

## Strategic Planning: What Is the Process?

**Craig Dobbins and Cole Ehmke**  
**Center for Food and Agricultural Business**  
**Purdue University**

Strategic planning is a necessary skill for farm business managers to cultivate. Developing a strategic plan requires farm business managers to make choices. As farm business managers make these choices, it is important to clarify what is really important in terms of

- What the farm business manager wants to do,
- What the business must do in order to compete and survive, and
- What the business is capable of doing.

To succeed, a farm business manager must be capable of competing effectively in the existing business environment. In order for the business to have continued success, the business manager must be capable of dealing effectively with changes in that environment. Strategic planning skills and techniques provide powerful tools for recognizing change, evaluating the capabilities of the business, recommitting to existing business strategies, modifying existing business strategies, and developing new business strategies. The strategic business plan makes day-to-day decisions more focused and more consistent.

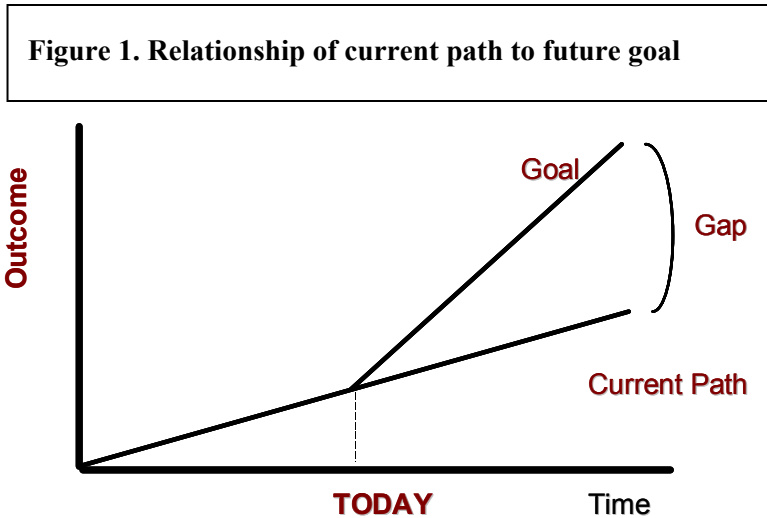
### Systematic Strategic Planning

To be successful, business managers must make strategic planning a systematic process they undertake periodically. Because farm businesses are usually managed by people who also provide labor, it is difficult to find the time to manage for the future when daily concerns are pressing. It is easy to fall into the short-run urgency trap, where individual decisions are based on criteria related only to that particular decision at that particular time, rather than on what will help the farm achieve long-term objectives. Many farmers appear to rely heavily on an intuitive approach to planning and decision-making. Periodically going through a systematic process of strategic planning has the potential to sharpen the farm business manager's intuition and, at the very least, carves out specific time periods for thinking about where the business is headed and how to get there.

One objective of systematic strategic planning is to identify the desired future state of the business. Examples of the questions that strategic planning should answer follow.

- What are the desired characteristics of the future business?
- What products will be produced by the future business?
- Who are the customers of the future business?
- What can the future business do better than its competitors?
- What will make the future business stand out as unique?

A second objective of systematic strategic planning is to establish where the current business strategy is taking the business. If the same things are done in the same way, what they have been doing, where will the business be? If the current path leads to the future business, the farm business manager only needs to recommit to existing strategies. If there is a gap between the current path and the desired future business, the farm business manager must decide how to close this gap (Figure 1). Revised strategies or new strategies must be formulated. In addition, farm business managers will need to identify the factors that will be critical to the successful implementation of the new strategic business plan. These factors will be important in monitoring the progress of the plan as it is implemented.



A third objective of the systematic strategic planning is to recognize and explicitly state any key assumptions about what the future may hold and upon which success of particular strategic plans may hinge. These will be important when determining whether and how to revise plans.

### Steps in the Strategic Planning Process

Organizations need strategy to guide them in achieving objectives that ultimately fulfill the vision and mission. The purpose of strategizing is determining how the farm business will reach its performance targets, outperform rivals, find and maintain competitive advantages, and build a long-term competitive position. The process outlined below for strategy formulation begins with a careful analysis of a farm's environment. This process is often stimulated by the recognition that there is a need to improve performance, if there is a gap between where is the business headed and where management would like to be.

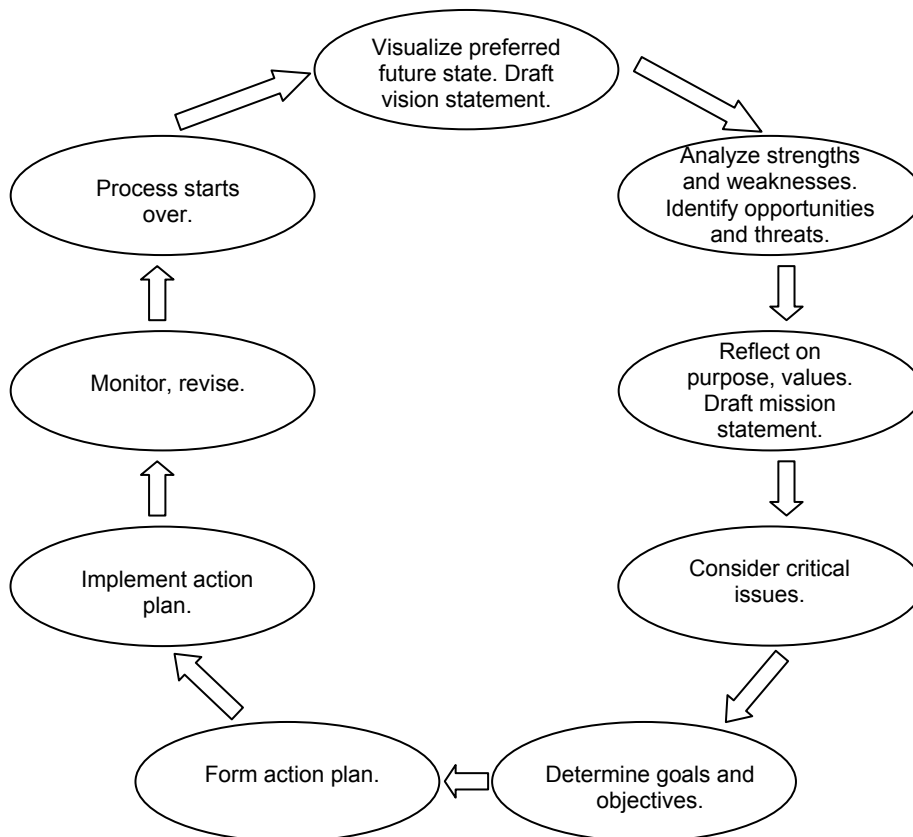
Systematic strategic planning is usually taught as a series of steps (a process) that one must work through in order to conceive a strategic business plan. Figure 2 depicts one author's view of the process. Usually the steps in the process appear in a particular order, as they do in the figure. It is important to recognize that the order of appearance is somewhat arbitrary, because information considered at each point in the process may lead the farm business manager to go back and rethink previous steps of the process. The basic steps of the process are as follows

- Develop a clear understanding of what should be accomplished in the business and why.
- Look outside the farm at the business environment in which the business operates in order to identify potential opportunities and threats to the farm business.

- Evaluate the farm business to identify its strengths and weaknesses in terms of being able to compete in its business environment now and in the future.
- Review current strategies and evaluate new strategies that appear to fit the situation.
- Develop a plan of action for implementing selected strategies.
- Identify factors that will be critical to successful implementation of selected strategies and methods for monitoring these critical items.
- Recognize the assumptions underlying the selection of particular strategies.

Each step in strategic planning involves information gathering, reflective thinking, and communication. Obviously, most farmers gather information, think, and communicate with others on a continuing basis. An advantage of systematic strategic planning, as opposed to a more piece-meal approach, is the balance struck among the different steps. Systematic strategic planning, by its very nature, emphasizes the connection or inter-relatedness of the steps in the process.

**Figure 2. The strategic planning process**



## SWOT

SWOT is an acronym standing for Strengths, Weaknesses, Opportunities and Threats. Using SWOT, the farm business manager strives to develop strategies that will allow the farm

business to use strengths to capitalize on opportunities and deflect threats while minimizing the weaknesses of the business.

To begin this internal and external scanning, the business needs to be broken down into comprehensible “chunks.” It is useful to group similar parts of the business together into units when thinking about the business. A strategic business unit is based on some important strategic elements common to each of the parts being grouped. Essentially the farm business manager assess what his or her business offers to its customers. The farm business manager can answer this in a number of different ways. One way is to answer in terms of the resources that are available for use. Another way is answer in terms of what markets the business serves or the products that the business produces. For instance, the manager of a crop farm may want to think of its commodity crops as one unit and its crops produced on contract as another unit. Or the manager of the farm may think of its corn (commodity and contract) as one unit, and its soybeans as another unit.

The first half of a SWOT scans the business itself to find those strengths and weaknesses that the business has *internally*. These are things that the business can control, such as the quality of employees or the type of machinery used. This step is focused on identifying what and why the business is successful (or not).

Identifying the internal strengths and weaknesses of the business is a two-stage process. The first part is to identify *what* the business does better than the competition. The second part is to consider *how* the business does it better.

### **The What**

The farm business manager should ask, “For the market that my business unit operates, what is the business offering that makes it the preferred supplier?” The answer(s) the farm business manager gets will be the reasons for success. These are the competitive strengths. On the other hand, why don’t some customers buy from the farm? These are competitive weaknesses. For instance a dairy may have the strength that it offers a product free of any contamination, or a grain farm manager may be able to deliver a product to a customer on a very short notice.

### **The How**

The second part of the internal analysis is to look at the competitive strengths and weaknesses and list the resources and capabilities that lie behind the strengths and weaknesses. Resources are the physical assets that are used in the business. While they are important, they are seldom the source of a sustained competitive advantage. Resources of the same quality can often be accrued by competing businesses. Capabilities are the skills and attitudes of the people in the business. Skills and attitudes are more difficult for competitors to match. If capabilities are the source of a farm’s strengths, it will be easier to maintain the strength as a source of competitive advantage. On the other hand, if capabilities are a source of weakness, this may make it more difficult to improve. The dairy farm would be able to offer contamination-free milk because of a strict cleanliness regimen. The managers of the dairy farm are willing to consider a flexible delivery schedule because of an attitude that they want to help their customers succeed.

Farm business managers consider strengths and weaknesses from their own points of view and from those of their customers. They should be realistic rather than modest. It is best to be realistic at this stage, and face any unpleasant truths as soon as possible. As farm business managers are thinking, they should develop a written list similar to Figure 3.

**Figure 3. Example strengths and weaknesses**

<b>Internal Strengths</b>	<b>Internal Weaknesses</b>
Production competence Good marketing skills Human resource competencies Appropriate management style Appropriate organizational structure Appropriate control systems Good financial management Well developed business strategy Innovative products/services Cost advantages Good contacts/relations with clients Special expertise Adequate financial resources Others?	Obsolete products Rising production costs Poor marketing plan Inadequate human resources Growth without direction High conflict and politics Loss of business direction Sub par profitability because . . . Vulnerable to competitive pressures Below average marketing skills Unable to finance needed changes in strategy Loss of business control Others?

Before going on to the opportunities and threats in the SWOT analysis, farm business managers should ask themselves if these are the resource and capability strengths and weaknesses they want. Do they want to improve on these?

The second half of SWOT examines *external* factors in the marketplace for business opportunities and threats. External factors are beyond the control of the business and might include things in the general industry environment like the number of competitors or the number of customers. The paper “Strategic Planning: External Environmental Scanning” found in the Business Environment module contain a more detailed discussion of identifying environmental changes that lead to opportunities and threats. Again, as farm business managers are thinking, they should prepare a list similar to the examples presented in Figure 4.

**Figure 4. Example opportunities and threats**

<b>Environmental Opportunities</b>	<b>Environmental Threats</b>
Expand core business Exploit new market segments Vertically integrate forward or backward Provide services to other farmers Enter new related businesses Develop joint value-added ventures with other farmers Direct marketing to consumers	Likely entry of new large competitors Slow market growth Adverse government policies Growing competitive pressures Changing consumer tastes New forms of competition Downturn in economy Rising labor costs Rise in new products Rise in clients' bargaining power

The goal of SWOT is to identify internal and external factors that need to be accounted for in the development of our farm business strategies. The lists of strengths, weaknesses, opportunities, and threats will be important inputs to the additional tools of strategy development discussed in other sections.