Strategic Decisions and Business Plans

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Introduction

What is Strategic Management?
The literature on the meaning of strategy is quite deep and diverse and therefore, difficult to summarize. Nikols summarizes several acclaimed works on strategic management as they describe the meaning of strategy. Nikols draws from separate publications by Steiner, Mintzberg, Andrews and Porter to provide the sampling of the following descriptions:

- Strategy refers to basic directional decisions, that is, to purposes and missions.
- Strategy consists of the important actions necessary to realize these directions.
- Strategy answers the question: What should the organization be doing?
- Strategy answers the question: What are the ends we seek and how should we achieve them?
- Strategy is a plan, a "how," a means of getting from here to there.
- Strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy.
- Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets.
- Strategy is perspective, that is, vision and direction.
- "Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities."
- Strategy means deliberately choosing a different set of activities to deliver a unique mix of value."

Nikols goes on to summarize that "Strategy it seems is a plan or policy to achieve a goal. Therefore, strategic management must be those actions undertaken by management to develop the strategic plan or goals." In this context all specific actions or tactics fall under the domain of a well articulated strategy. The decision to clean out a feeder and the decision to invest in high lean/growth genetics are both linked to a strategy of cost containment.

If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle. —Sun Tzu on The Art of War.

Hence to fight and conquer in all your battles is not supreme excellence; supreme excellence consists in breaking the enemy's resistance without fighting. —Sun Tzu on The Art of War.

Objectives

To provide an understanding of the four distinct steps to creating a strategic plan:

- Articulation of a mission or vision
- Conducting a situation or market analysis
- Developing a business plan
- Implementing the mission and business plan.

Articulation of Mission

A mission statement is a concise yet grandiose statement of your business. It defines the principle of your business' existence and is often also used to succinctly communicate your principles to customers, employees, community and even as a reminder to yourself. A mission statement should:

- state who your organization is and what it does.
- be results oriented, not activity oriented.
- explain your businesses intentions and priorities.
- be concise and plain spoken.
- be communicated to others.

Answering the following questions will help you to create a verbal picture of your business's mission:

- Why are you in business? For corporate entities this is simply to maximize shareholder returns. For sole proprietors this can be a complex array of personal, family and financial goals.
- Who are your customers? Is it more important for you to consider the final consumer of pork as your customer? Or is your focus on the packer as the direct customer?
- What image of your business do you want to convey? Community relationships? Environmental considerations? An outstanding employer in the community? A major emphasis on animal health and welfare?
- What roles do you and your employees play? Employees as partners? Employees strictly as labor?
- What kind of relationships will you maintain with suppliers? Will you seek to incorporate suppliers in advisory or consultative roles? Will suppliers be sought simply as least cost providers of services and materials?
- How do you differ from your competitors? In commodity markets, this is often the greatest challenge. Primary differences are managerial execution, but often now include development of business relationships which are not easily replicated by others.
- How will you use technology, capital, processes, products and services to reach your goals?
- What underlying philosophies or values guided your responses to the previous questions? This recognizes that our businesses and vocations are not completely separate from our personal goals and lives.

It's often useful to consider others' mission or vision statements as examples. However, caution must be used because the goal of comparison is to enhance the articulation of your own unique strategy – not to imitate others. In using examples, it's also often useful to go outside your own field or industry. This can open avenues which challenge conventions in the swine industry. Following are two key examples from the pork chain.

1. Premium Standard Farms' Mission Statement

- Provide our customers a verified source of the most consistent, highest quality pork available, using the strengths of a vertically integrated system focused on continuous improvement.
- Exceed customer expectations for service, value, food safety, animal welfare and environmental stewardship.
- Provide a safe, supportive and rewarding work environment for all employees.
- Continuously earn the respect of the communities in which we operate through our business and employment practices and environmental stewardship.
- Provide our shareholders maximum value for their investment and trust.

Source: http://www.psfarms.com/mission_statement.html

2. Iowa Select Farms' Mission Statement

This company began with a vision. A food production partnership that would grow the highest quality lean protein for the discriminating consumer. A team of the most dedicated, experienced people. A production system that would deliver a significant positive economic impact in the communities where it locates. A focus on environmental stewardship.
Source: http://www.iowaselect.com/about/mission/index.htm

Conducting a situation or market analysis

The situation analysis will overlap and likely act as a basis for a firm's business plan to the extent that the market analysis must include information about the firm's internal performance.

A common systematic structure for conducting this analysis is the SWOT analysis. SWOT refers to an analysis of Strengths, Weaknesses, Opportunities and Threats. Under SWOT analysis each of the four components is broken into internal and external aspects. Commonly, a beginning point for a SWOT analysis is to fill in a tableau similar to the following. Participants in this phase of a SWOT analysis should be all stakeholders in the firm potentially including those outside the firm but directly aligned such as lenders, key input suppliers, and any others who have a direct bearing on the strategic success of the business. This can provide a broader perspective and also include some reality checks on how others view your operations.

Although the SWOT analysis should include subjective values one of the key tools which should be included is financial and market benchmarking. Done correctly, financial benchmarking provides an objective accounting of the firms' internal financial health, as well as providing an external view by comparison to outside firms. A core method of financial analysis for these purposes is that of financial ratios. Financial ratio analysis is a method of categorizing basic financial information into more meaningful values relevant to various aspects of the business. Typically the categories include liquidity ratios which provide an assessment of current resources available for ongoing operations, leverage ratios which provide insight into the utilization of debt in the business structure, activities ratios which tend to reflect the efficient utilization of resources for operations and profitability ratios which indicate the overall effectiveness of management of the firm.

Developing a Strategic Business Plan

A strategic business plan, as consistent with strategic management, is a plan that deals with the broader framework that may guide the tactical business plan or standard operating procedures which will be much more refined than a strategic business plan. The strategic business plan will form the architecture of the firm based on the mission and strategy and be the closest connection to tactical implementation of the strategy in general. There are four components to the strategic business plan:

- Management Organization
- Financial Organization
- Marketing Organization
- Operational Organization

Management organization considers the "chain of command" within the business—who is responsible for what activities and actions and who has authority for decision making. For sole proprietorships, this is not complicated. However, with joint or multiple owners or larger scale eterprises the management hierarchy can become quite complicated. Normally organizational lines run from a Chief Executive Officer (CEO) who is responsible for broader strategic decisions and management to functionary activities such as a financial officer, operations officer, marketing officer and each of these oversees respective employees. However, from a strategic perspective the issue is much more how does organizational structure affect the objectives of the business? How are employees incorporated into the management structure? Do line workers have authority to implement changes which they see as improving efficiency in daily operations, or must this go through hierarchical command structures?

Financial organization deals primarily with the capital and legal structure of the firm. Typical financial organizations include sole proprietorships, general partnerships, limited liability partnerships, limited liability corporations, family farm corporations, subchapter S and subchapter C corporations. Evaluating the pros and cons of each type of organization is beyond the scope here, but the selection of financial organizational structure can be an important strategic decision affecting tax liabilities, regulatory issues, liability, avenues for accessing financial capital, and implications for generational transfer and estate planning.

The strategic marketing issue in agriculture has traditionally been focused on risk management issues. However, increasingly diversified marketing alternatives are emerging. The three major alternatives, are commodity marketing in the open market, contract marketing or essentially production contracts, and direct marketing. Commodity marketing strategies will typically require a greater focus on risk management strategies for price risks. Direct and contract marketing strategies will require determination of who the customer is. This may require further market analysis to define niche markets or who is offering marketing contracts which are synergistic with your operation's organization. For example, pasture operations are likely not strategically compatible with high-lean, heavy weight swine production demanded by some packers.

In this case strategic operational management deals not with day to day operations, but with the overall organization of assets utilized in production. For example is the goal to have all assets owned and controlled by the organization? Which operational aspects might be leased (for example all rolling stock) which operational aspects might be outsourced (e.g., on site feedmill vs. single site feed mills serving multiple sites). The strategic decision tends to be which assets create value for the firm and must be controlled by the firm versus those which are simply operational necessities that create little strategic value.

There are many good sources of business planning information. For example, the Center for Farm Financial Management (http://www.cffm.umn.edu) at the University of Minnesota offers a software program which provides a step by step process of business planning and integrates it with Finpack financial management software. Other commercial sources are also available. The important goal of this section was to distinguish strategic business planning from tactical business planning. Strategic business planning as with all strategic planning is concerned with the overall linkages between the firm's major organizational attributes and the external environment. Tactical business planning will be more concerned with day to day management activities (often referred to as standard operating procedures) which are continually informed by the strategic business architecture.

Implementation

All activities to this point have been a planning exercise, identifying operational, management and financial structures evaluating internal financial performance and external competitiveness issues. However, now the issue is to actually put this planning information into action. There are four critical components to implementation:

- Communication
- Tactics
- Incentives
- Evaluation

Communication requires that all employees and shareholders understand the overall mission of the firm and the strategies that will provide guidance for fulfilling the mission. In nearly all cases, employees typically become engaged most directly in the day to day fulfillment of their duties—completing reports, doing chores, completing breeding schedules and other daily tasks. Therefore, it is critical that each employee has a "conscience" about the strategy. Just as a conscience in a moral sense defines individuals' day to day actions towards others, the strategy must be a conscience that guides day to day work activities and plans. The only way to accomplish this is through clear communication and buy-in to the overall mission and strategies of the firm. This also requires continued reinforcement. For example, if a swine production company has determined that its overall strategy is to function as a least cost provider of pork products, each employee must be conscious of how their actions affect costs.

Effective communication also enables the implementation of strategy as an outcome rather than a rigid set of instructions (tactics) which are to be followed by employees. While rigid instructions will ensure completion of a list of activities, it is unlikely to lead to the flexibility that allows creativity and problem solving by employees most intimately familiar with the implementation. A classic example is the effectiveness of the Allied Invasion Force at D-day. Although battalions, companies and even platoons were dispersed over a wide geographic territory, the strategic mission had been instilled in every soldier resulting in their ability to effectively find tactics that accomplished the overall objective—flexibility with outcomes in mind. Meanwhile, German artillery and tanks remained in the rear, waiting for central command to release the assets into operations until it was too late.

Tactics are the classic definition of implementation. This is the how portion of strategic management. Again, using the example of a least cost strategy of production, tactics would include managing feeders appropriately, purchasing price management, perhaps leasing versus owning some assets. Tactics are often referred to in standard operating procedures and employee or production manuals. Tactics are informed by the strategy and must be consistent with the strategy. Frequently missions describe employees as partners or knowledge contributors, but then the employee manual meticulously straight-jackets those same employees to a rigidly defend set of duties and responsibilities that leaves little potential or initiative for tapping into employees' creativity. Tactics put the strategy into action, but tactics must be constructed which are not simply recipes but which allow for innovation in the process.

The implementation of strategy inherently relies on employee and management action. Given that any effective implementation should be outcome based to allow for innovations in tactics, it is important to consider strategically compatible incentives. For example, some sharing in cost savings based on employee suggestions may be appropriate. Stock options have recently been a form of incentive structuring for CEO's and other employees. As stock prices rise, the ability of the employee or CEO to purchase lower priced stocks creates positive returns from improved management. In creating incentives careful consideration must be given to ways that employees or management may subvert incentives. Attempts to pump up stock prices by using questionable accounting practices in order to capitalize on stock options has been well documented in recent corporate scandals. Never-the-less, appropriately constructed incentives can be the most effective tool for implementing strategies at the employee or management level.

Evaluation is a traditional term for ideas of continuous improvement in the management literature. The speed of technical change, knowledge creation and global market information virtually assures that no strategic plan if remaining static will endure. Hence, it is critical to ask the question "if I were not in the business I am in and conducting it in the way that I am now conducting it, would I do it the way that I am". Evaluation includes all elements for strategic management previously described—frequency depends on subjective need and changing market conditions. This question also makes it clear that strategic planning is not something that is done only at start-up, but is a process that must be undertaken repeatedly as the organization grows and meets new strategic questions.

Recommended Resources and References

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