

# Agribusiness Management Series

## An Agribusiness Manager's Guide to Strategic Planning: Jargon and Process



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The operating environment of agribusiness firms is rife with uncertainty and risk. Whether the challenges are posed by vagaries in the weather, export markets, government actions, or competitive pressures, today's agribusiness manager must anticipate these and other environmental changes in developing sound business plans.

While many of the factors which lead to uncertainty are beyond the control of managers, it is possible to take steps to minimize the adverse effects and possibly take advantage of environmental scenarios. Rather than reacting to situations after they have developed, managers are more successful if potential opportunities and threats can be anticipated during the planning process.

Strategic planning is the process whereby long-term goals and objectives are identified and strategies for their attainment are determined. Whether an organization is large or small, activities associated with strategic planning are critical to performance. The strategic alternatives may vary among firms based on size or industry; however, the strategic planning concepts are still appropriate and managers will benefit to the extent that they are understood.

This Extension Facts is intended to assist managers in sorting through the jargon associated with strategic planning and enable them to better understand the process. Specifically, the objectives of this Extension Facts are to: 1) define the role of strategic planning in agribusiness management, 2) discuss the strategic planning process, 3) provide guidelines for developing an organizational mission statement, 4) identify the process of establishing organizational goals and objectives, 5) summarize the process followed in developing organizational strategies, 6) introduce the concept of an organizational portfolio and its implications for strategic planning, and 7) examine issues associated with implementing strategic plans.

### Definition of Strategic Planning

Strategy refers to management's "game plan" for achieving chosen objectives. Strategic planning is the

process of establishing long-term goals, identifying activities to achieve those goals, and allocating resources to those activities. More specifically, strategic planning focuses on questions regarding products and services to be offered, target customers, and justification for existence.

There are at least four benefits to a well-conceived strategy. First, it provides guidance to all managers in the organization. With all managers aware of the long-term objectives of the firm and the proposed means for their attainment, it is more likely to find managers cooperating and contributing to the success of the firm than otherwise. Second, the process of developing strategy contributes to recognizing and responding to emerging threats and opportunities. Managers engaged in strategic planning become more forward-looking in their thinking. Third, a well-conceived strategic plan serves as the basis for deploying organizational resources among various activities. Without the specification of a strategic plan, there is little rationale underlying the deployment of resources among competing activities. Fourth, strategic planning assists management in trying to influence rather than merely responding to competitive forces.

A number of managerial issues influence the development of strategy. First, managers must address the question of how to respond to changing conditions (either within or outside the firm). Second, as organizations grow in complexity, managers are faced with the challenge of allocating resources among various businesses, activities, divisions, and organizational subunits. Third, with the development of various businesses of the firm, complexity arises in determining how to compete in distinct markets. Fourth, managers often are successful to the extent that they are able to effectively coordinate the activities of various units of the organization.

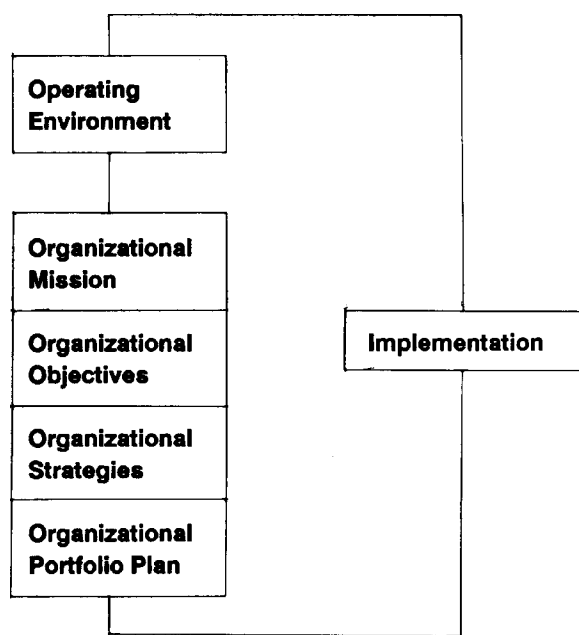
The primary focus of strategic planning in agribusiness firms is in dealing with risk and uncertainty. Whether the risk dealt with arises from factors within or beyond the control of management, strategic planning should be an integral part of the management practices of agribusiness firms.

### The Strategic Planning Process

The strategic planning process consists of

examining the operating environment of the firm, establishing an organizational mission, determining organizational objectives, selecting organizational strategies, and defining an organizational portfolio plan (Figure 1). Developing a strategic plan is defined as an ongoing process since no plan can be established and never change. In fact, the essence of strategic planning is to constantly be examining the environment and firm performance to identify the need for strategy reformulation. This does not mean that plans are constantly changing, but that mid-stream adjustments often must be made to accommodate unforeseen developments.

**Figure 1**  
**The Strategic Planning Process**



### Developing a Mission Statement

The economic justification for the existence of an organization is in the products and/or services that it provides to society. With an economic environment that is continually changing, firms which fail to identify shifts in demand often do not survive. To assist in focusing on the factors which lead to success, it is valuable for a firm to develop a concise mission statement which answers such questions as "What is our business?" and "What should it be?"

A mission statement is a broad, general statement of what the organization is trying to become. Essentially, the mission statement should reflect the role that the firm plays in society. The intent of the mission statement is to provide direction and purpose to groups which include owners, managers, employees, suppliers, and the general public.

Factors which influence the development of a mission statement include the organization's history, its distinctive competencies, and its environment (Kotler).

**History.** Where the firm has been often will influence where the firm is going. It may not make sense for an agricultural cooperative which has served the needs of its members in providing agricultural inputs to redefine its mission to become an integrated food processor, even if there is profit potential in doing so.

**Distinctive competencies.** With the allocation of enough resources, a firm might be able to compete in a number of areas. However, it may be a better plan to emphasize strengths, particularly those competencies which are distinct to the firm relative to its competitors. A food processor may have the ability to enter the convenience store business; but such a decision would not let it capitalize on its abilities in the area of processing technology and knowledge regarding the market for processed food products.

**Environment.** The political, social, economic, and physical/technological environments in which the firm operates often will dictate the direction the firm can take by defining threats and opportunities. For example, increasing government regulation of the operations of meat packers can result in constraints on the direction of growth of the firm and should be recognized in the mission statement.

Taking into account history, distinctive competencies, and the environment, effective mission statements focus on markets rather than products, and are achievable, motivational, and specific (Drucker and Kotler).

**Market rather than product focus.** Traditionally, firms have defined their businesses in terms of what was produced rather than what customer needs were met. Hence, as technology and consumer markets changed, the mission statement often became outdated. The current trend is for firms to focus externally in defining the mission and purpose of the firm. Drucker stated the following:

"A business is not defined by the company's name, statutes, or articles of incorporation. It is defined by the want the customer satisfies when he buys a product or service. To satisfy the customer is the mission and purpose of every business. The question "What is our business?" can, therefore, be answered only by looking at the business from the outside, from the point of view of customer and market."  
(Drucker, p. 79)

**Achievable.** An effective mission statement is one which encourages the firm to stretch to attain new levels of performance. However, the statement needs to be realistic and achievable or may actually discourage performance. In other words, the mission

statement "should open a vision of new opportunities but should not lead the organization into unrealistic ventures far beyond its competencies" (Donnelly et al., p. 125). For example, a grain elevator defining its mission in terms of meeting the needs of world hunger is not realistic.

**Motivational.** Performance often can be influenced by the development of a "shared" sense of purpose of individuals working in the firm. A carefully formulated mission state assists in developing this "shared" sense of purpose within the firm.

**Specific.** The intent of the mission statement is to provide direction to management in making strategic decisions with respect to allocating resources, expanding efforts, eliminating unproductive activities, etc. A broad and loosely stated mission cannot serve as a focal point for the firm. Hence, statements such as "to maximize profits" should be avoided.

### Establishing Organizational Goals and Objectives

Organizational goals are defined as long-term results which are desired by the firm. Objectives are often defined similarly to goals. The distinction between the two terms is often clarified by considering goals as providing purpose for long-term action and identifying objectives in terms of more specific, concrete, measurable future outcomes to be pursued by the firm. As with mission statements, organizational objectives are influenced by competencies and resources, values and aspirations of management, obligations to constituents, and existing and emerging opportunities and threats (Tate, et al., p. 37).

The purpose of goals and objectives is to provide the firm with a target towards which it directs ongoing, long-run operations. Properly formulated objectives are capable of being converted into specific actions, provide direction to all individuals in the firm, establish long-run priorities for the organization, and facilitate management control by serving as a standard against which performance can be evaluated (Donnelly, et al., p. 128).

To accomplish these purposes, objectives need to be specific, understandable, achievable, measurable, and cost effective. Vague, poorly understood objectives do not provide the firm with a target to direct actions. Moreover, objectives which are overly ambitious often can reduce rather than increase motivation. Objectives which are not measurable are only wishes in the sense that it is difficult to determine when they are accomplished, or even if progress is being made. Finally, objectives need to be cost effective. It makes little sense for a firm to pursue sales objectives without taking into consideration the costs associated with goal attainment.

Objectives are often formulated with regard to profitability, market share, innovations, service and

quality, productivity, manager performance, worker performance, and social responsibility. From a practical standpoint, objectives should be developed for key results areas (i.e., areas in which the firm may expect the greatest payoff).

### Developing Organizational Strategies

While objectives are the ends pursued by the firm, strategies are the means to the ends. Strategies answer the question "By what means are the objectives to be attained?" Simply stated, once objectives are identified, the next step is to identify the way in which the objectives are to be accomplished, i.e., strategies. Strategies focus on ways of improving performance by better managing what the firm is currently doing and/or redirecting resources toward new activities.

The product-market growth matrix is used to identify alternative strategies that a firm may pursue in an effort to foster long-term growth (Figure 2). Based on assumptions regarding customers and products, growth strategies consist of either market penetration, market development, product development, or diversification.

**Figure 2**  
**Product-Market Growth Matrix**

	<b>Products</b>	
	<b>Present Products</b>	<b>New Products</b>
<b>Markets</b>		
<b>Present Customers</b>	Market Penetration	Product Development
<b>New Customers</b>	Market Development	Diversification

**Market penetration** is a strategy which attempts to expand sales and competitive position by increasing market share of present products with present customers. An example would be for a feed manufacturer to expend efforts in increasing sales of existing products with the current target market.

**Market development** is a strategy which is associated with offering present products in new markets. New markets are defined in terms of present customers, whether determined by geographic area or common product usage. A feed manufacturer which attempts to introduce present products in a new geographic region is pursuing a strategy of market

development. Similarly, a firm which attempts to encourage the use of an existing product in new ways is pursuing market development. Firms with market strength in a few markets often will view expansion into additional markets as a viable growth strategy.

**Product development** consists of growth through developing new products which are then sold to present customers. A pesticide company which develops a new pesticide which is then sold to current customers is an example of a product development strategy for growth.

**Diversification** is where a firm plans to grow by developing new products which are then sold to new customers. Frequently, diversification is accomplished through acquisitions. An example of diversification is where a food processing firm purchases a software development firm.

Firms often develop strategies which combine elements of market penetration, market development, product development, and diversification. Strict definitions of what constitutes a new product or customer may be difficult to make in practice.

### The Organizational Portfolio

An agribusiness often can be viewed as a collection (or portfolio) of businesses. For example, farmers' cooperatives in Oklahoma encompass businesses such as grain buying and selling, fertilizer, animal health products, petroleum, and professional services. Each of these businesses is referred to as a strategic business unit (SBU). Strategic business units have the following characteristics (Donnelly, et al., p. 132):

1. They have a distinct mission.
2. They have their own competitors.
3. They are a single business or collection of related businesses.
4. They can be planned for independently from the other businesses or the total organization.

Based on these characteristics, an SBU can be a division, a department, a product line, or a single product. The business portfolio concept centers on the analysis of the firm's collection of SBUs with the purpose of addressing how a firm's resources should be used. The business portfolio matrix developed by the Boston Consulting Group provides a useful way of examining SBUs according to the market growth rate and relative market share (Figure 3).

According to the Boston Consulting Group, SBUs are either stars, cash cows, question marks, or cash traps.

**Stars** are those SBUs which are in high growth markets and have a high relative market share. Due to high growth, stars typically require substantial financial resources to finance inventory, accounts receivable, etc. When growth slows down, stars become cash cows.

**Figure 3**  
**Business Portfolio Matrix**

Market Growth Rate	High	Star	Question mark
	Low	Cash cow	Cash trap
		High	Low
		Relative Market Share	

**Cash cows** are those SBUs which are in low growth industries and enjoy high relative market share. Because financial resources are no longer required to finance growth, cash cows become generators of financial resources which can be used by other parts of the business. Examples might include a fertilizer manufacturer or food processor with a high share of the regional market for their respective products.

**Question marks** are SBUs which are in high growth industries but have a relatively low market share. The objective of such SBUs is to increase relative market share in order to become a star. Otherwise, as the market matures and the industry growth rate declines, question marks become cash traps.

**Cash traps** (also know as dogs) refer to SBUs which are in low growth industries and have low relative market share. Such SBUs are called cash traps because they do not have adequate market share to generate cash and they have little potential for growth since the industry has stagnated (i.e., all growth must come at the expense of competitors' sales which are often difficult to capture). Cash traps are to be avoided since they do not contribute substantially to the performance of the firm.

Organizations most often consist of a collection of SBUs which may be either stars, cash cows, question marks, or cash traps. One of four strategic alternatives may be pursued for each SBU in an organization: build, hold, harvest, or divest (Burnett, pp. 1-63).

If an SBU is presently a question mark and has the potential of becoming a star, one strategy is to build. The decision to build is based on making the tradeoff between short-term profits and long-term potential. The hold strategy applies most particularly to cash cows, i.e., those SBUs that are providing financial resources to the organization. The harvest strategy consists of selling off SBUs in order to improve short-term cash return and reallocate resources in the organization. The harvest strategy emphasizes short-term returns at the expense of long-term potential and should not be applied to stars since they represent the

future of the organization (unless a fundamental redirection of the firm is desired). The divest strategy is most appropriately applied to question marks and cash traps where the objective is to limit losses or the drain on financial resources.

As the rate of growth in a market slows, one SBU can move from being a question mark to a star, followed by a cash cow, and eventually becoming a cash trap. Viewing an organization as a portfolio of SBUs assists managers to understand the dynamic nature of their organizations and assess the position of strategic businesses within the broader context of organizational goals and objectives.

## Implementing Strategic Plans

The success of any plan depends, to a large extent, on implementation. It is not uncommon to develop what appears to be a sound plan only to fail due to problems arising during implementation. In implementing strategic plans, the general manager is responsible for:

1. building an organization capable of carrying out the strategic plan,
2. allocating and focusing resources on strategic objectives,
3. obtaining organizationwide commitment to the chosen strategic plan,
4. installing internal administrative support systems, and
5. exerting strategic leadership (Thompson and Strickland, p. 323).

Perhaps the single most important aspect of implementation is in obtaining organizationwide commitment to strategic plans. Such commitment is fostered through effectively communicating the strategic plan and performance expectations to those involved and encouraging participation in both planning and implementation activities. In recent years, participative management (where employees are given a significant and meaningful say in management decisions) has been regarded as perhaps the most effective means of obtaining commitment.

## Summary

The quality of planning is a critical element in the success or failure of agribusiness firms. Firms which are successful over long periods of time are those which consistently examine their business environment, assess strengths and weaknesses, formulate strategic objectives, and identify and implement business strategies. An old adage states that the firm that "fails to plan, plans to fail."

Understanding the strategic planning process and following it in practice should lead toward greater

success in obtaining business objectives. The product/market growth matrix and the business portfolio matrix in analyzing strategic alternatives serve as the starting point for improving the quality of strategic analysis and decisionmaking. Finally, implementation effectiveness can be enhanced through increased communication and an expansion of participative management practices.

## Key Terms and Concepts

**Agribusiness Firm.** A firm engaged in the manufacture and distribution of farm inputs; production operations on the farm; and/or the storage, processing and distribution of farm commodities and their derivatives.

**Mission Statement.** A statement of long-term vision of what the organization is trying to become, the unique aim distinguishing it from other similar organizations.

**Organizational Objectives.** The end points of the organization's mission, i.e., what the organization seeks through ongoing, long-run operations.

**Organizational Strategies.** The organization's grand design, i.e., its action plan for achieving its organizational objectives.

**Organizational Portfolio Plan.** The decision of which businesses to build, maintain, or eliminate and/or which businesses to add to its operations.

**Strategic Business Unit (SBU).** A portion of the organization's business which can be considered independent of other operations in terms of planning and performance.

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