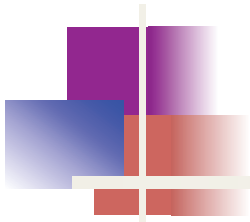


What is Strategy?



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

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Steven Slezak, Lecturer
Agribusiness Department
College of Agriculture, Food and Environmental Sciences
Cal Poly, San Luis Obispo



What is Strategy?

- 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

- 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

- 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

- 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

- 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

- 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

- 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

- 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



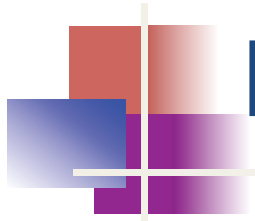
Guidelines for Strategic Management

- 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



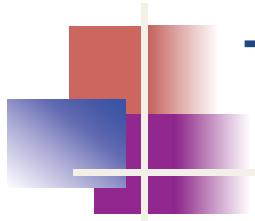
Planning Goes Against Our Nature

- 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

- 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

- 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

- 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)



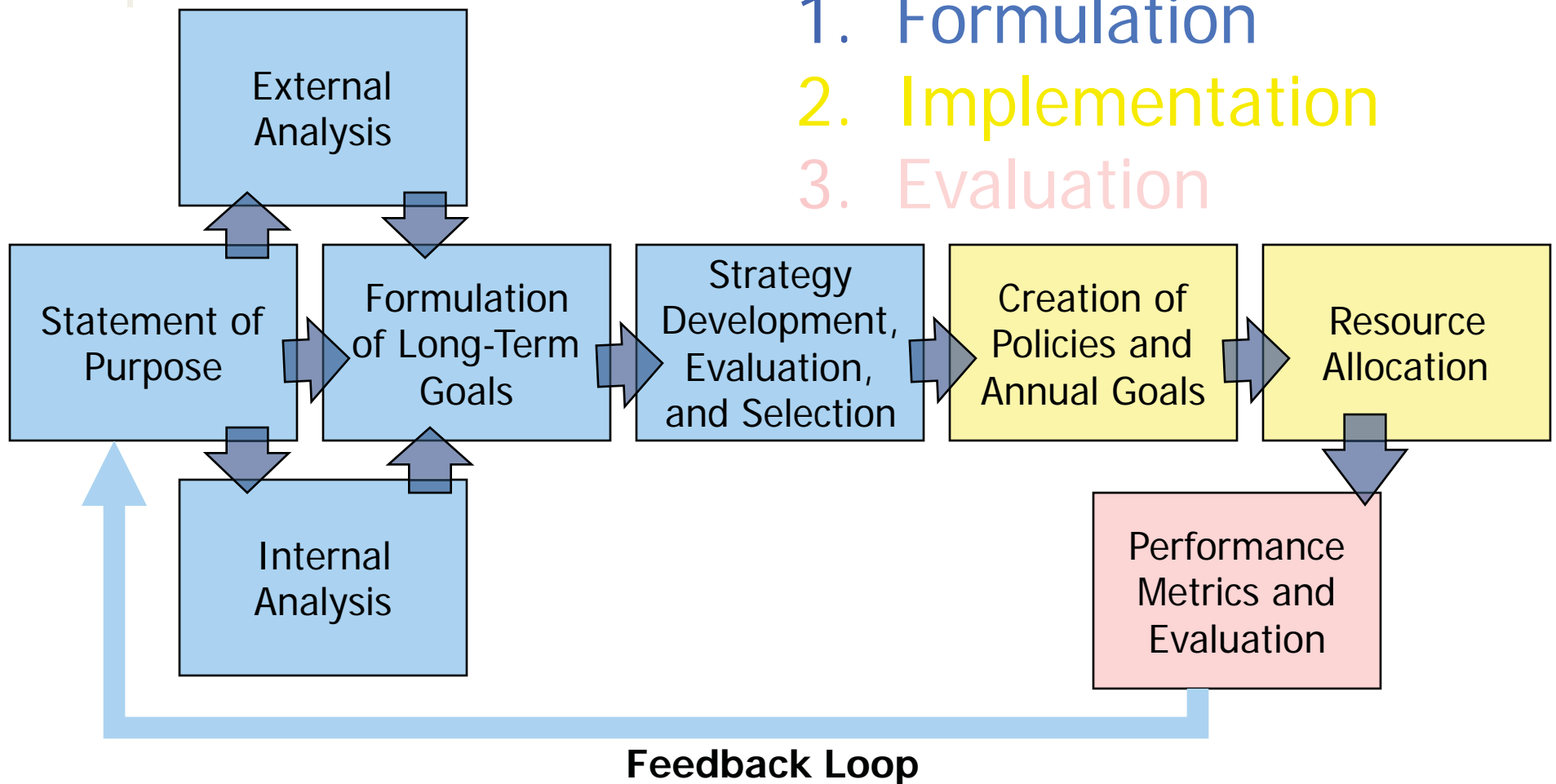
Business Planning is a Dynamic Process

- 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

- **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**

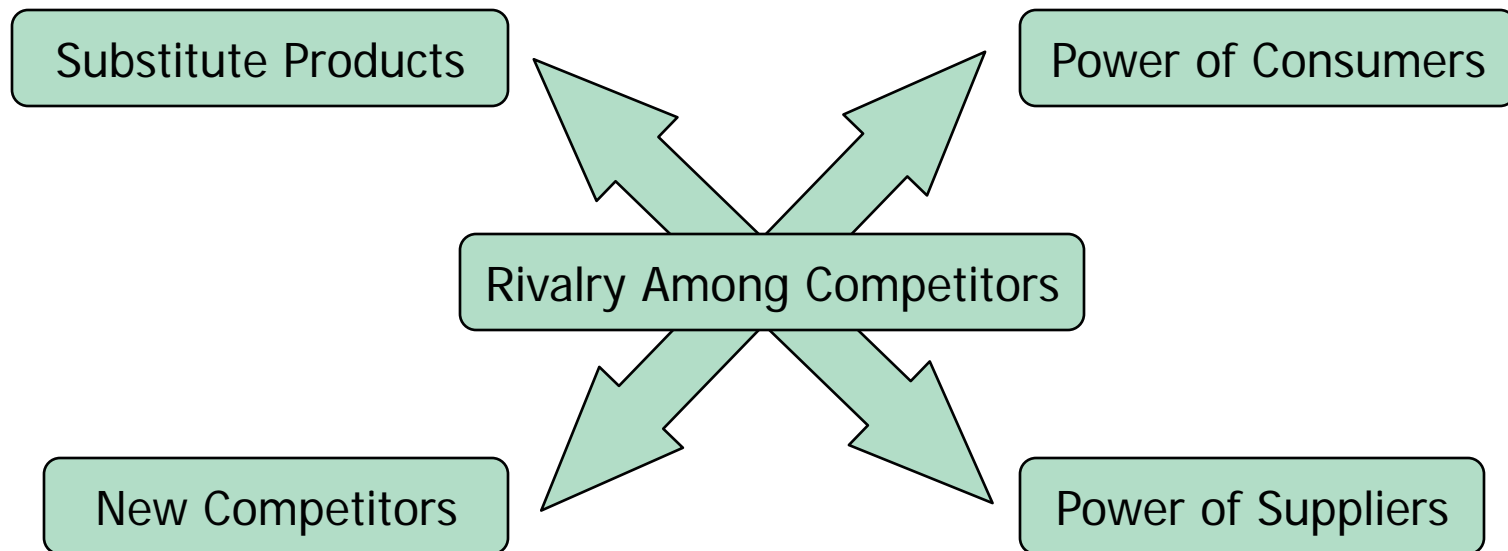
- Create Policies and Goals
- Allocate Resources

- **Evaluate**

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

Porter's Five Forces Model

Competitiveness is Composed of Five Forces

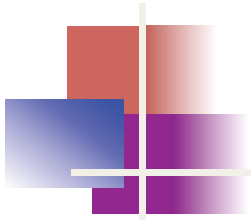




Porter's Five Forces Model

Competitiveness is Composed of Five Forces

- 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