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USING STRATEGIC PLANNING TO FORMULATE FUTURE BUSINESS OPPORTUNITIES

By

Gerald B. White

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Department of Agricultural Economics
Cornell University Agricultural Experiment Station
New York State College of Agriculture and Life Sciences
A Statutory College of the State University
Cornell University, Ithaca, New York, 14853

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WHAT IS STRATEGIC PLANNING?

Strategic business planning involves analyzing the business and its environment as it is in order to create a master plan for taking the firm to where management wants it to be in three to five years. Strategy refers to seeing the big picture and having a vision for the forces that will shape the future. On the other hand, a tactical plan is more a plan for the short-run -- day-to-day or week-to-week decisions which the manager must make to attain the firm's shorter-run objectives.

The contents of a strategic plan can vary considerably; however, such plans will usually contain the following common elements:

- Mission statement - a definition of what the firm will be -- what products and/or services it will produce; to whom will it sell; and what are its primary goals, policies, and procedures.
- Objectives- measurable statements of what the business wishes to accomplish -- in areas such as growth, profitability, volume of production, and cost control.
- Alternative strategies - plans of action which can be taken to enable attainment of the specified goals.

WHY DO STRATEGIC PLANNING?

The purpose of strategic planning is to place the firm at a competitive advantage in the future. Some specific reasons for doing strategic planning are:

- To establish a clear direction for management and employees to follow.
- To define in measurable terms what is most important for the firm.
- To anticipate problems and take steps to eliminate them.
- To allocate resources more efficiently -- labor, machinery and equipment, buildings, and capital.
- To establish a basis for evaluating the performance of management and key employees.

- To provide a management framework which can be used to facilitate quick response to changed conditions, unplanned events, and deviations from plans.

WHO SHOULD DO STRATEGIC PLANNING?

The planning should be done by the operator/manager of the agricultural business. In some cases, this process could involve a hired manager, but for most firms the operator/manager and other members of the family involved with management should be involved in the planning. Strategic planning with typically close-knit farm families cannot be done in isolation from other family members, particularly when goals are set for the business. In such operations, business and family considerations are often so interwoven that it becomes artificial to try to separate the two.

STEPS IN STRATEGIC PLANNING

The strategic management process is illustrated in Figure 1. Strategic planning involves the first seven steps, while the eighth step -- implementation -- is strategic management. This publication focuses on the seven steps in the planning process, as shown in Figure 1. Each step will be discussed in some detail.

Step 1. Define the firm's mission.

The mission statement defines the purposes of the firm and answers the question, "What business or businesses are we in?" Defining the firm's mission forces the operator/manager to carefully identify the products, enterprises, and/or services toward which the firm's production is oriented. This statement answers questions such as:

- What type of agricultural commodities will we be producing?
- What are the markets?
- What, if any, other activities are we involved in and what are the priorities of these activities?

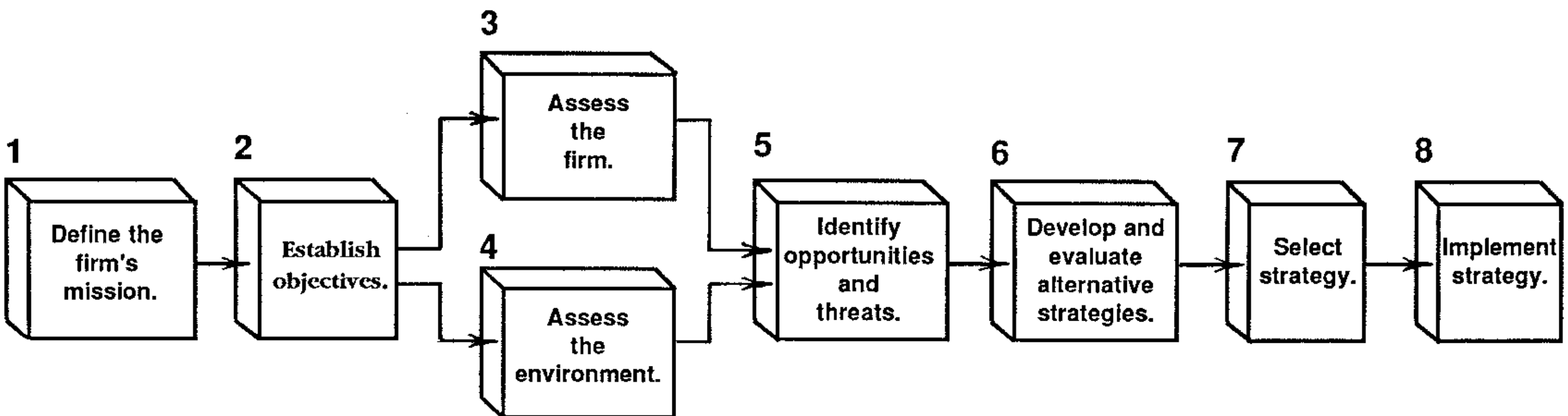

Figure 1. The Strategic Management Process

-- Why are we in business?

  -- for profits?

  -- to provide employment/security for other family members?

  -- to increase wealth?

  -- gain community status?

  (The answers to these latter questions suggests goals that can help to clarify objectives in the next step.)

An example of a mission statement is attached (Appendix 1).

Step 2. Establish objectives.

Goals, which are more general ends of operator/managers, clarify the firm's purpose. Objectives then translate the mission into concrete terms. Objectives will be quantifiable and simple straight forward statements such as the following: increase sales by 30 percent over the next five years; reduce labor costs by 25 percent next year; increase production of (*commodity*) by 40 percent in the next five years; and provide health insurance coverage and social security coverage for (*number*) family employees next year. These objectives should be chosen in such a way that they contribute to attainment of the goals identified in 1 above.

Step 3. Assess the firm's present strengths and weaknesses.

The quality and quantity of resources within the operator/manager's control is the first part of this assessment. What are the abilities and limitations of the operator/manager? What skills and abilities do the employees have? How modern and efficient is the physical plant? Is the resource base large enough? What are the soils on the farm? What is the cash position of the firm? The process of providing candid answers to these questions forces the operator/manager to recognize that every firm is constrained in some way by the internal environment -- the physical resources and the human skills and abilities that it has available.

Step 4. Assess the external environment.

Every agricultural firm faces uncertainties, threats, and opportunities which are beyond its control. Market forces may cause prices to plunge, either in the long-run or short-run. Large crops, declining consumer demand, a strong dollar, high interest rates, changing government policies, and regulation of labor and pesticides are examples of external threats which can cut profits or make business more difficult. On the other side of the coin, new market opportunities are created -- by demographic changes, changes in the lifestyles of consumers, by population growth in selected regions, and by technological breakthroughs.

It is important in this step that the operator/manager be informed about the economic-socio-technological forces which will have an impact on the firm, and to be able to form reasonable expectations about what will happen to product prices, interest rates, the rate of inflation, labor markets, and input prices over the next three to five years. These expectations and information about the external environment can then be used in order to identify opportunities and threats to the firm in the time period under consideration.

Step 5. Identify opportunities and threats.

Step 5 combines the data gathered in Step 4 to determine what problems and opportunities the firm might encounter in the planning period. Difficulties in the external environment can present opportunities in another segment of agriculture. For example, concern about cholesterol in meat products has meant new markets for poultry and fish products. Concern about carcinogens in the environment, including some pesticides, has brought about new opportunities for crucifer crops. Consumers are rediscovering oatmeal! Some firms, even in the exact same businesses that are being negatively affected by some aspect of the external environment, will find ways to capitalize on the situation. For example, Monfort of Colorado, a large

feedlot operation, turned its business around by developing leaner and less costly cuts of meat and convenient packages which can be cooked quickly in microwave ovens. Most of these cuts of beef have little fat and promotional efforts are aimed at younger, more health-conscious consumers and two-career couples.

Step 6. Develop and evaluate alternative strategies.

This step, along with step 7, is at the heart of the strategic planning process. This is the point at which the firm develops the alternative plans which describe the methods for attaining objectives and gaining competitive advantage.

What ways do production agriculture firms have to gain a competitive advantage?

The answer to this question depends to a great extent on whether or not the firm is a price-taker. Farms are traditionally price takers. The firm has no power in the markets to influence the price of commodities such as milk, eggs, grapes, and potatoes because there are a very large number of producers and a homogenous product is produced. Each quart of milk or dozen eggs is exactly like that produced by thousands of other farmers. In this type of competition, producers have no "market power" because buyers can obtain the commodity at a price dictated by supply and demand considerations, after adjusting for transportation costs. High cost production regions or firms are at a distinct disadvantage in these markets.

Some agricultural firms are in less competitive markets where perhaps there are only a few firms in the surrounding area, and products or services are differentiated. Most of these producers are also very conscious of their competitors' prices, but there is no clear "market price" for each product or service. Examples are landscape contractors or small wineries selling premium wines. In these situations, the operator/manager is faced with the problem of pricing his or her product. One could think of intermediate

situations such as pricing forages in which there are thin markets and quality differences, but the central point even in these situations is that the firm is a "price taker".

What types of alternatives can operator/managers in price-taking firms employ to attain a competitive advantage? Some types of strategies are listed below.

1. Become more efficient. Increase profits by:
   a. Reducing input use, holding product and price (quality) constant.
   b. Use more, or higher quality, inputs, increasing revenue more than costs increase.
2. Alternative enterprises.
3. Horizontal integration - farm more units or add and/or enlarge enterprises to gain more complete use of existing unused resources; acquire additional resources.
4. Vertical integration - obtain more profit by moving higher or lower into the marketing and distribution channels -- add storage or packing facilities, trucks to haul product, and direct marketing. Acquire resources to produce inputs that formerly were purchased.
5. Reduce risks through diversification and hedging.
6. Find new markets.

Firms which have some degree of control in the market because there are fewer competitors and because there is the possibility for differentiation of products and services, have the potential for additional strategies to gain a competitive advantage. Such firms may adopt a:

Differentiation Strategy - Emphasizes high quality, excellent service, innovative design of products or services, or an unusually positive **brand image**. The key element in this strategy is that the attribute to be emphasized must be different from those offered by rival firms, and significant enough so that the price premium exceeds the additional cost

of differentiating. The Monfort example with lean cuts of beef is one such successful strategy. Ben and Jerry's ice cream is another.

Focus Strategy - Aims at a cost advantage or differentiation by focussing on a narrow segment of the market - a niche. In this strategy, the operator/manager selects a segment or groups of segments (such as product variety, type of end buyer, distribution channel, or geographic location of buyer) to tailor a product or service to serve at the exclusion of other markets. The goal is to exploit a narrow segment of the market. Again, the feasibility of this strategy depends upon the size of the segment, and whether or not it can support the additional cost of focussing.

Of course, the option remains for price-takers to move into new areas or businesses where they are more in control of prices and have more market power. Operator/managers who consider this option, however, should be forewarned that it is very easy to underestimate the difficulty or cost in attaining additional market power.

It is possible that no alternatives identified will permit the farm family or families to attain their goals; therefore, nonfarming alternatives may need consideration. It may be possible, for example, to sell some farm assets, keeping part or all of the land and residences, and seek off-farm employment. Nonfarming alternatives should not be neglected.

Once alternatives are developed, Step 6 is only half completed. Then these alternative strategies must be evaluated. In practice, management may come up with a long list of possible alternatives. These can usually be "whittled down" by reasoning and logic. Once the obvious losers are eliminated, however, "pencil-pushing" is in order. There is no one method to use to evaluate alternatives; but some combinations of the following may be used:

1. Budgeting alternatives - both profitability and cash flow.

   a. Enterprise

   b. Whole farm

   c. Nonfarm alternatives

2. Break-even analysis.

3. Projections of income, cash flow, and balance sheet statements.

4. Computerized decision aids.

Step 7. Select strategy.

Out of the analysis in Step 6, the firm tries to select a strategy (an alternative or a combination of alternatives) that will enable the operator/manager to achieve the desired objectives. After evaluating alternatives, it may be discovered that the original objectives are not feasible. For example, perhaps it may appear that farming is no longer viable; therefore, objectives will have to be changed to reflect another strategy. Selection of a final strategy may involve trade-offs among goals - an alternative is seldom likely to be superior to all other alternatives for attainment of each of the goals of the operator/manager and his or her family. In this sense, the process of strategic planning should be recognized more as an art than a science.

References

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Robbins, Stephen P., Management (second edition), Prentice-Hall, Englewood Cliffs, New Jersey.

Appendix 1

Example of Mission Statement

(*Name of farm*) is a 70-cow dairy farm producing milk for sale to (*name of dairy processor*). Other enterprises include sweet corn (direct marketing) and sale of approximately 20 dairy steers annually. We operate under a father-son partnership.

We stay in business by holding down costs and producing quality forages, enabling a low expenditure on purchased feed. Our production level per cow is 14,000 pounds of milk, about average for the farms in this area. We own 295 acres of land of which 270 acres are cropped, and we rent an additional 90 acres. Sweet corn produced for roadside marketing generates additional value-added by using excess family labor prior to the primary forage harvest season.

We are in business to support a modest level of living for two families. Our goals are (1) build net worth; (2) stay in farming if at all possible; (3) to gainfully employ two full-time family members (partners); (4) to provide a good environment to raise our children; and (5) to allow each partner suitable time off to enjoy family living, community activities, and hobbies. We would like to provide for the transfer of the farm to (*partner*); and to provide retirement income to (*partner*) within five years.