



# What is Strategy?

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## **Farm Credit West 2011 Young Farmer/Rancher Executive Institute Class 12, Session 1**

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# What is Strategy?

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- Intuitively, We All Understand Strategy
  - we could not cross the street without strategy
- Strategy Deals with Life or Death Issues
- Strategy Directs Daily Decision Making
- Strategy is Key to the Success of Business
- Strategy Benefits Business and Customers
- Reality Dictates Strategy, Not Vice Versa
  - analysis comes first, then develop strategies
  - strategy is pro-active, forward-looking, long-term



## Lack of Understanding of Reality

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- Tendency to Call Everything “Strategy”
  - a common mistake
- everything is not “strategy”
- A Goal is Not a Strategy
- A Desire is Not a Strategy
- A Vision Statement is Not a Strategy
- Analysis is Not a Strategy
- A Budget is Not a Strategy
- A Business Plan is Not a Strategy
- Short-term Action is Not a Strategy



## Strategy As a Map

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- An Understanding of Where You Are Now and Where You Want to Be in the Future
- Knowing How to Get From Here to There
  - a very risky journey
  - journey more important than the goal
- Many Different Routes are Possible
  - conditions change en route
- There Will be Roadblocks and Detours
  - anticipating new direction is necessary
  - alternate routes are necessary



# Strategy Defines the Right Path

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- Seeking Unique Strategic Position
  - strategy has to take us there
- Determine and Allocate Available Resources
  - money, time, talent, operations
  - what can we do with what we have?
- Path Consistent with Values and Incentives
  - importance of commitment to strategies
- Strategic Ideas Come Anywhere, Any Time
  - good strategy responds to change; flexible
- Strategy Shapes and Defines Business



# Strategy Serves Different Purposes

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- Strategies Change Over Time
  - map must suit our needs, capabilities, and goals
- Strategies Change with Reality
  - map must be kept accurate and up-to-date
- Different Types of Strategies (Must Contribute to Success)
  - administrative (planning, organizing, finance)
  - operations and design
  - communications
  - competition and markets
  - start-up, growth, transformational, or turn-around



# Strategic Management

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- Management Itself is a Strategy
  - goal to ensure success of business activity
- Formulate, Implement, Evaluate, Revise Strategies
  - Pull All Strategies Together and Co-ordinate
- Ensure Short-Term Activities at All Levels Advance Long-Term Strategies and Goals
- Master the Art of Planning
  - mechanics and tools of strategy



# Guidelines for Strategic Management

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- Be Practical
  - information is imperfect; never enough
  - assumptions must be reasonable, well-defined, and part of analysis
- Justify and Support Decisions and Conclusions
  - no single right answer ever exists
  - lots of ways to do things
  - use analysis and intuition
  - support decisions with factual data and references
  - address contrary arguments and information





# Guidelines for Strategic Management

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- Be Realistic

- do not exceed resources, capabilities
- present major advantages and disadvantages of strategies; address all significant risks
- explore feasible alternative scenarios

- Be Specific

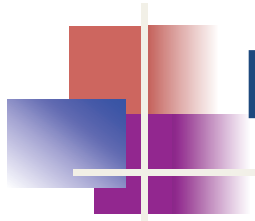
- avoid broad generalizations, unsupported assumptions, jargon, group think, clichés
- never assume your view is self-evident
- back up everything with facts; be fact-driven



# Guidelines for Strategic Management

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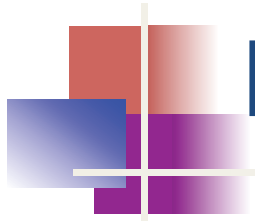
- Be Original
  - critical thinking and creativity are key
  - think things through; compare and contrast ideas
  - find ways to improve existing plans and new ways of doing things
  - consider all relevant facts and information
  - generate feasible alternate strategies
- Ensure Outside Contributions
  - work in a team, not alone, and listen carefully
  - open to ideas of others; let everyone contribute



# Planning Goes Against Our Nature

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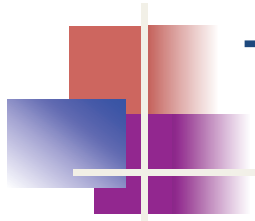
- We are Generally Bad at Planning
  - Organizations are Worse
- Short-Term Thinking and Economic Behavior
  - Plan for Long-Term
  - Extrapolating Short-Term; Dangerous Practice
- We are Risk Averse
  - Prefer Reward to Loss
  - Planning Forces Us to Anticipate Risk of Failure
- Strategy is Counterintuitive
  - Plans are Useless; Planning is Essential



# Planning Costs

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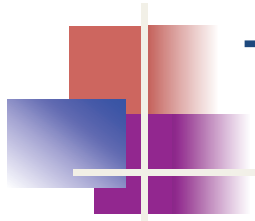
- Planning is Expensive
  - The Real Value is in the Process
  - Quick Obsolescence
    - Why Bother?
- Not Planning is More Expensive
  - Opportunity Costs Hard to Measure
    - Still Very Real
  - Near Certainty of Not Maximizing Profit
  - Increased Probability of Failure



# The Business Planning Process

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- We need a systematic method to organize information and data into a formal plan
- Planning improves our understanding of business on all levels
- Success generally measured in terms of profitability.



# The Business Planning Process

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- Plan serves important purposes:
  - attract additional financing (equity and debt)
  - need to make compelling business case in manner that will be understood by others
  - needs to be user-friendly
  - a common format and methodology are expected
  - some require a particular format (ie, USDA, financial institutions)



## Business Planning is a Dynamic Process

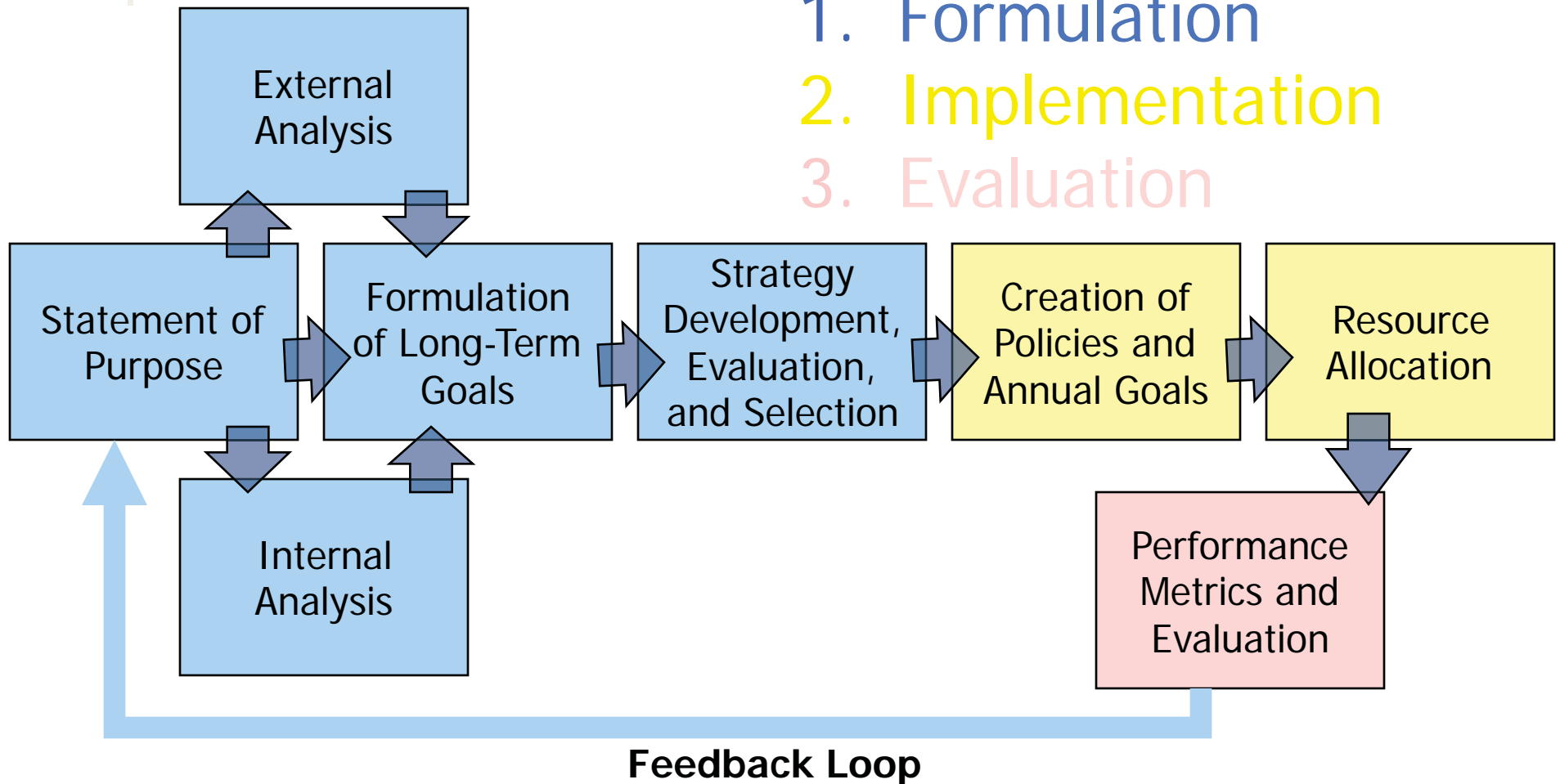
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- Information, data, and material used to prepare the plan are constantly changing.
- Plan and process must be continually improved and reinvigorated.
- Internal and external needs change.
- A feedback loop must exist to keep the plan modified and up-to-date.
- Plans are useless; planning, essential.



# The Business Planning Process

1. Formulation
2. Implementation
3. Evaluation







# Three Stages: Formulate, Implement, Evaluate

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- **Formulate**

- Develop Statement of Purpose
- External and Internal Analyses
- Develop, Evaluate, and Select Strategies
- Strategies Must be Products of the SWOT Analysis and not Add-ons
- Strategies Must Address Factors and How They Will be Profitable

- **Implement**

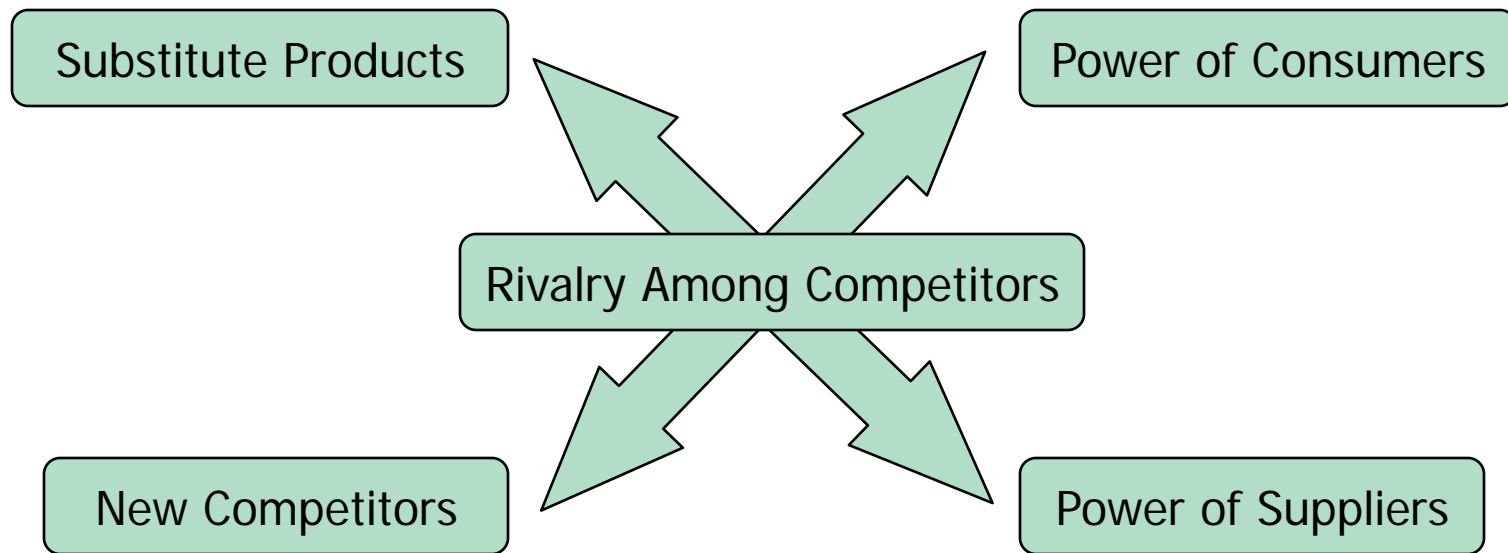
- Create Policies and Goals
- Allocate Resources

- **Evaluate**

- Performance Metrics
- Feedback Information into Ongoing Strategic Process
- Planners Never Rest

# Porter's Five Forces Model

Competitiveness is Composed of Five Forces



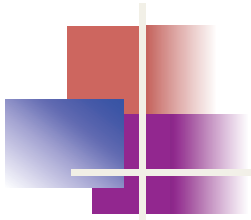


# Porter's Five Forces Model

Competitiveness is Composed of Five Forces

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- Rivalry Among Competitors
- Potential Entry of New Competitors
- Potential Development of Substitute Products and Services
- Bargaining Power of Suppliers
- Bargaining Power of Consumers



- Farming looks mighty easy when your plow is a pencil and you're a thousand miles from the corn field.
  - Dwight David Eisenhower