

What is Strategy?

AGB 450

Agribusiness Strategy Formulation

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The entire realm of strategy is pervaded by a paradoxical logic of its own... Strategy is not a sentimental trade.

– Edward N. Luttw

In preparing for battle I have always found that plans are useless, but planning is indispensable.

– Dwight David Eisenhower

Planning is Execution of Strategy

- Success Generally Measured in Terms of Profitability
- Systematic Method to Organize Information and Data into a Formal Plan
- Improves Understanding of Business on All Levels
- Poor Execution Kills Good Strategies
- Good Execution Without Strategy Does Not Work

Planning Goes Against Our Nature

- We are Generally Bad at Planning
 - organizations are worse
- We are Risk Averse
 - prefer reward to loss
 - planning forces us to anticipate failure
- Linear Thinking and Short-Term Beha
 - plan for long-term
 - extrapolating short-term; dangerous practice
- Strategy is Counterintuitive
 - plans are useless; planning is essential

Planning Costs

- Planning is Expensive
 - real value is in the process
 - quick obsolescence
 - why bother?
- Not Planning is More Expensive
 - opportunity costs real but hard to measure
 - near certainty of not maximizing profit
 - increased probability of failure

Planning: a Dynamic Process

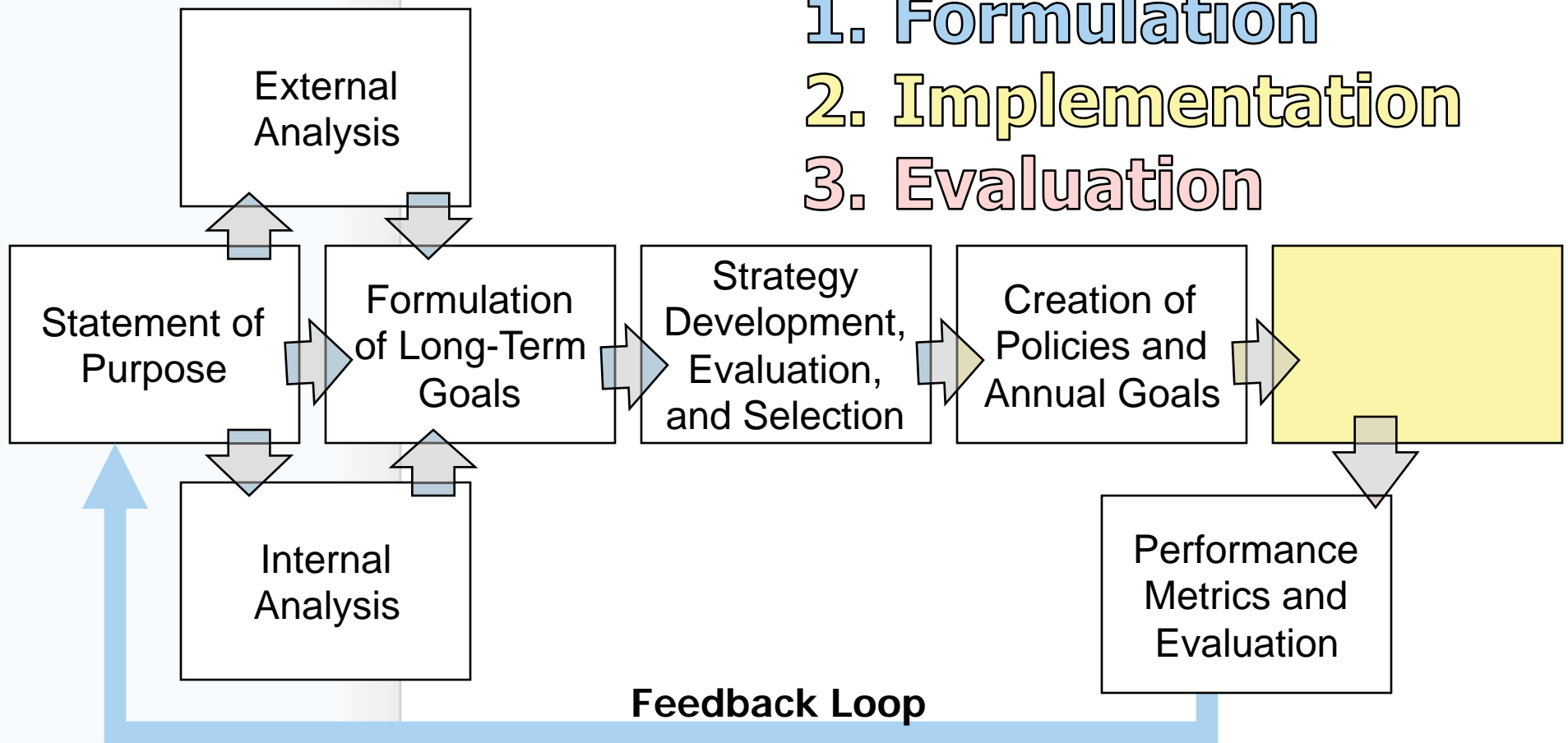
- Strategy is a Long Term Process
- Information, Data, and Material are Constantly Changing
- Process and Practice Must Continually be Improved and Reinvigorated
- Internal and External Needs Change
- Feedback Loop Must Exist to Keep Plan Modified and Up-to-Date
- Plans are Useless; Planning is Essential

The Business Planning Process

- Plan Serves Important Purposes:
 - attract additional financing (equity and debt)
 - need to make compelling business case for managers, employees, and investors
 - needs to be user-friendly
 - a common format and methodology are expected

The Business Planning Process

1. Formulation
2. Implementation
3. Evaluation



Dimensions of Strategic Thinking

- Starting Point: How to Create Value
 - value must be unique
- Trying to “Be the Best” Doesn’t Work
 - impossible task
 - waste of resources
 - cannot please everybody all the time
 - cannot win that game
- Stand Out; Don’t be the Same as Everyone Else

What Strategy is Not

- Hopes or Goals
 - “be the best,” “be #1,” “to grow,” “to succeed”
- Vision or Mission or Values
 - “ethical treatment of customers,” “leading company,” “to serve mankind”
- Series of Actions
 - “Step 1,” “Phase A,” “Action Plan B”

What is Strategy?

- Essential Task of Management
- Describes the Position We Hold or W Hold in the Industry
- Defines the Approach the Firm Takes to Succeed
- Describes the Advantages We Possess or Create that Make it Possible for Us to Win

Strategy is the “How?”

- Answers the Question, “How do We Our Goals?”
- Yields Very Specific and Concrete Solutions to Problems
- Requires Us to Make Decisions and Implement Them

Describe. Analyze. Act. Repeat.

- 1) Describe the Situation or Problem
 - starts the process; not the end
- 2) Analyze Relevant Information
 - steps 1 and 2 begin understanding
- 3) Act on the Understanding
 - should not act without understanding
- 4) Back to Step 1; Repeat *ad infinitum*
 - hakuna matata

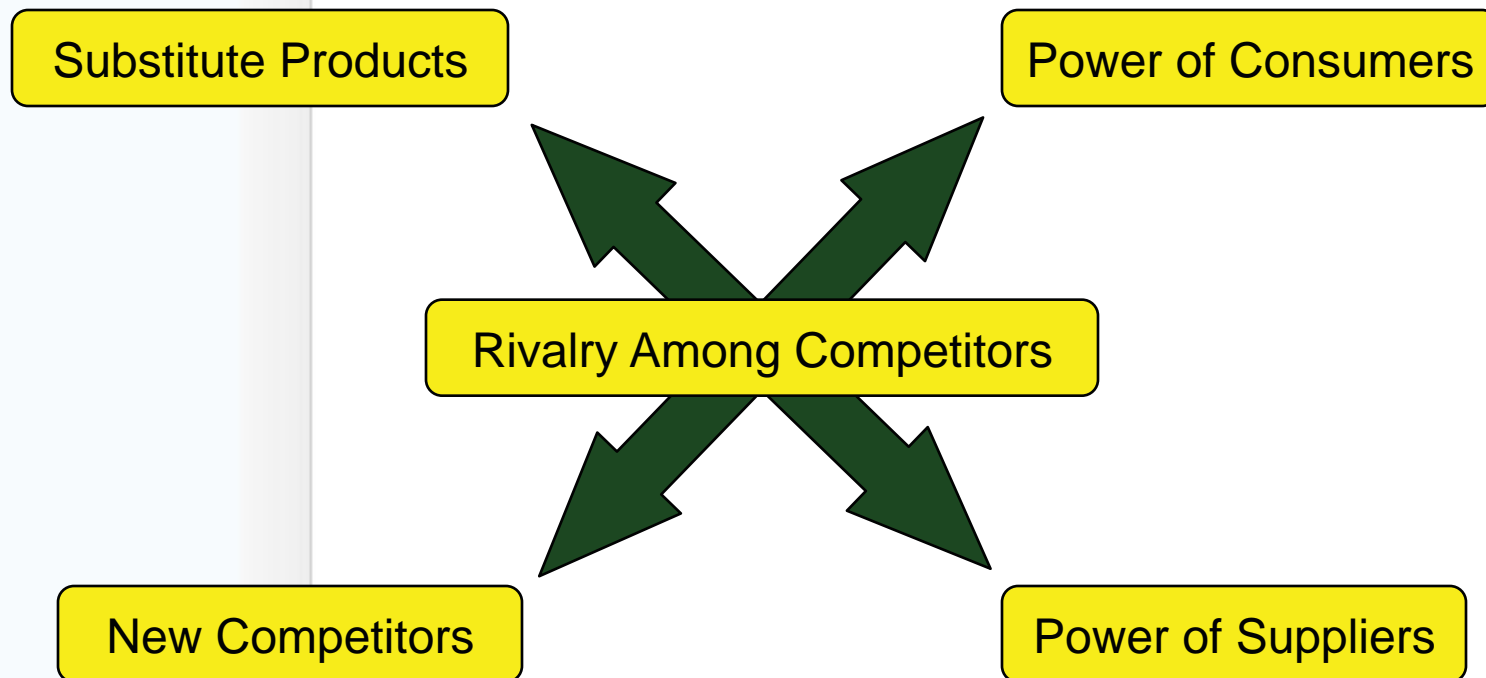
Structure and Position

- Two Main Factors Drive Strategy
 - 1) structure of industry (industry analysis)
 - 2) position within industry (position analysis)
- Structure Concerns How Company Competes
- Position Concerns How Company Stands Out
- Company Must Focus on Both
 - factors determine economic performance

Industry Analysis: Five Forces

- Strategy Attempts to Change Structure
- No Strategy Without Industry Analysis
- The Five Forces Define:
 - characteristics of industry structure
 - competitiveness within industry
 - profitability of companies in industry
- Each Structure Requires Own Strategy
 - some businesses are in different industries

Porter's Five Forces



Five Forces Common to All Industries

- 1) Nature of Rivalry Between Competitors
 - nasty and brutish (price)
 - less nasty and brutish (features or quality)
- 2) Power of Customers to Drive Down Prices
- 3) Power of Suppliers to Drive Up Prices
- 4) Existence of Substitute (or Complementary) Products
- 5) Nature of Barriers to Entry to Competition
 - costly or inexpensive?

Unhealthy Competition

- Winners and Losers
 - compete on same dimensions; copying each other
 - zero sum game
- Tends to Undermine Industry Structure
 - losers drop out
 - industry homogenizes
 - revenues stagnant or fall; profits disappear
- Typical of Industries Under No Growth
 - shrinking market

Healthy Competition

- Many Firms Can Win
 - compete on strategy
- Tends to Expand Industry Structure
 - many firms succeed
 - industry diversifies
 - revenues increase; profits improve
- Typical of Healthy Growing Industries
 - competition increases size of market

Levels of Strategy

- Business Strategy (aka Competitive)
 - how to compete in each business or industry
- Corporate Strategy (aka Group)
 - company operates many businesses
 - how to integrate different business strategies

Porter's Generic Strategies

- Competitive Advantage Allows Company to Outperform Competitors
 - industry leaders possess competitive advantage
- Define Company's Competitive Advantage
 - position company within industry
- Competitive Advantage Achieved Two Ways
 1. lower relative cost approach (lower price)
 2. differentiation (higher relative price)
- Decide: Do One or the Other

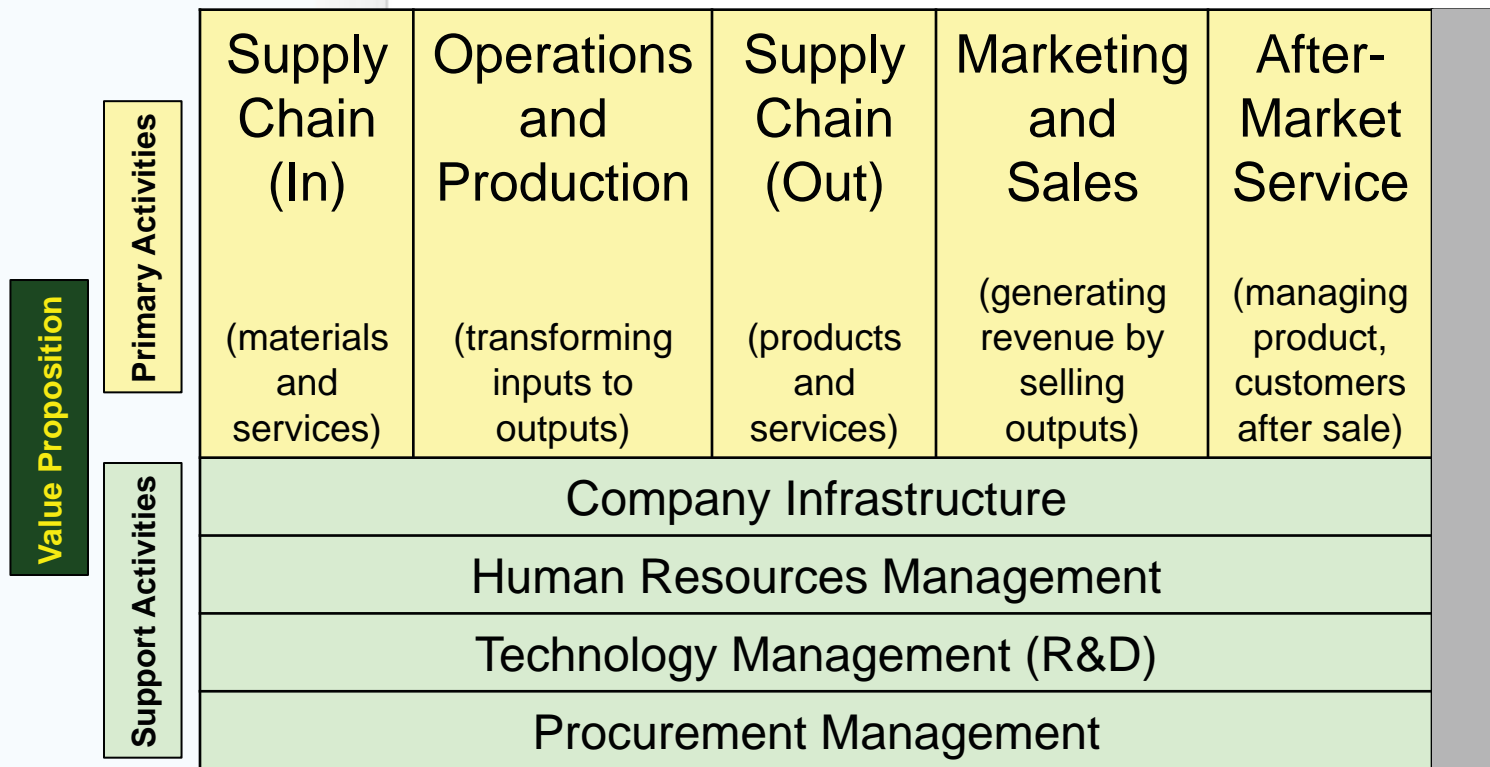
The Value Chain

- Makes Competitive Advantage Possible
- Value Chain is Complex Set of Activities That
 - allows company to compete
 - delivers value to customer
 - defines the company
 - must be done well
- Different Companies in Industry Will Have Different Value Chains
 - strategic differences

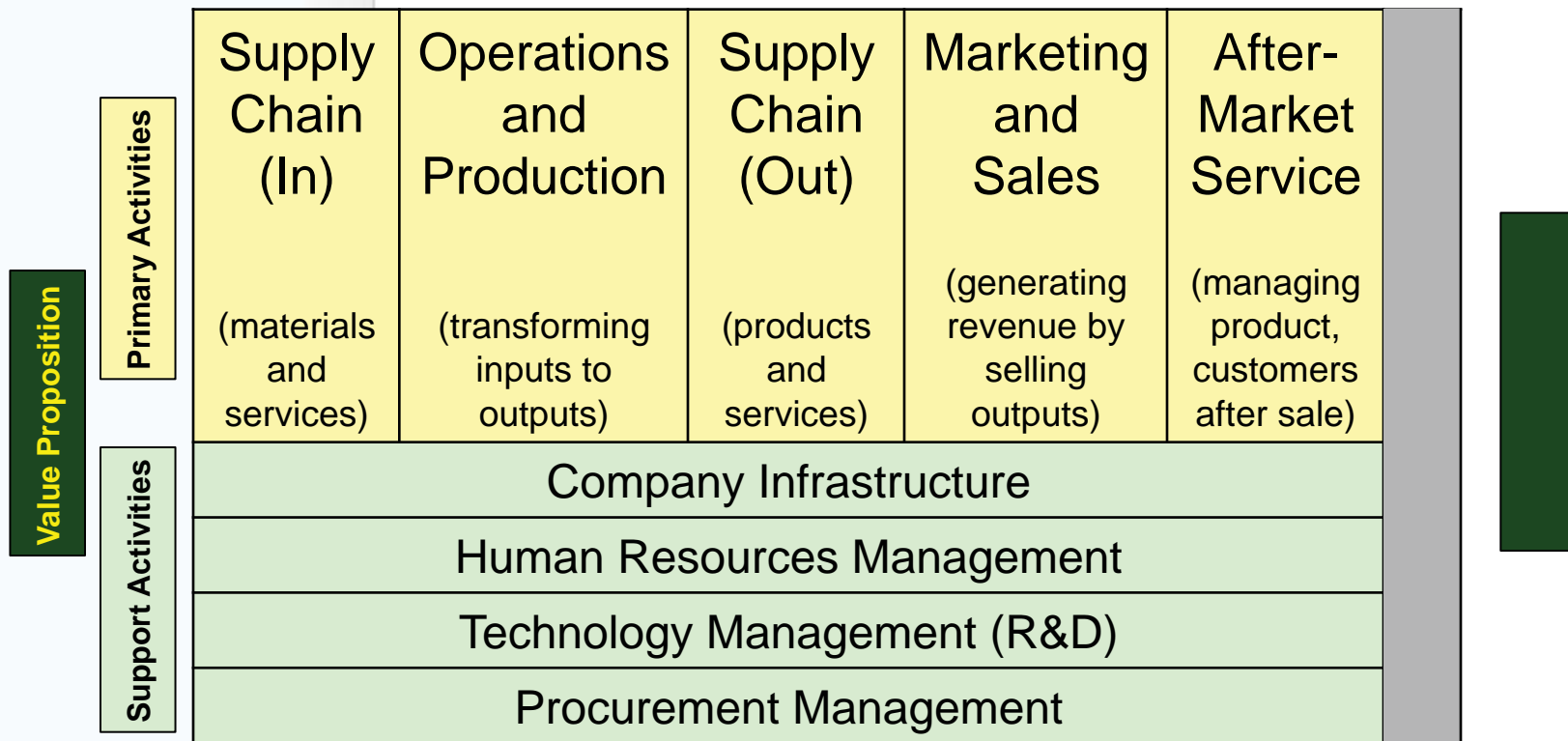
Value Chain Components

- Primary Activities
 - logistics, operations, marketing, sales, service
- Support Activities
 - finance, planning, HR, training, technology procurement
- Activities Incur Costs
 - to which company adds margin for profits
- Result is Value to Customer (and Company)
- Strategy Defines Value Chain

The Value Chain



An Agribusiness Value Chain



Strategic Value Chain

- Value Chain Identifies
 - where competitive advantage comes from
 - strengths and weaknesses of company
- Components Can be Arranged Differently
 - activities occur in different order
 - activities take different scale or emphasis
- Strategy Involves Creation of Value
 - selection of specific components
 - ordering, operating, and managing components

Value Chain and Generic Strategy

- Lower Relative Cost Strategy
 - chain is configured to deliver low costs
 - company operates components efficiently
- Differentiation Strategy
 - chain is configured to add value
 - company operates components to set itself apart
- Strategy Involves Creation of Value

Operations are Not Strategy

- Operational Efficiency is Important
 - do the same thing better
 - utilize best practices
 - execute, execute, execute
 - strategy cannot work without it
- Strategic Position is More Important
 - do things differently; choose to be different
 - creates value proposition
 - creates competitive advantage

Successful Strategy Hard to Copy

- Unique Value Proposition
- Unique and Profitable Value Chain
- Deciding What to Do (and What Not to Do)
 - tradeoffs; can't make everybody happy
 - recognizing opportunity cost of what you do
 - perfect is the enemy of the good
- Value Chain Components Fit, Work T
- Continuous Strategic Process

The Value Proposition

- Value Proposition Provides Unique Answers to These Questions:
 - which customers do we want to serve?
 - what products and services do they need?
 - where do we price?
- Hard to Copy a Good Value Proposition

Unique and Profitable Value Chain

- Value Chain Implements the Value Proposition
 - components and configuration define chain
 - each link needs management (making choices)
- Value Chain Must be Consistent with V Proposition

Making Decisions and Tradeoffs

- Tradeoffs (Choices) Essence of Strategy
- Conflicts Require Tradeoffs
 - necessary to sustain strategy
 - make strategy hard to copy
- Competitive Advantage Means You Choose to Do What You Do Best
 - involves opportunity cost
 - you must choose not to do other things
- Cannot Make Everybody Happy

Making Value Chain Fit Together

- Company is a System of Functions
 - system is the value chain
- Components Must Fit Together
 - each part affects every other part
 - each part must reinforce every other part
 - parts must operate together effectively
- Strategic Decision
 - how to configure and operate components
- Competitive Advantage Comes from the Whole

Continuous Strategic Process

- Strategic Continuity Means Continuous Change
 - continuous learning to adapt and improve
 - do not change value proposition and direction
- Constant Improvement Necessary
 - how to improve value chain?
 - how to better deliver value?
 - where do we price?

Strategy Takes Time

- Strategy is for the Long Haul
- Need to Sustain Competitive Advantage
 - dynamic industry structure
 - build understanding, skills, assets
 - establish reputation with customers and suppliers
 - build and operate effective value chain
 - define position within industry
- Strategy is a Continuous Process
 - if you think you are finished, you aren't done

Strategy Frustrated

- Strategy is Badly Misunderstood
- Unsound Strategic Thinking Everywhere
- Herd Instinct (Follow Common Path)
- Tendency Towards Conformity
- Regulation Constrains Alternatives
- Customer Demands Sometimes Do Not Fit

Strategy Frustrated

- Consensus Thwarts Tradeoffs
- Cost Allocation Can Spread Strategies Thin
- Markets Push for Short-Term
- Pressures for Faster Growth
- Urge to Copy Success (Herd Instinct)

Managers and Strategy

- Only Manager Sees Whole Picture
 - drives operational efficiency
 - keeps distinct from strategy
- Commits to Strategy Every Day
- Leads Choosing Company Position
 - gets buy-in from others
- Tirelessly Communicates Strategy
- Holds Company to Strategic Path

