

# 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

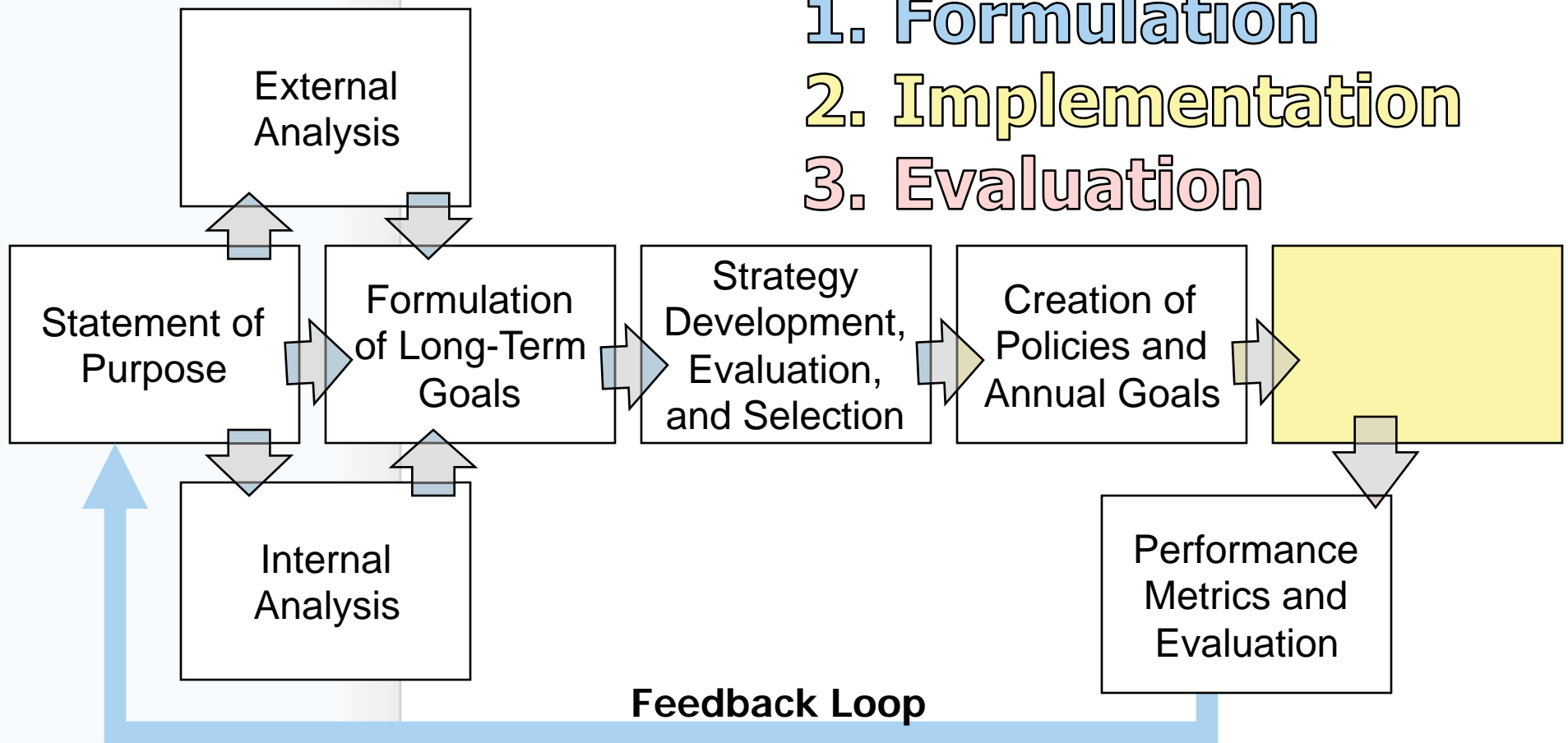
- Strategy is a Long Term Process
- Information, Data, and Material are Constantly Changing
- Process and Practice Must Continually be Improved and Reinvigorated
- Internal and External Needs Change
- Feedback Loop Must Exist to Keep Plan Modified and Up-to-Date
- Plans are Useless; Planning is Essential

# 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

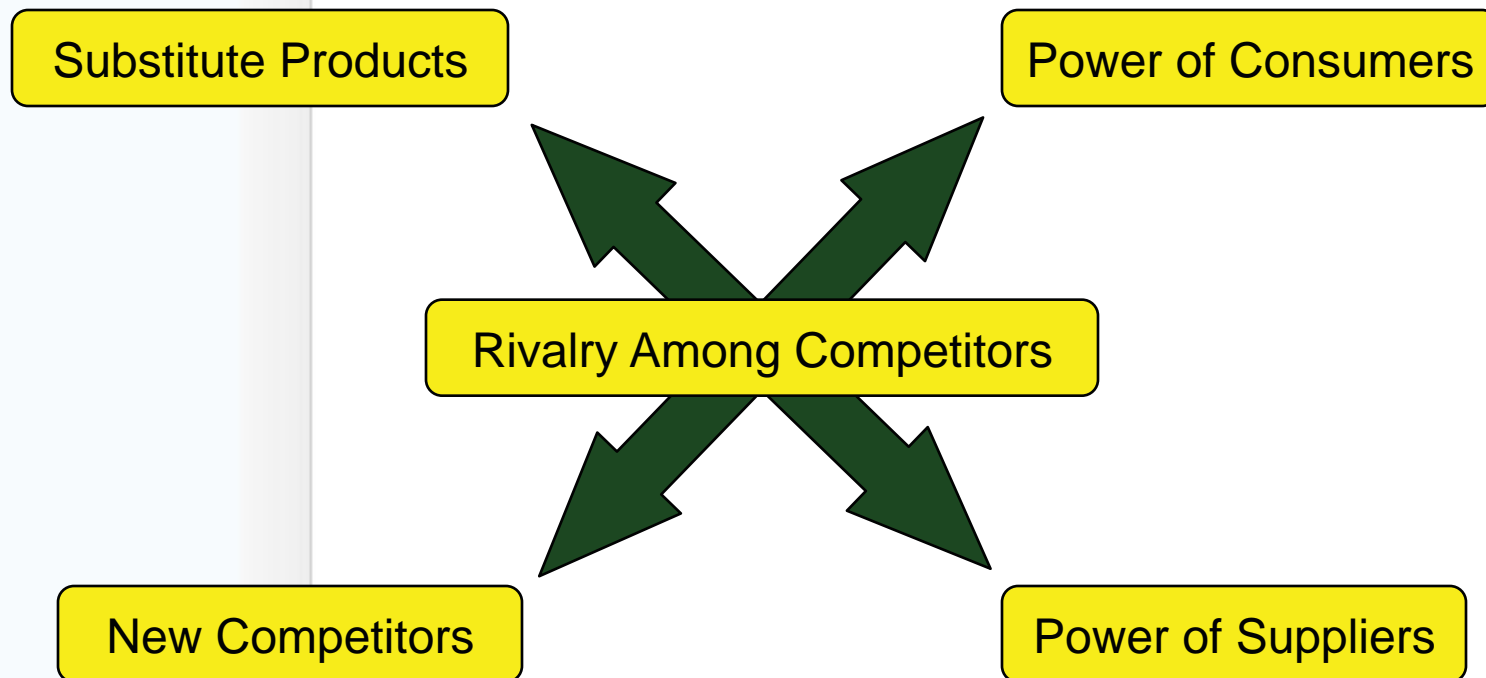
# Structure and Position

- 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

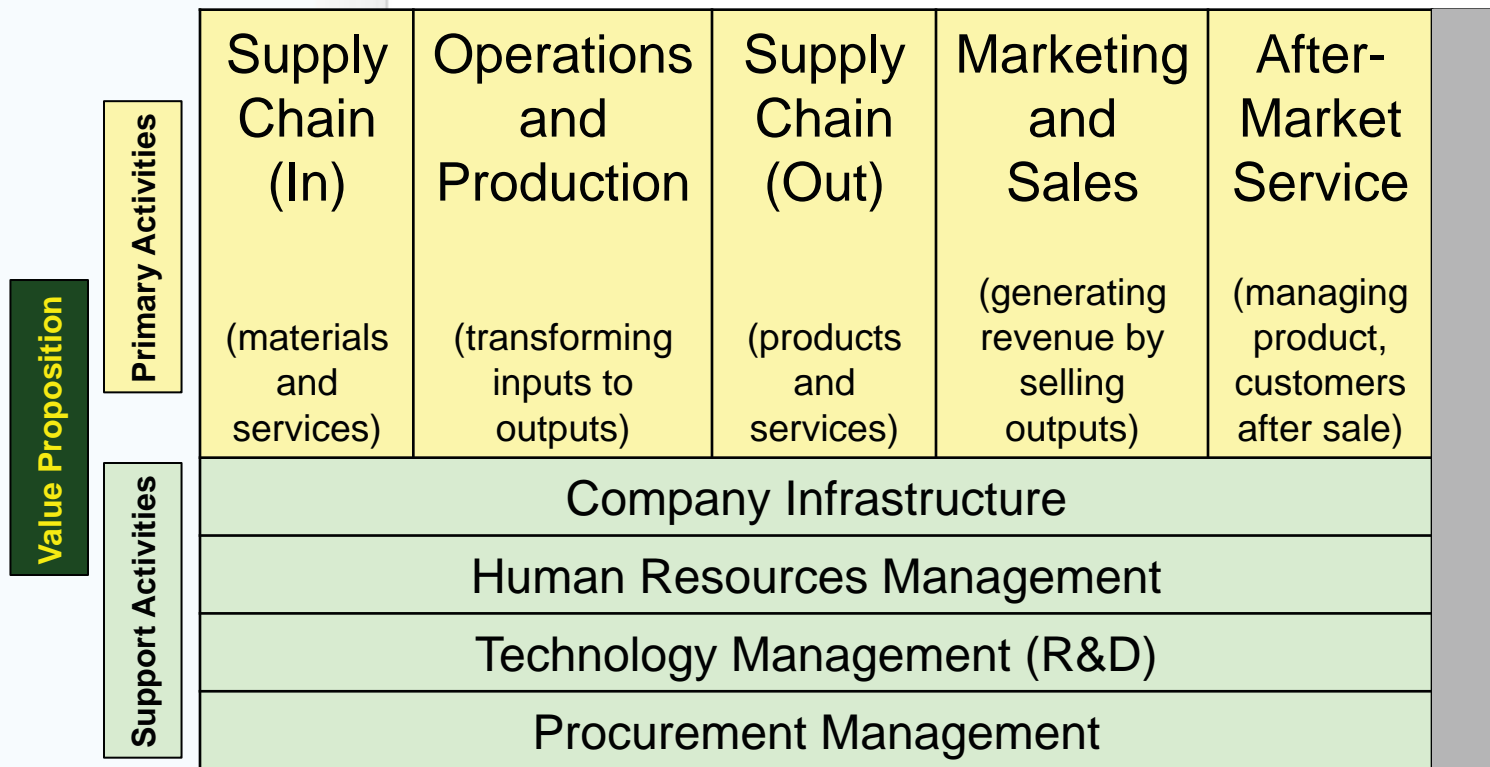
# The Value Chain

- 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

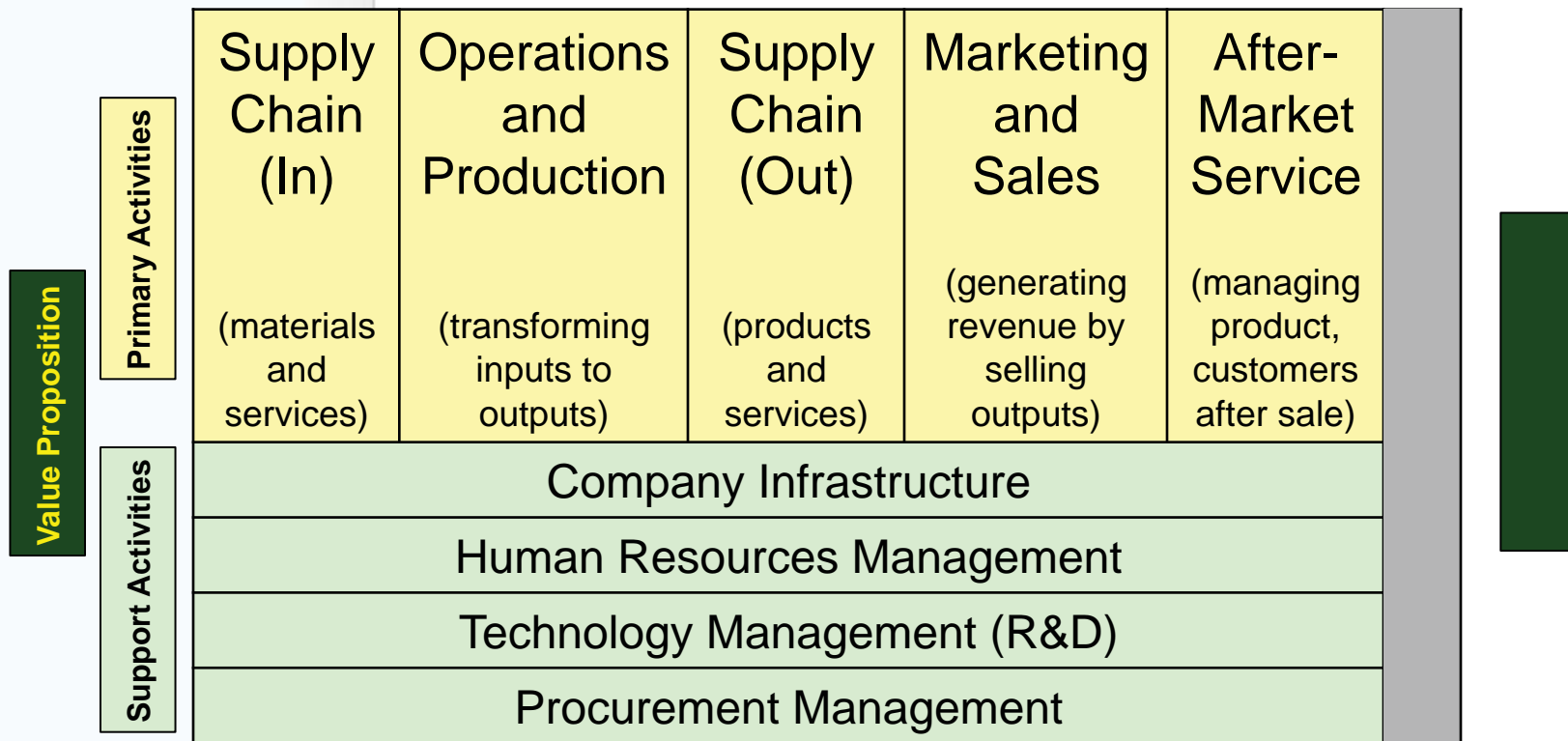
- Primary Activities
  - logistics, operations, marketing, sales, service
- Support Activities
  - finance, planning, HR, training, technology procurement
- Activities Incur Costs
  - to which company adds margin for profits
- Result is Value to Customer (and Company)
- Strategy Defines Value Chain

# 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









