientation toward major innovations; willingness to take major risks
Leadership	Consultative or Participative Styles	Styles varying from very directive to laissez-faire
Culture	Well-defined	Loosely defined, “family” –oriented culture

The Professional Management System



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The Tools of Professional Management

- Strategic Planning
- Organizational Structure
- Organizational Control and Performance Management Systems
- Management Leadership Development
- Effective Leadership
- Corporate Culture Management

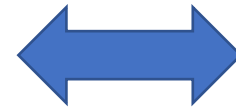


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Let's take a break

What is Strategy?



Assimilating, attaining,
and extending **best
practices**



Run the same race faster

Creating a **unique** and
sustainable
competitive position



Choose to run a different race



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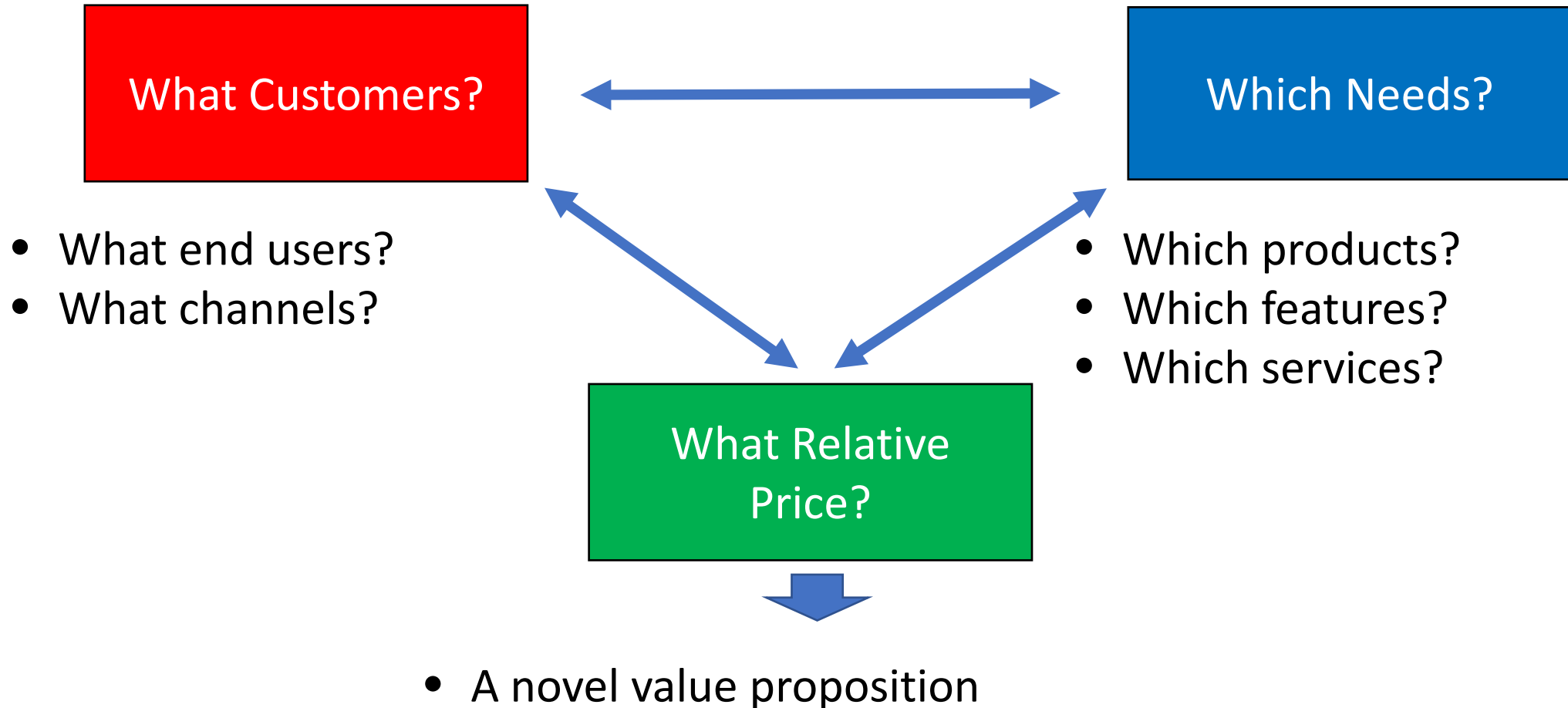
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What Does Good Strategy Look Like?

- A unique value proposition
- A different, tailored value chain
- Clear tradeoffs, and choosing what not to do
- Activities that fit together
- Sustain the Strategy



What Does Good Strategy Look Like?



Customer #1

- Defines value as a combination of price, convenience and quality with price being the dominant factor
- Less particular about what they buy than getting at the lowest possible price and with the least hassle
- They want high quality goods and services, but even more, they want them cheaply or easily or both.



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Customer #2

- Concerned with obtaining precisely what they need.
- Will sacrifice some price or delivery time if it helps them meet their unique requirements.
- The specific characteristics of the product or the way the service is delivered is far more important than any reasonable price premium or purchase inconvenience they might incur.
- They assign value to the product/service according to how closely it appears to designed just for them.



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Customer #3

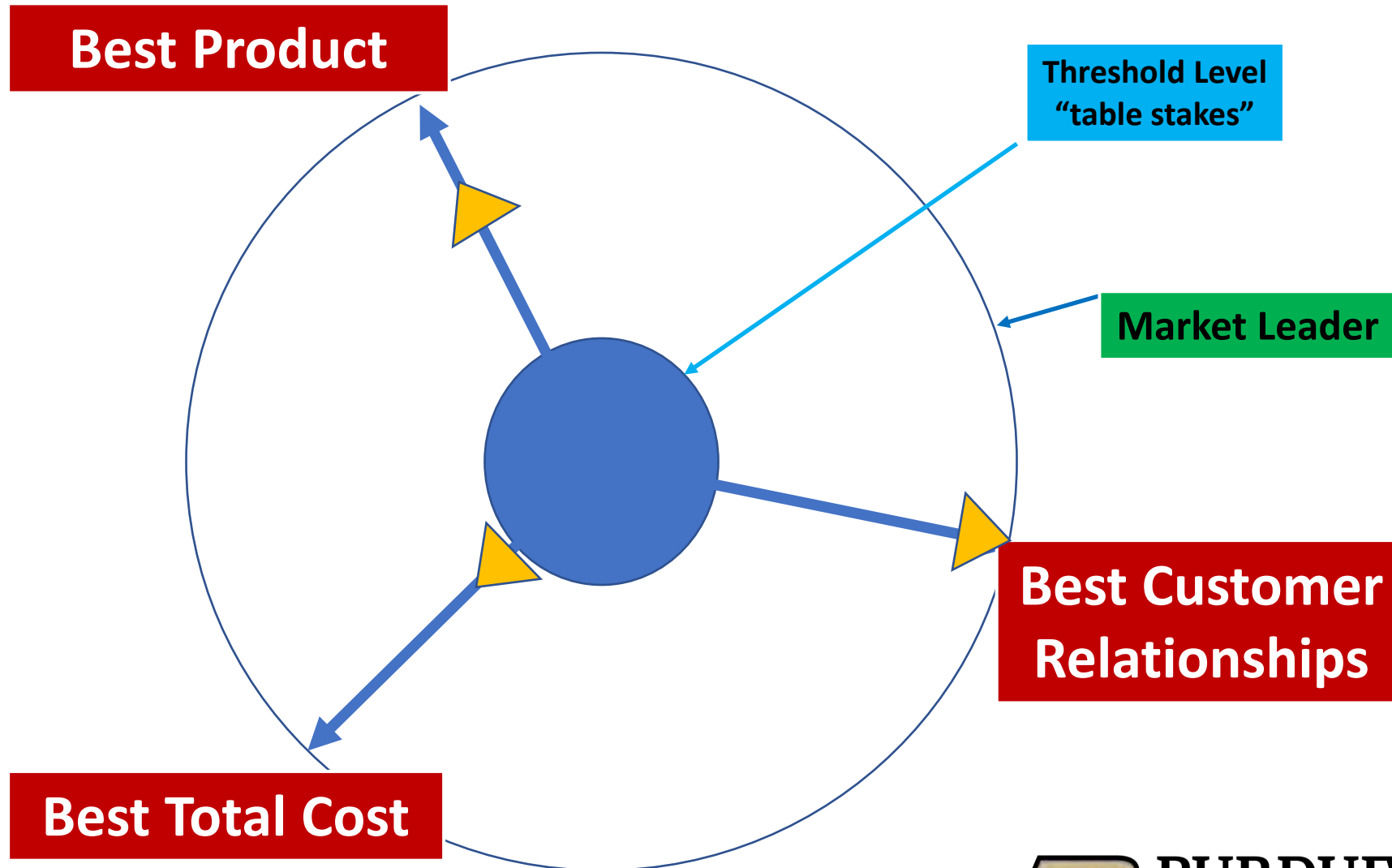
- New, different, and unusual products/services count most.
- Value state-of-the-art products because their own customers demand the latest technology from them.
- Want service providers that help them seize opportunities in their own markets.
- Willing to sacrifice price and convenience to be on the cutting edge.



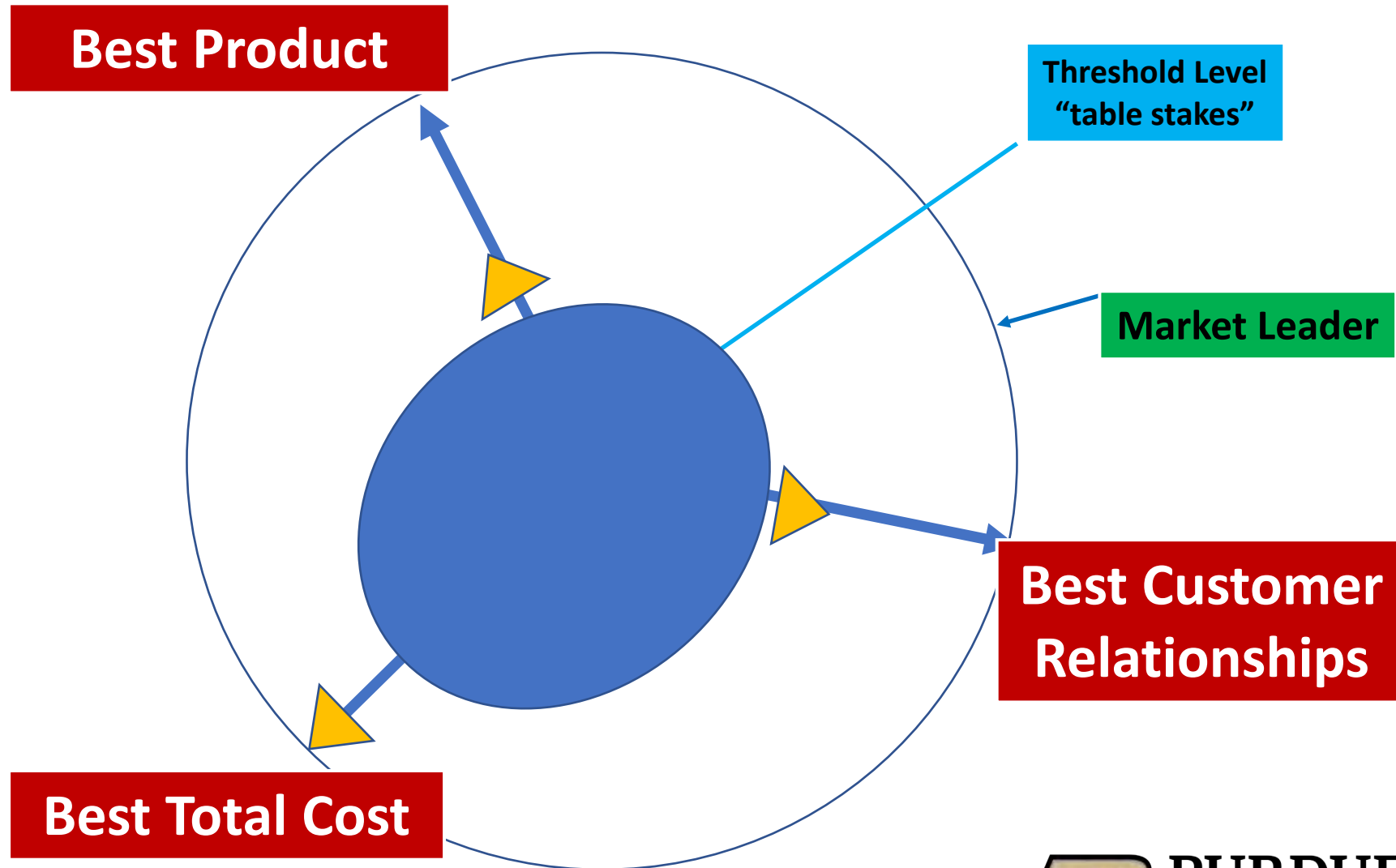
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What is your Market Discipline?



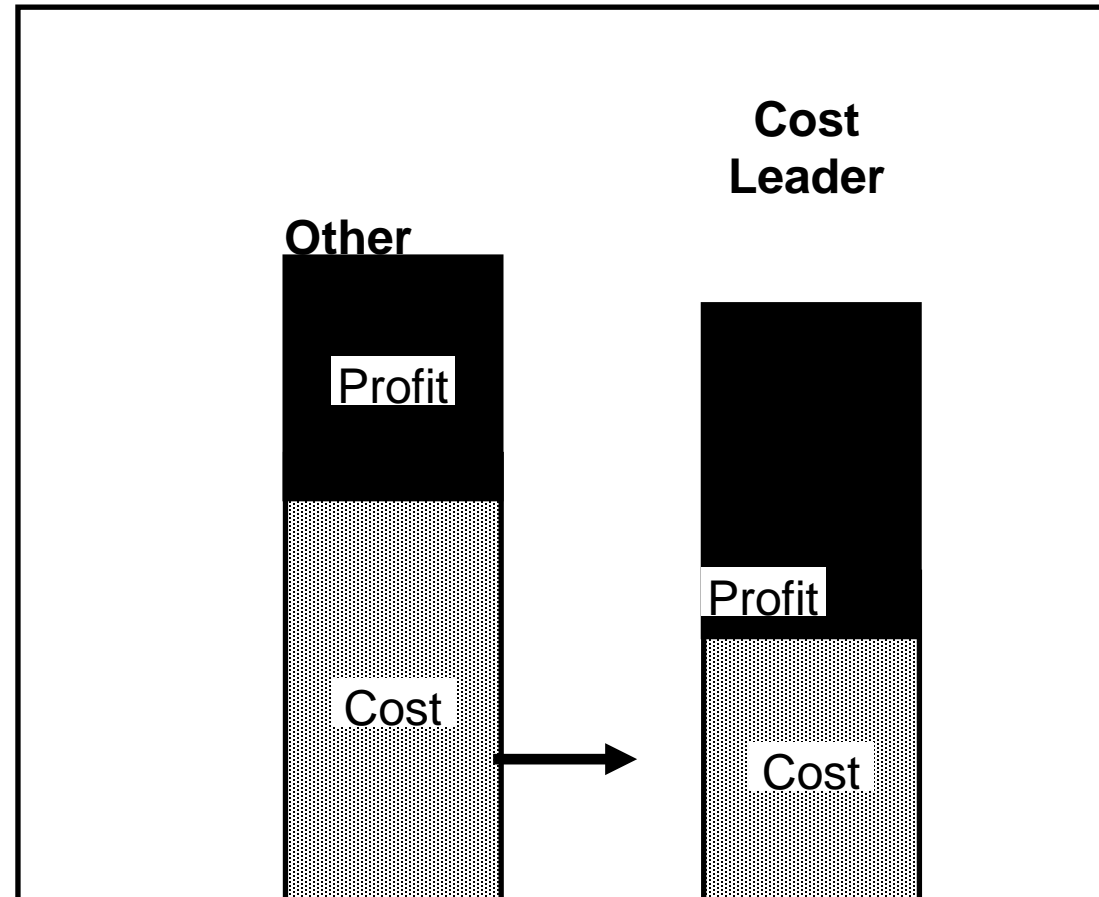
Is Agriculture More Like This?



Operational Excellence: Gain sustainable competitive advantage by becoming the industry's low cost producer

Operational Excellence

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



What about Agriculture?

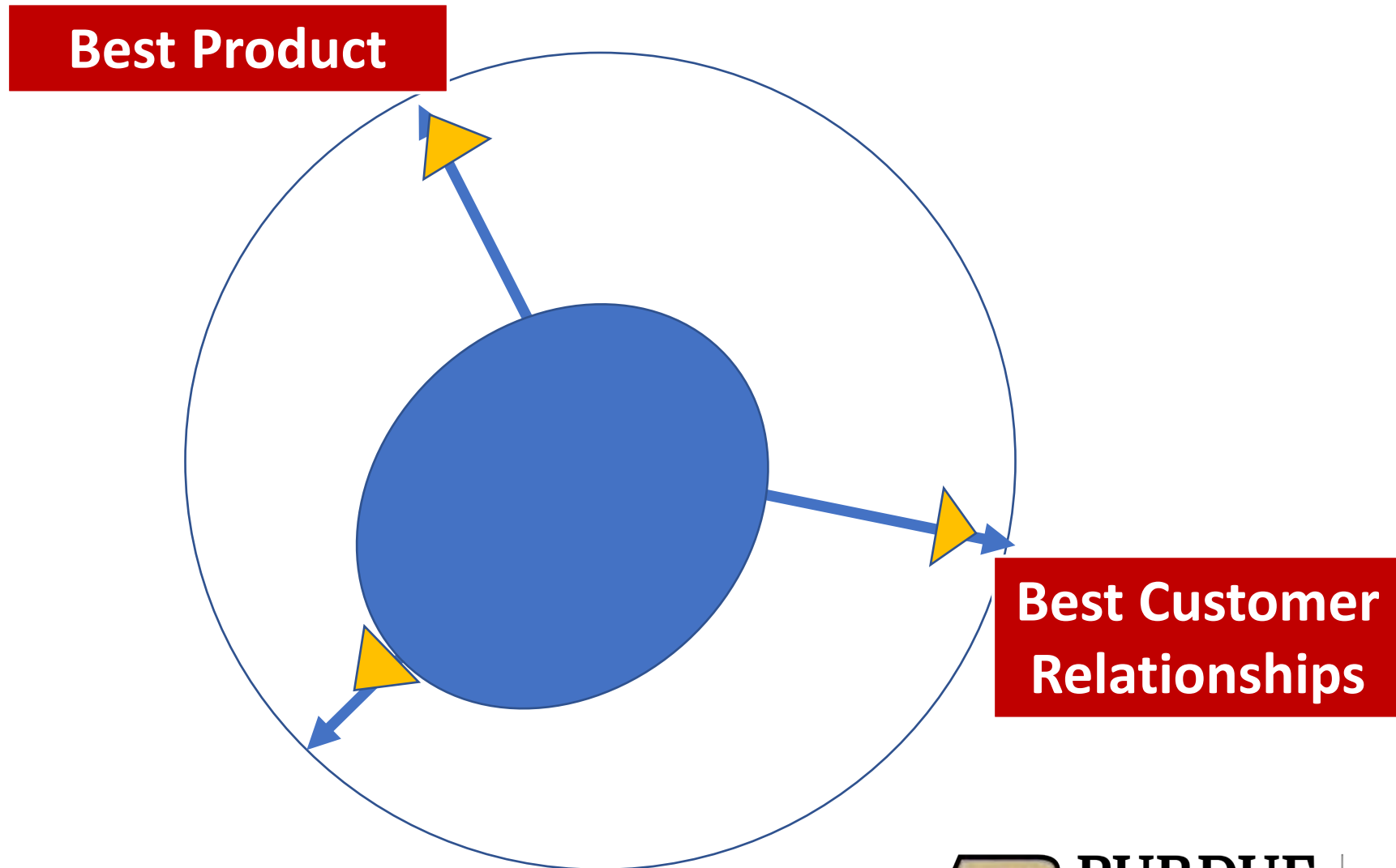
- What are the key capabilities needed to win with a cost leadership strategy?
- What are the risks of this strategy?



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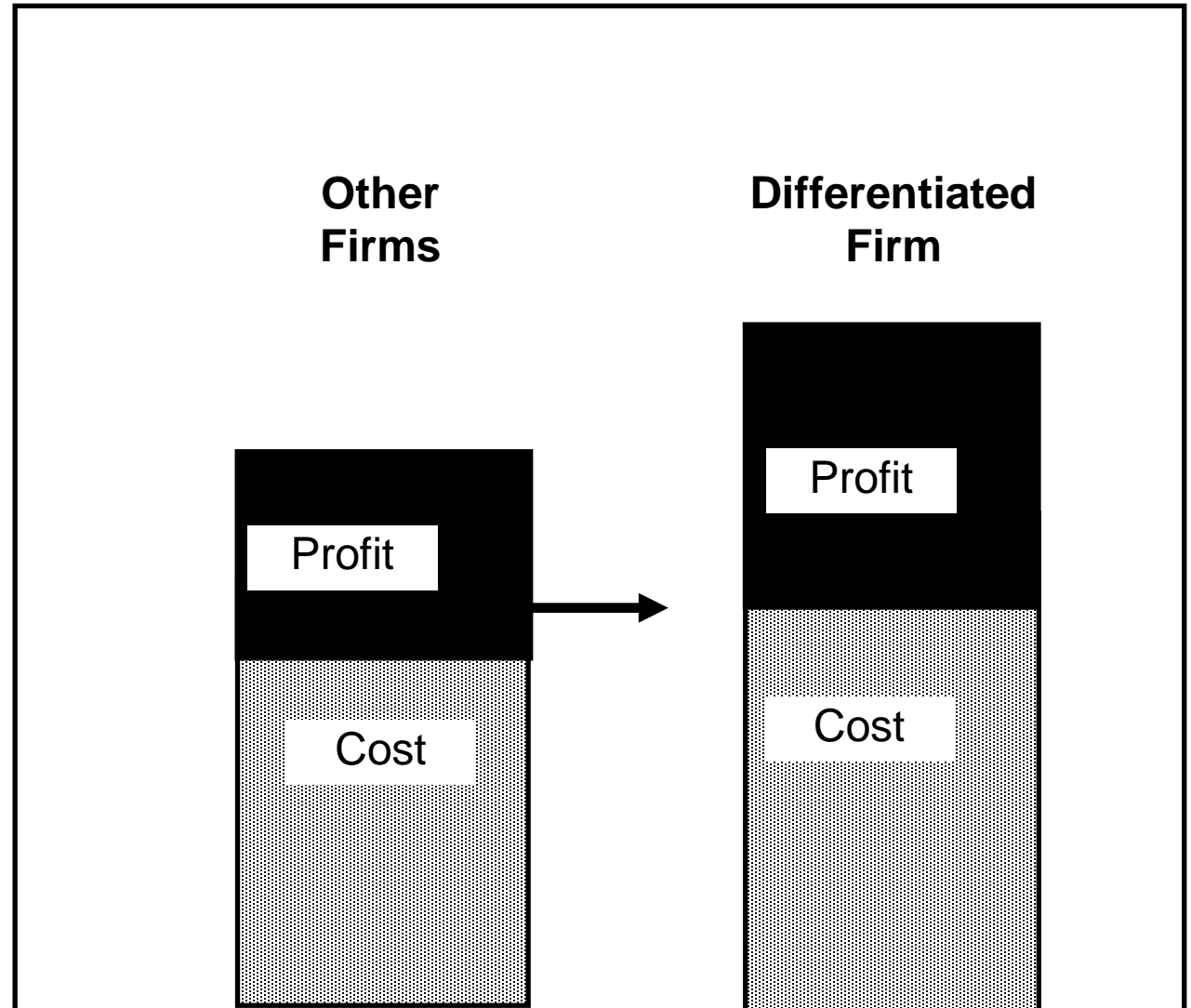
What about differentiation as a strategy?



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



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Differentiation Opportunities

TANGIBLE DIFFERENTIATION Observable Product Characteristics

- Size, color, materials, etc.
- Performance
- Packaging
- Complementary services

INTANGIBLE DIFFERENTIATION Unobservable and subjective characteristics relating to image, status, exclusivity, identity

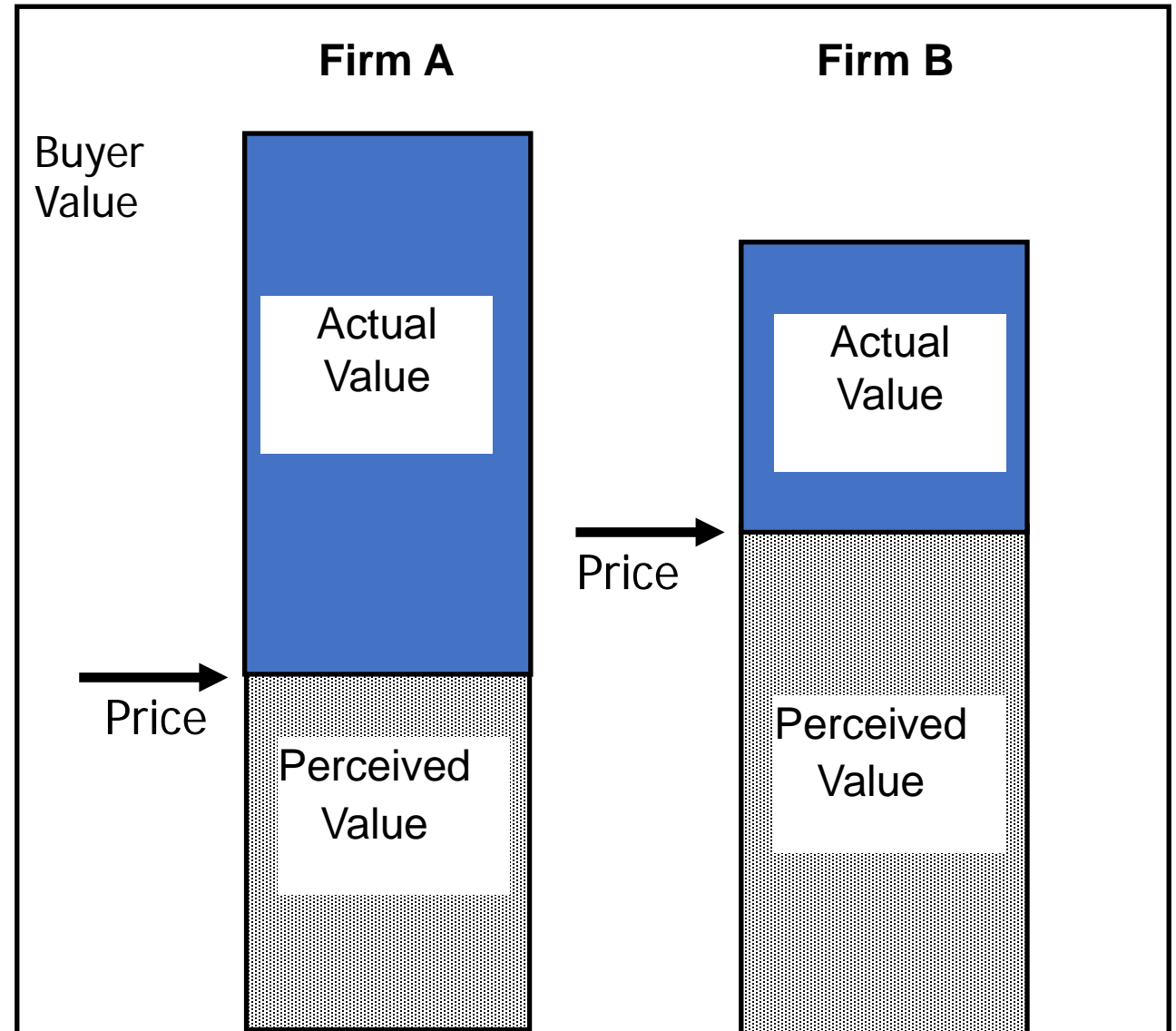
TOTAL CUSTOMER RESPONSIVENESS

Differentiation not just about the *product*, it embraces the total *relationship* between the supplier and the customer.

Realized Differentiation

Realized Differentiation is dependent on ability to:

- 1) deliver added value and
- 2) communicate added value



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A Point of Difference



Creating Difference

- Grape quality
- Wine maker
- Equipment
- Quality of people
- Unique products
- Price
- Location
- Facilities
- Unique services

Communicating Difference

- Advertising
- Sales team
- Customer list
- Physical facility
- Awards
- Reputation/image
- Newsletters
- Tastings
- Special events



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Differentiation

- What are the critical capabilities a farm needs to win with this strategy?
- What are the major risks in a differentiation strategy?



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Good Strategy Makes Tradeoffs

IKEA

Product

- Low-priced, modular, ready-to-assemble
- No customization
- Design driven by cost, simplicity and style

Value Chain

- Centralized, in-house design
- All styles displayed in stores
- Large on-site inventory
- Limited sales help but lots of customer info
- Long hours of operation

Typical Furniture Retailer

Product

- Higher priced, fully assembled
- Customization of fabrics, colors, finishes, etc
- Design driven by image, materials, varieties

Value Chain

- Outsourcing of some products
- Mid-sized showrooms with limited displays
- Limited inventories
- Extensive sales assistance
- Traditional retail hours



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Good Strategy Invests in the Capabilities and Activities Its Strategy Needs



What Does Good Strategy Look Like?

- Long-term Consistency of the Value Proposition
 - Creates clarity for the business, the customer, and the channel partners
 - Allows you to focus on building unique skills and assets to deliver the value proposition
- Continuous Improvement as Part of the Strategy
 - Focus is on improving ways to realize the value proposition
 - Sustaining the value proposition allows the learning and change needed for continuous improvement



Creating a **unique** and
sustainable competitive
position



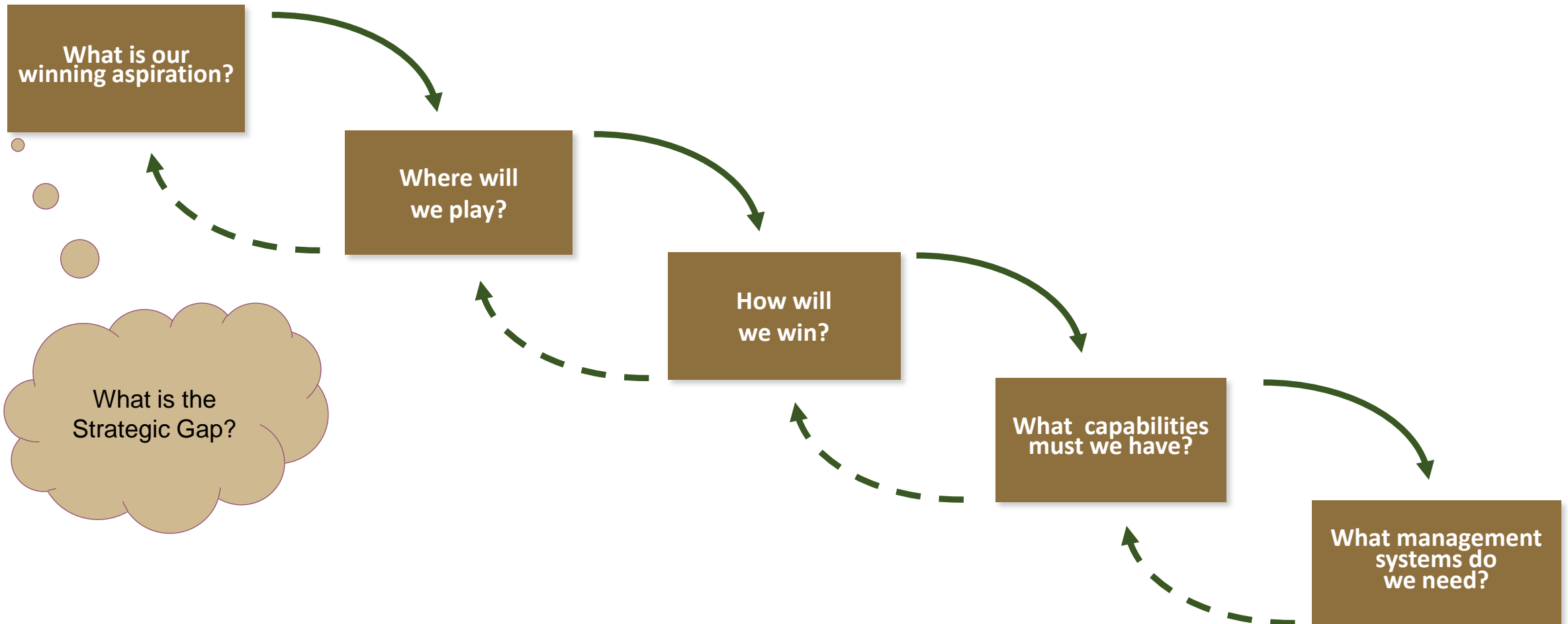
Assimilating, attaining,
and extending **best**
practices



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Strategy Is the Answer to Five Questions



The answers to the five questions address the three critical elements of a Strategy Statement

MISSION

Why we exist

VALUES

What we believe in
and how we will behave

VISION

What we want to be

STRATEGY

What our competitive
game plan will be

BALANCED SCORECARD

How we will monitor
and implement that plan

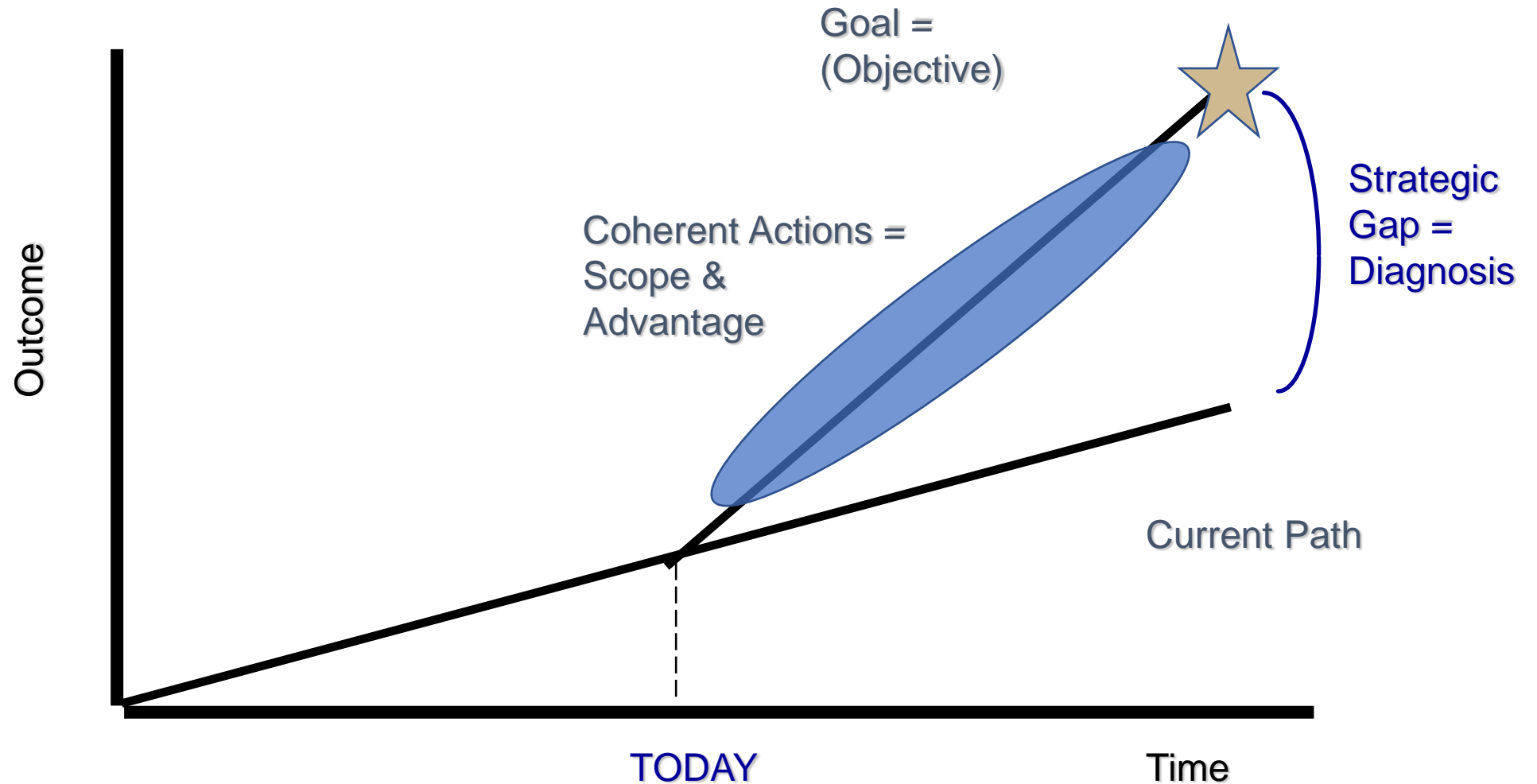
The BASIC ELEMENTS of a Strategy Statement

OBJECTIVE = Ends

SCOPE = Domain

ADVANTAGE = Means

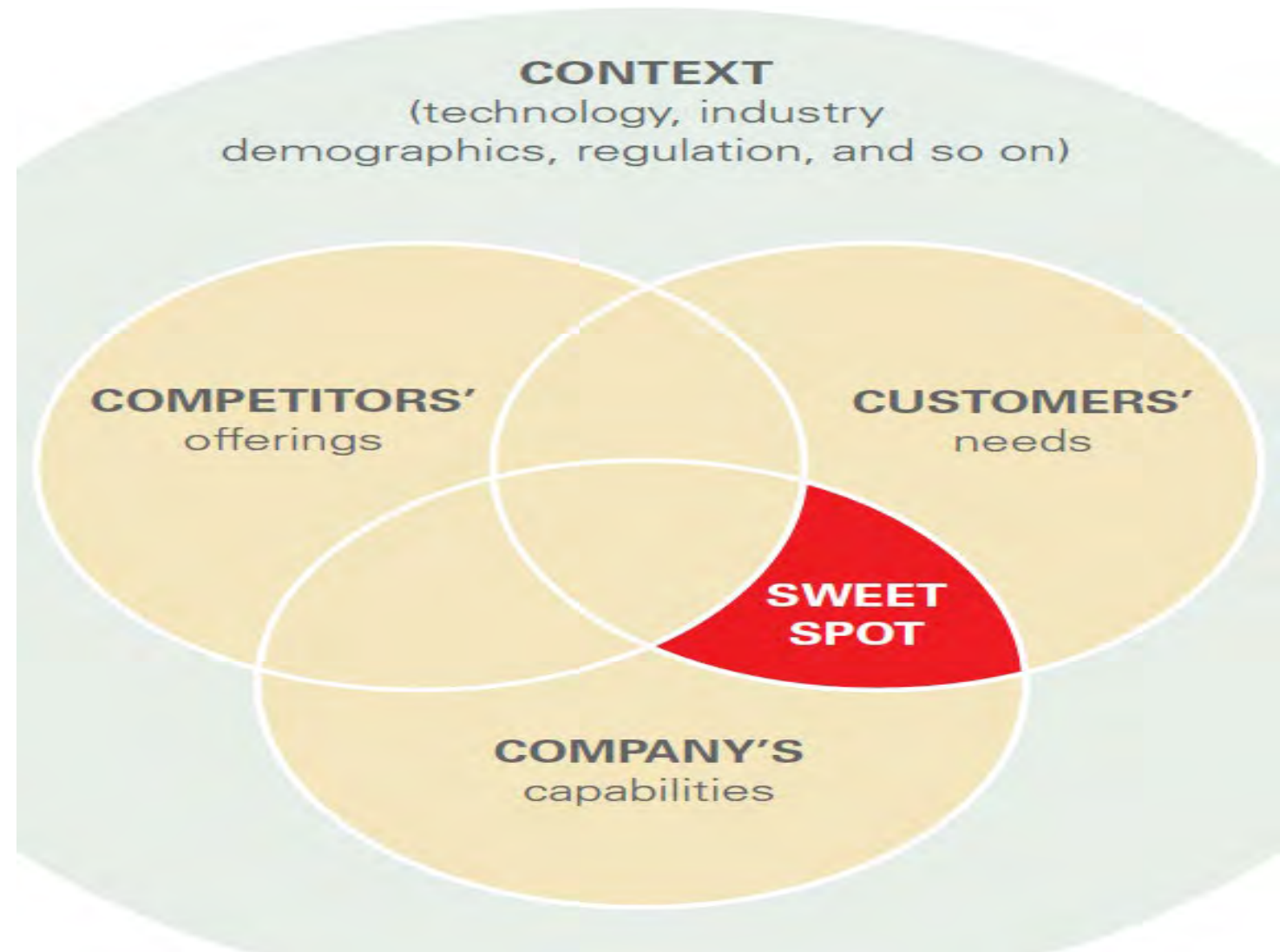
The Performance Gap



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But it is more challenging than we think...



Exercise

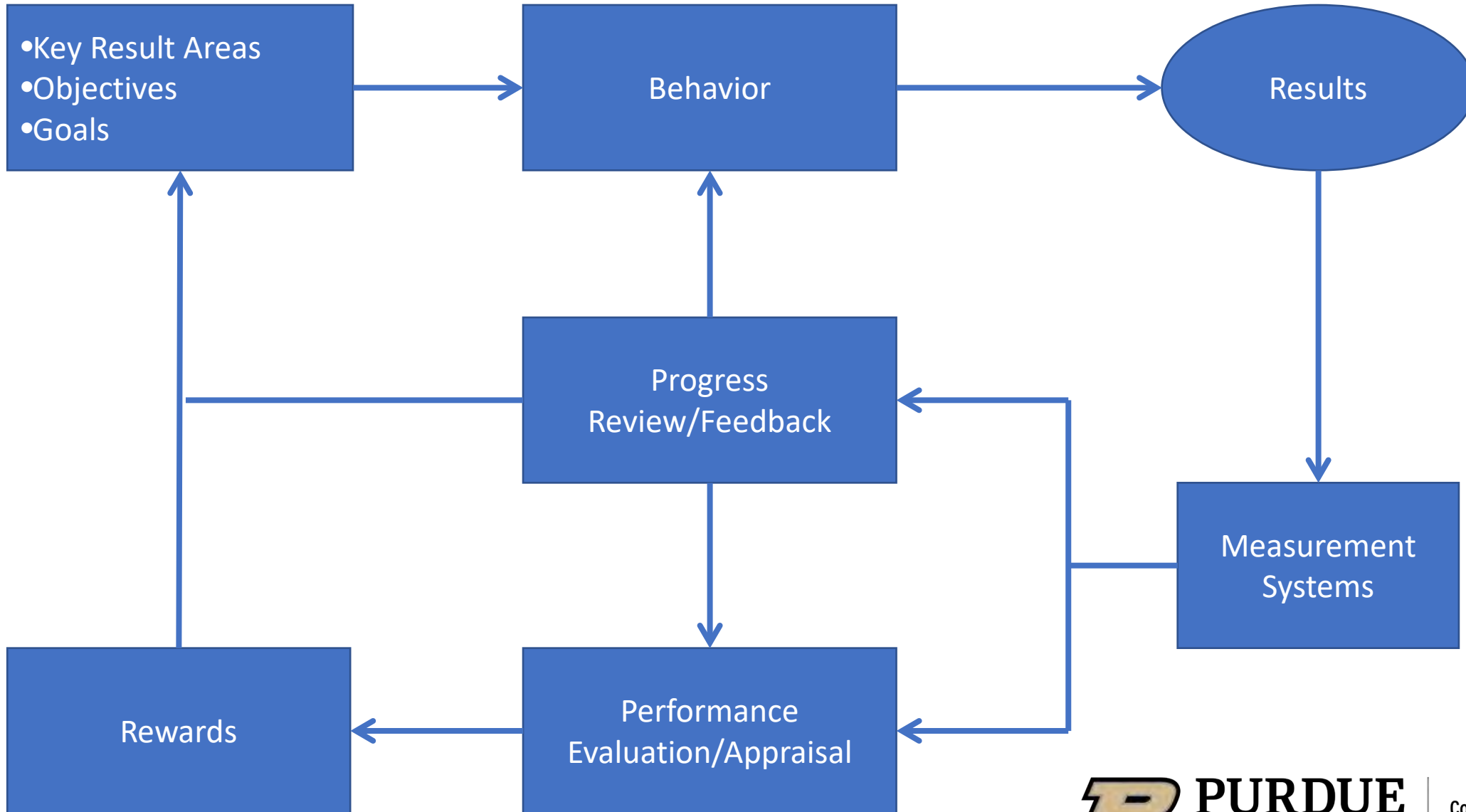
- What is your farm's competitive advantage?
- What market discipline best matches with your competitive advantage?
- What activities are critical to your success in this discipline?
- What critical skills, resources, and management systems do you need to execute this discipline well?

- Can you write a 35-word strategy statement that communicates your winning strategy?
 - Objective, Scope, and Advantage?

Let's take a break

Monitoring and Measuring Success

Performance Management System



Effective Control System

- Accurate identification of all key result areas
- Objectives within each KRA that reflect what is wanted over the long run
- Goals need to be specific, results-oriented, measurable and time-dated. Should be at least one for each objective
- A measurement system needs to be in place to measure every goal
- Feedback needs to be given on a regular basis
- Performance evaluations need to be conducted at the end of the planning period (usually a year)
- Rewards need to be provided, based on the level of goal achievement.

Key Result Areas

- Key factors on which achievement of the mission is based
- At the company level these are the organizational pyramid building blocks plus financial results.
- Categories of activities, not activities themselves
- One, two or three word descriptions
- Five to nine key result areas for the company, individual departments, and individual position-holders

Objectives

- Broad statements of what the organization wants to accomplish over the planning horizon (3 to 5 years)
- Should not change very frequently
- Examples
 - Improve employee turnover
 - Implement management development plan

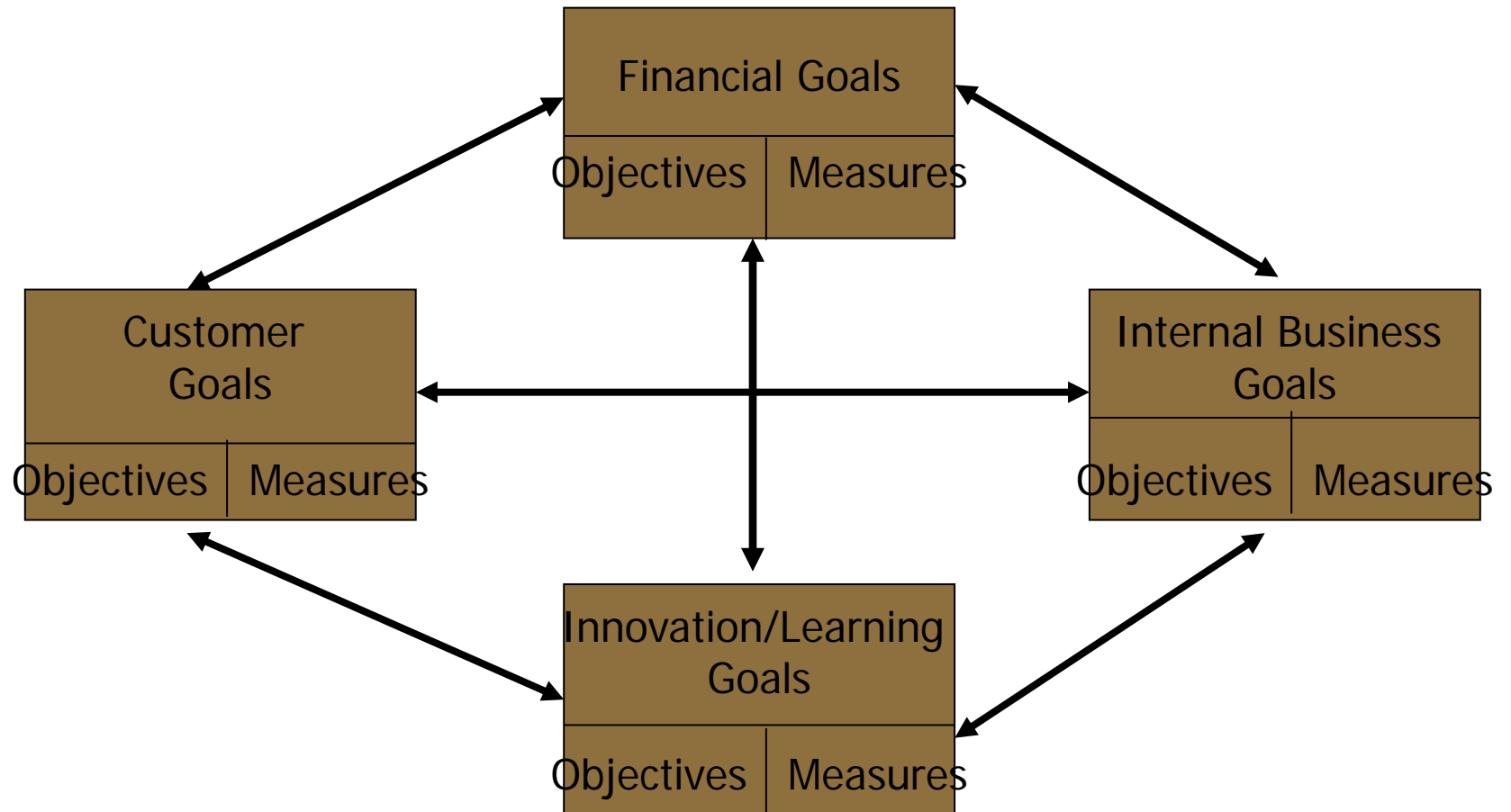
Goals

- Specific, measurable
- 12 to 18 month time frame
- Should state what performance ought to be to achieve the specific objective
- May change several times over a strategic plan
- Used to establish performance levels, motivate performance, and provide a benchmark for determining performance

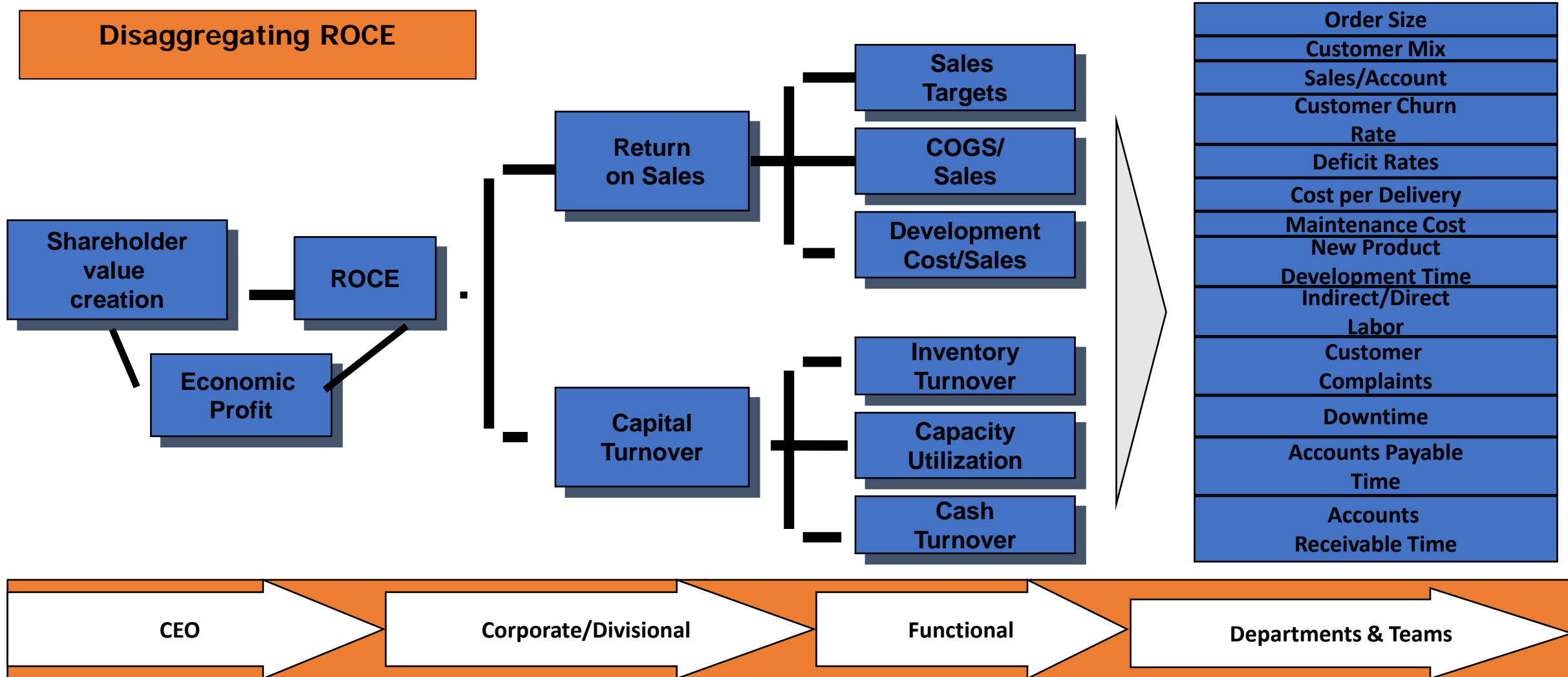
Measurement System

- Process of representing the properties or qualities of goals in numerical terms
- Plays both an information and process function
 - Information – financial and non-financial information (market share, production indices, product quality measures)
 - Process – “what gets measured gets done”
 - Should measure all major goals to ensure focus on all goals
- Should strive to identify **LEADING** indicators as well as Lagging indicators
 - Weight loss versus food intake
 - Milk production versus feed intake
 - Employee turnover versus employee engagement

Simple Balanced Scorecard



Connecting Financial Performance to Operational Performance



Feedback/Reporting System

- Design useful reports to provide results of measurements for management and others.
- Provides a scoreboard or dashboard to understand the level of performance against goals
- Should be shared regularly with the organization, department, or individual



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Performance Evaluation

- Occurs DURING and at the end of the planning period for the established goals
- Systematic process for providing information on how effective the organization, unit, or individual has been at achieving the goals
- Includes positive feedback and constructive criticism to reinforce and redirect behaviors



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Reward System

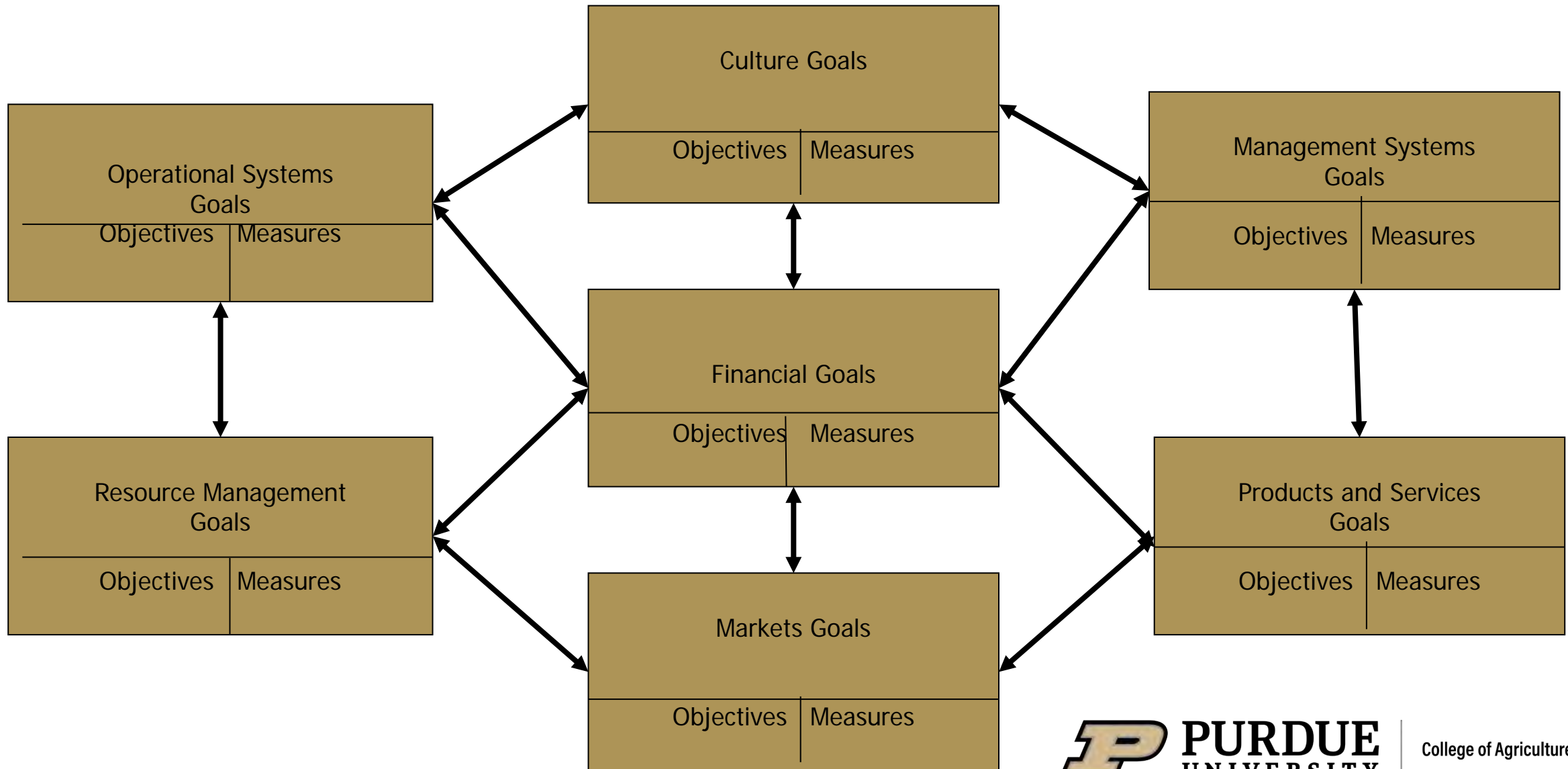
- Desirable outcomes of behavior required by business
- Designed to reinforce good performance
- Must be careful of “rewarding A while hoping for B”



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Developing the Whole Organization to Effectively Implement Strategy



Developing Specificity Leads to Clarity and Execution

Focus Areas	Key Results Areas	Objectives	Goals
Financial	Profitability	Increase Margins	<ol style="list-style-type: none"> 1. Achieve sales of higher margin products equal to at least 15% of total sales by Fall of 2018 2. Increase purchase discounts by 2% by Spring 2017.
Markets	Development	Identify new markets	<ol style="list-style-type: none"> 1. Identify 3 potential markets for higher valued products by Spring of 2017 2. Develop production plan for higher valued product by Fall of 2017
Products and Services	Innovation	Improve Access to leading Seed Technology	<ol style="list-style-type: none"> 1. Design a seed evaluation strategy by February of 2017. 2. Negotiate access with current and potential suppliers by Fall of 2017.
Resource Management	People	Improve Turnover	<ol style="list-style-type: none"> 1. Implement Employee Satisfaction Survey by December 2017.
Operational Systems	Grain Mktg. system	Implement “real time” positions	<ol style="list-style-type: none"> 1. Link costs per bushel to current marketing positions by July 2017,.
Management Systems	Mgmt. Capacity	Develop new Managers	<ol style="list-style-type: none"> 1. Create projects for younger managers to implement and manage by March 2017.
Culture	Alignment	Define Desired Culture	<ol style="list-style-type: none"> 1. Have leadership team meeting to develop values statements for the business in February 2017.

Pyramid of Organizational Development



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Organizational Structure

Does the Organizational Structure Matter?

- Why?
- What ways can it impact company performance?
- How did you get to the structure your company currently has?
- Is your current structure the right structure for your strategy? How do you know?



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Nature of Organizational Structure

- Not just people on a chart
- A patterned arrangement of specified roles to be performed by people
- Purposefully designed by the management to help the organization achieve its mission, objectives, and goals.
- Form follows function



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Roles

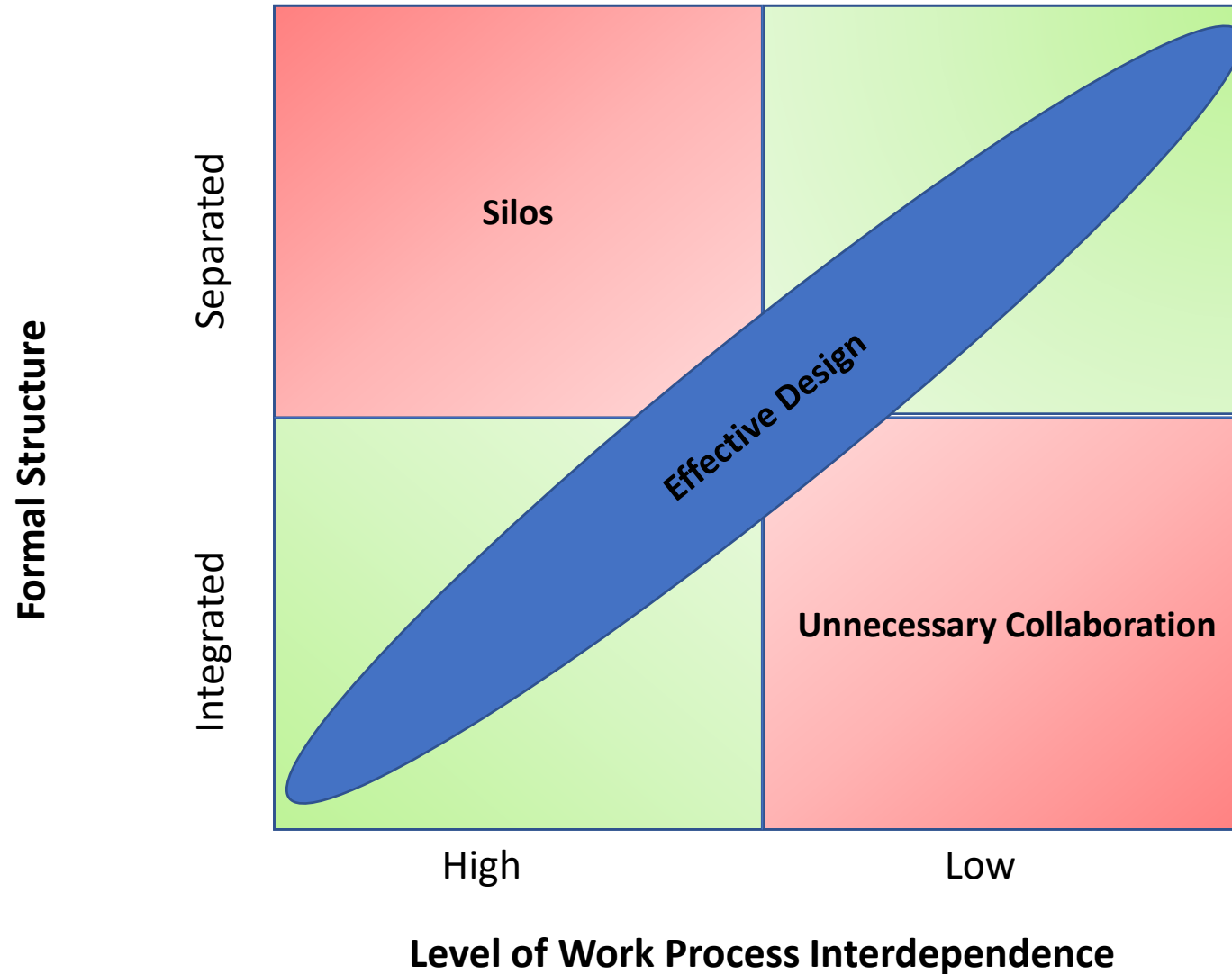
- Group of responsibilities that an incumbent is expected to perform
- Should provide a unique contribution to the achievement of the organization's goals.
- Effective role descriptions will:
 - Identify who is responsible for what
 - Minimize duplication of effort
 - Reduce the possibility of things “falling through the cracks”



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Creating Alignment between Process and Structure



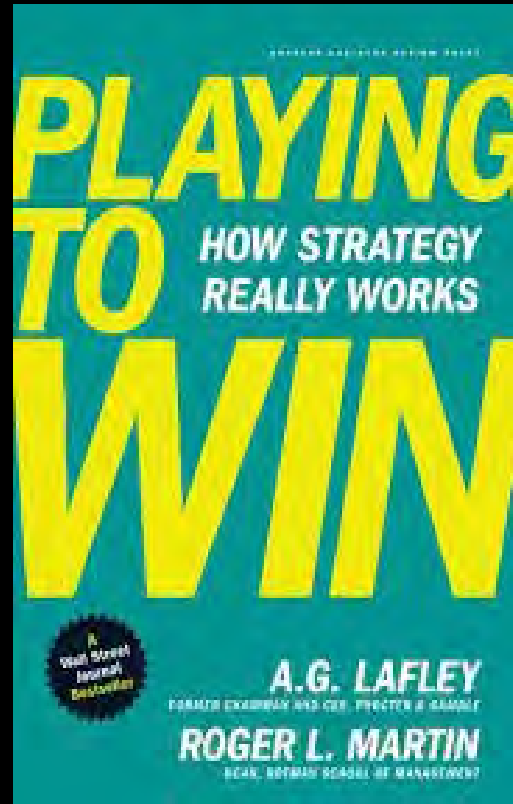
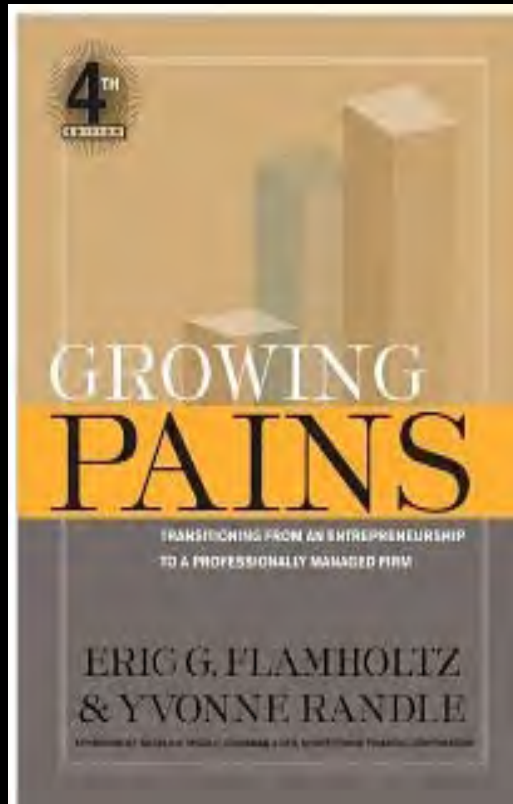
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Criteria for Evaluating and Designing Organizational Structure

- How well does the current structure support the strategy?
- Does each function add value or do we need new functions to better support our goals?
- To what extent do individual roles support achievement of the goals?
- Are reporting relationships clearly defined?
- Is authority appropriately distributed to allow each individual to be effective in achieving goals?
- What is the appropriate span of control and number of levels within the company?
- Do the skills of the individuals meet the needs of the role?
- Do interdependent departments effectively coordinate with each other?

Recommended Reading



THANK YOU