

Strategic Positioning for the Farm Business: Options and Analysis Tools

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Strategic positioning requires an analysis of the strengths and weaknesses of the firm and the opportunities and threats faced by the firm. This analysis will be useful helping determine which alternative strategic options has the potential to lead to long-term success for the farm business. But before proceeding with that analysis, it makes sense to discuss what strategy and strategic positioning are all about.

What Is Strategy and Strategic Positioning?

Strategy is about making a choice as to where the farm business manager will focus resources and passion. In essence, strategic positioning is the way the farm goes to market – the way the farm creates value for the customer. The strategic positioning choice drives the farm’s resource investment decisions, including how management allocates time and energy. As discussed in detail later, the choice of strategic position is built around the farm’s core competencies – the primary skills and sources of competitive advantage – and the opportunities and threats that the market and external environment provide.

So, what might be some strategic positioning options for farmers? One might be to position the business as a low-cost, bulk-commodity producer; alternatively, the business could be a customer-oriented specialty products producer providing organic products. The business might be a full-service, customer-focused, custom-service provider such as is common in the wheat and small grain industries. Or the business might be an efficient alliance-focused contract animal feeder as in the custom cattle feeding or contract pork industry. Some businesses might be positioned as cutting-edge technology-focused animal breeders or as precision farming specialty crop producers who can provide traceability, segregation, and other attributes desired by quality- and safety-conscious food processors and retailers.

In general, there is a common theme to all of these positioning options – a customer focus. In reality, adding value for customers is the fundamental determinant of any business’s long-term success. For any strategy to be successful, it is essential to answer **who**, **what**, and **how** questions related to that customer focus. Note that this is not emphasizing these questions relative to the product which is the common production agriculture approach. Instead, the focus is on the customer who purchases the products and services. **Who** in addresses what segment of customers the business will serve. **What** refers to the wants and needs of that customer segment that the products and services satisfy. And **how** focuses on the

operational procedures and techniques that will be used to leverage core competencies to implement of the value-creating activities that fulfill customer's wants and needs.

So, what is strategy? In essence, strategy is the integrated and coordinated set of actions and activities that provide value to customers and gain a competitive advantage for the farm business by exploiting core competencies in specific product or service markets.

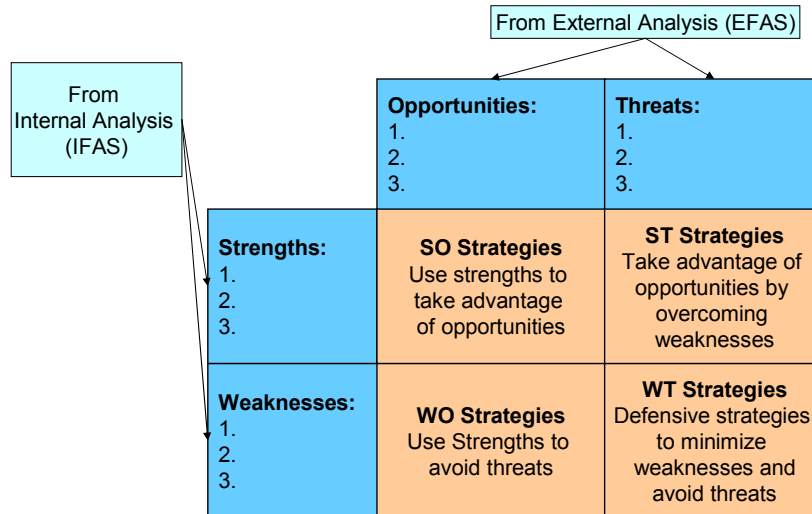
SWOT and Strategy

How can the SWOT analysis discussed earlier be used to help identify potential strategic options. One procedure that can be helpful is to develop a TOWS (which happens to be SWOT spelled backwards) matrix to give us some direction as to the strategic options to consider.

Figure 1 illustrates the TOWS matrix and the strategic direction alternatives as a function of internal factors and external factors from the SWOT analysis. To illustrate, if the external environment provides opportunities in areas in which the business has strengths, it should leverage those strengths to take advantage of opportunities. For example, some producers have skills at negotiating attractive contracts for specialty crop production and are located near processing plants that provide market opportunities for these crops.

What if the opportunities are in areas where the farm has weaknesses? Then the strategy should include overcoming those weaknesses, such as developing the negotiation and production skills to produce specialty crops, value-enhanced grains, or higher quality products that are supported by growing market demand. When the environment or external factors are characterized as threatening, the strategy must include using a farm's strengths to overcome those threats, as would be the case with using superior marketing and risk management skills to mitigate the potential losses from low commodity prices. Finally, if a business has weaknesses in a threatening environment, defensive strategies to avoid those threats, including the possibility of exiting a particular enterprise must be high-priority positioning options.

Figure 1. TOWS Matrix



Strategic Positioning Options

Farm business managers must evaluate their overall strategy as they seek to match their core competencies with the changing complexion of the marketplace. A number of alternative strategic options are possible.

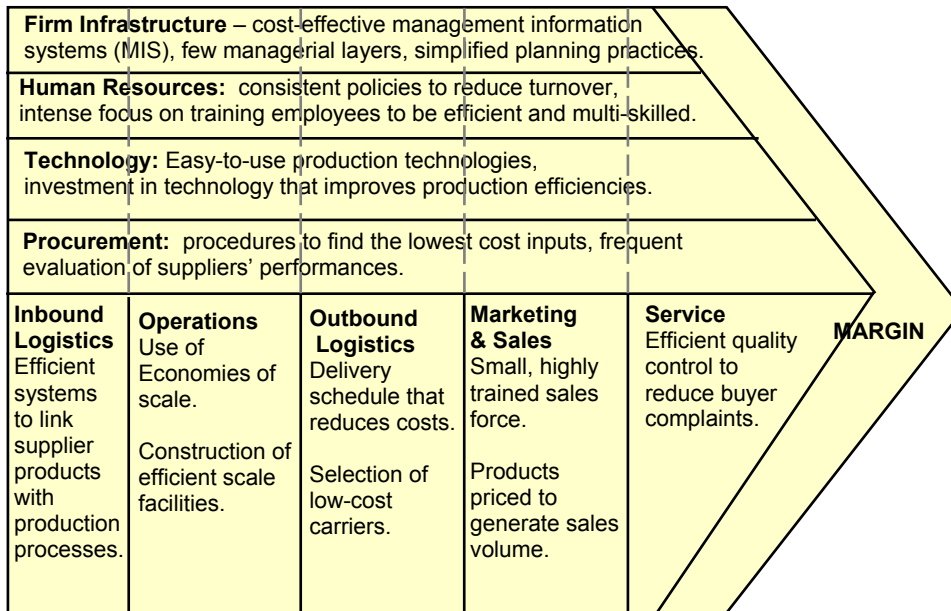
Low-Cost Leader

Low-cost leader businesses offer standard products and services to broad markets at the lowest competitive prices. Indeed, price is the main theme in their marketing efforts, though some couple this with exceptional basic services, as well. The broad market pursued by these businesses allows them to spread the cost of their investments over large volume, thus reducing the investment per unit. This low-cost position supports their aggressive pricing policy. They acquire technology from a wide variety of sources and in general do not invest in basic research and development. Cost-minimizing firms are quick to emulate the successful offering of innovator firms. These firms are involved in the manufacture of generic commodity products in most cases.

The value plate concepts discussed in “The Internal Environment: What Is Your Farm’s Competitive Advantage” (found in the Business Environment module) can be used as a mechanism for assessing the potential of a low-cost leader strategy. Figure 2 illustrates some examples of specific actions that would be part of the primary and support activities to implement a low-cost strategy. For example, in procurement, finding the lowest cost inputs and frequently evaluating and benchmarking supplier’s performance against competitors would be actions to implement a low-cost strategy. With respect to inbound and outbound logistics, efficient, just-in-time delivery concepts that reduce the downtime or wait time at the

elevator or supplier docks and yet reduce inventory holding costs, would be another example of actions that would be implemented as part of a low cost strategy. The value plate provides a vehicle for farm business managers to access the potential of different actions that might be implemented as part of this positioning strategy and to determine whether those actions have the potential to provide a competitive advantage compared to other producers who are in the same business, produce the same product, and supply the same customers.

Figure 2. The Value Plate for a Low Cost Strategy



The potential success of the low-cost leadership positioning strategy in terms of an effective response to the external threats and opportunities can be evaluated using the Five Forces model discussed in the Business Environment module. Just to illustrate, to effectively implement a low-cost strategy:

- Farm business managers must be able to operate with low prices better than their *rival* competitors;
- They should be able to sustain or mitigate the price pressure that results from *buyer power* better than their competitors;
- They need to be able to absorb or not be subjected to price pressures and *bargaining power of suppliers*;
- They must be able to thwart or off-set the threat of *new entrants* by barriers including continuous improvement in efficiency to lower cost; and
- They must use various techniques to deepen customer relationships and thwart customers switching to *substitute products or suppliers*.

If it is difficult or impossible for a business to include as part of their low-cost positioning strategy responses to the rivalry, power of buyers, power of suppliers, threat of

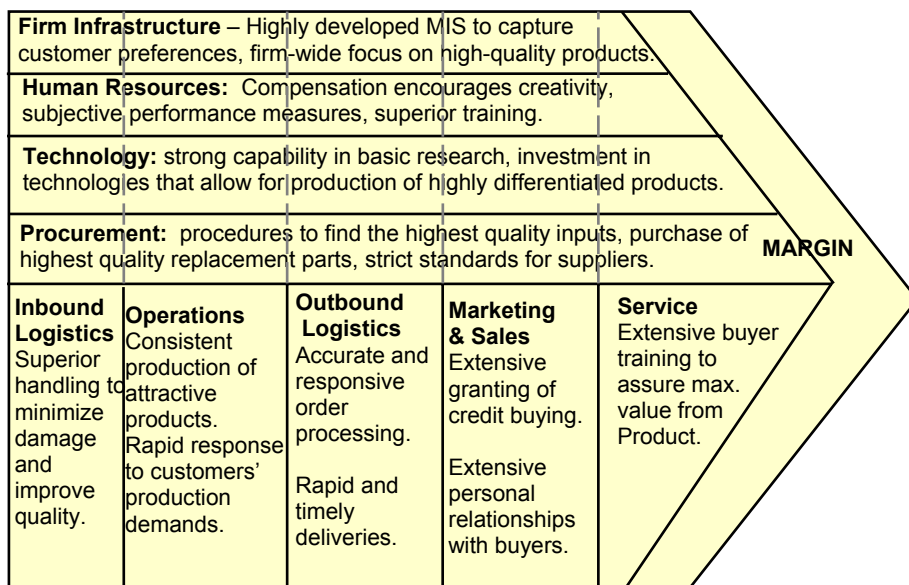
new entrants, and substitutes challenges or forces, then it will be very difficult to sustain a competitive advantage using a low-cost leader positioning strategy.

Differentiation

The farm business manager that focus on differentiation offer a steady stream of new products and services to broadly defined markets that are national or international. Their product offerings are above average market prices because of the extra value delivered by the differentiatinal innovations. By pursuing a broad market, the firms are able to spread the costs of this innovation over larger volume, helping keep down costs per unit of sales.

Again, the Value Plate and Five Forces models can be used to help assess the potential of a successful differentiation strategy. Figure 3 illustrates the actions that might be part of the value creation process for a farm using a differentiation strategy in terms of both primary and support activities. For example, a differentiation strategy might include procurement processes that are more focused on quality and strict standards for suppliers than on low price. As to technology, activities to access the latest and best research and development, and new product innovations would be part of the strategy. A successful differentiation strategy would include extensive personal relationships with buyers in terms of the marketing and sales activities, rather than the transactional relationship common with the low-cost strategy, where buyer turn-over is common. More explicit quality criteria and maintaining that quality would be critical components of the inbound logistics, operations, and outbound logistics dimensions of a successful differentiation strategy. The expectation is that this would result in increased costs, but those costs would be more than compensated for by the additional revenues that result from selling a differentiated product.

Figure 3. Value Plate for a Differentiation Strategy



As to the success of a differentiation strategy in responding to external or market forces, it would be important to be able to:

- Mitigate *rivalry* by developing customer loyalty that reduces price sensitivity;
- Reduce the *power of buyers* by providing a unique product or service so that buyers do not have good alternatives;
- Mitigate *supplier power* by having the capacity to pass on input price increases or have adequate volume to negotiate lower input prices;
- Mitigate the threat of *new entrants* by being a dominate player in the market with loyal customers and superior product and service; and
- Reduce the potential of *substitutes* through continuous innovation and improvement in both product and process.

Again, the ability to be more successful in responding to these external forces of rivalry, power of buyers, power of suppliers, threat of new entrants, and substitutes increases the potential of a successful differentiation strategy.

Coordination

Coordinator firms work to develop unique marketing channels linking suppliers and customers. They pursue efficiencies or differentiated products that can be obtained only through a systems approach that spans several levels of the food chain. The competitive advantage of coordinating firms can stem from the special relationships they cultivate with their suppliers and customers. These close, collaborative relationships can be based on high levels of coordination, shared assets, participation in joint programs, and close communication links. Or the competitive advantage may be due to the control they exert over the supply chain through ownership of key assets or information. This strategic orientation has become common in the animal agriculture sector and is likely to become more common in the crop sector in the future.

Focus/Niche

Focus/niche firms focus on developing highly tailored solutions for a specific set of customers. The focus on a specific set of customers limits the appeal of the offering to a relatively small market but has the advantage that the solutions are so well tailored to this customer group that competitors are effectively locked out of the niche. The customer here could be a processor/first handler or it could be an end-user. High levels of service and considerable effort at building relationships characterize this option. Solutions to customer problems are sourced widely, making supplier relationships a key to successful execution of the focus/niche positioning approach. The firm pursuing this strategic option could emphasize differentiation, coordination, or cost minimization, although cost minimization is the least likely of the three.

Competence, Market Scope, and Strategy

Different positioning strategies fit best with different core competencies and market sizes. Core competencies are the primary skills of the firm and are the foundation of the firm's competitive advantage. Combining principles from the work of Porter and of Treacy and Wiersema with experience in agriculture reveals three fundamental competencies:

1. Innovation
2. Cost Minimization

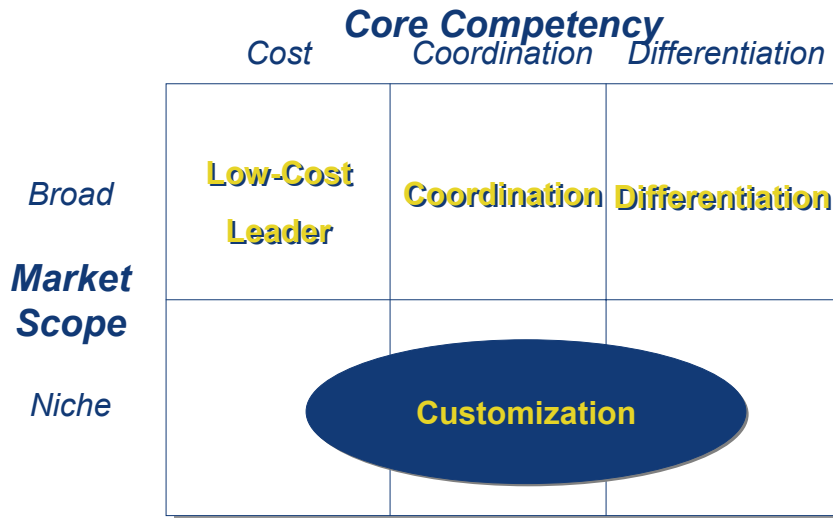
3. Coordination

Firms that are successful with the differentiation strategy are better at producing a steady stream of innovative products and services than their competitors. They often have internal capacity or access to latest research and development capabilities in the industry. Likewise, firms that are superior cost minimizers produce bundles of products and services that are less expensive than equivalent offerings of competitors. They do not engage in original research but may have the capability of quickly copying innovators or buying successful innovations from others. They are ruthless cost cutters but are willing to make substantial investments if these investments drive down costs. Firms that focus on coordination facilitate or build unique value-adding chains that link together their suppliers and customers. The type of coordination can range from simply acting as a coordinator, facilitator, or deal maker to full ownership of interconnected stages in the chain. This coordination role provides market power and economies in procurement and marketing.

While each competence is important and firms would like to have all three, typically a firm can only emphasize one. The reason is that emphasis on a particular competence comes at the expense of the other competencies. For example, emphasis on innovation is best supported by heavier spending on research and development, and non-standard processes for handling each new offering, while cost minimization is best supported by producing standard products using standard processes. This means that the strategic orientation affects the way the firm does things. When farm business managers, for example, understand the basis of the farm's competitive advantage, they are able to make decisions supporting that particular advantage.

Market scope is a second dimension of strategic positioning. Firms can decide either to focus on a broadly defined market or on a narrowly defined niche market(s). Some might use the term "customization" to describe this intense focus on the needs of a tightly defined segment of the market. A firm building an advantage around customization can combine this focus with any of the three core competencies described earlier, depending on customer needs and the competitive environment in the segment of choice. Figure 4 characterizes the four strategic positioning options as a function of core competency and market size.

Figure 4. Overall Strategic Orientation



A Final Comment

Thinking strategically will become increasingly important for successful farms of the future. The strategic thinking process leverages an understanding of the strengths and weaknesses of the business - leading to an identification of the core competencies and capabilities - to respond to the opportunities and threats provided by the external environment. Only by understanding internal capacities and the external environment can the successful farm business manager analyze the strategic positioning options available to the business. Choosing a strategic position of low-cost leader, differentiator, coordinator, or niche-focused customizer based on this analysis provides the farm business manager with a fundamental direction for the farm business that can shape its ability to create value for its customers. And that is what farming of tomorrow will be - a business that understands customers and determines how to create value for those customers through products and services that provide a long-term sustainable competitive advantage through a low-cost, differentiation, coordination, or customization strategy.