Assessing Strategic Positioning Skills

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Introduction
As farms continue to consolidate it becomes increasingly important to assess a farm's management skills. At a certain farm size, it is no longer easy or feasible for the manager or managers to wear every management hat. How does the management team determine when to focus on professional development, delegate management tasks among mangers, and seek outside assistance? This is the eighth and final article in a series pertaining to the assessment of management skills. The topic of this article is the assessment of strategic positioning skills.

Strategic Positioning Skills
Table 1 presents important strategic positioning skills. Important skills in this management area include the following: articulating a vision for the farm business; identifying factors critical to the long-term success of the business; capitalizing on new and emerging markets; assessing your farm's advantages and disadvantages compared to competing farms; updating written strategies and action plans at least annually; and updating equipment and facility replacement plans at least annually. Each farm operator should rank their ability with respect to each skill using a 1 to 5 scale with 1 be relatively weak and 5 being relatively strong with respect to that skill. The idea behind checklists such as that presented in table 1 is to assess whether a farm has a skills gap, which is defined as the difference between skills that a farm needs and the skills of their current workforce (operators and employees). Conducting a skills gap analysis helps a farm to identify skills that will be needed to become more efficient and expand.

The checklist in table 1 does not include a final tally score, nor does it address tradeoffs in various skill or ability areas that may lead to success. Rather, the checklist helps farm operators evaluate their skills and abilities in areas critical to long-term financial success. As farm operators fill out the checklist, they should try to determine which of the skills listed are most essential to improving efficiency and expansion plans.

The discussion below will focus on strategic direction and managing strategic risk. Strategic direction involves thinking about whether a farm is going to focus on a commodity based strategy or a differentiated product strategy. Strategic risk involves the sensitivity of a farm's strategic direction and vulnerability to business climate uncertainties.

Strategic Direction
Management of a farm business can be broken down into two categories: tactical and strategic management (Edwards et al., 2016). Tactical management involves day-to-day management tasks that ensure that the business is doing things right. Conversely, strategic management involves charting the long-run course for the business or ensuring that the farm is doing the right things.

Strategic direction or management involves determining whether the operation is interested in a commodity based strategy or a differentiated product strategy (Boehlje and Langemeier, 2017). A commodity based strategy focuses primarily on cost control while a differentiated product strategy focuses on value-added production or receiving an above average price for a farm's products.

When evaluating strategic direction, it is important to conduct an internal and external analysis of your operation. An internal analysis identifies key resources, capabilities, and core competencies. An external analysis examines the social and industry environments the farm faces, and involves answering questions pertaining to supply and demand. For example, what is the demand for the farm's current products? If we produce a value-added commodity, is there sufficient demand to warrant a relatively high price?

Identifying a farm's sources of competitive advantage is important when developing a strategic direction. Competitive advantage involves establishing a difference in financial performance than can be preserved. To do this, a farm must either deliver greater value to customers, create comparable value at a lower per unit cost, or do both. One useful technique that can be used to determine whether a farm has a competitive advantage is to identify whether the farm has a unique resource or capability that enables it to have a competitive advantage (Langemeier, 2016).

Assessing and Managing Strategic Risk

Strategic risk involves the sensitivity of the farm' strategic direction and ultimate vulnerability to uncertainties in the business climate (Boehlje and Langemeier, 2017). Uncertainties pertaining to strategic risk may be derived from the following sources: international, government policy, government regulation, macroeconomics, social, environment, industrialization, technological uncertainty, or competitive conditions.

Though it is difficult to manage strategic risk using typical risk mitigation strategies such as controlling leverage, using futures and options, or using crop insurance, it is still imperative that a farm manage its exposure to strategic risk. One of the ways to think about strategic risk is to use scenario analysis. Scenarios can provide insight and an understanding of the forces and drivers that may shape the uncertain future. Scenarios such as low price, most likely price, and high price provide a framework about what may happen, and more importantly what a farm might do if one the scenarios plays out. When evaluating scenarios, it is important to gauge the impact of each scenario on a farm's balance sheet and income statement using pro forma statements or projections.

Concluding Comments

Assessing strategic positioning skills is an important part of benchmarking farm performance and figuring out where improvements may be needed. If the operators on the farm identify management areas which are not currently being addressed, they will need to determine whether someone is going to get up to speed with regard to these areas or outside help is going to be sought to address weaknesses.

Strategic direction involves thinking about whether the farm is going to focus on a commodity based strategy or a differentiated product strategy. Traditionally, farms have focused on a commodity based or low cost strategy. With the recent increase in opportunities to produce unique products that add value, it is important to also examine whether a product differentiation or value-added strategy should be pursued. Strategic risk involves the sensitivity of a farm's strategic direction and vulnerability to uncertainties in the business climate. It can be extremely expensive to unravel a strategic mistake. When developing strategic plans, make sure to compute the cost of unwinding a decision.

Table 1. Strategic Positioning Skills

		Weak to Strong (Check the Appropriate Box)				
		1	2	3	4	5
1	Articulate a vision of the farm business.					
2	Identify factors critical to the long-term success of the business.					
3	Capitalize on new and emerging markets.					
4	Regularly access your farm's advantages and disadvantages compared to competing farms.					
5	Written strategies and action plans are updated annually.					
6	Written equipment and facility replacement plans are updated annually.					

Citations

Boehlje, M. and M. Langemeier. "Assessing and Managing Strategic Risk." Center for Commercial Agriculture, Purdue University, May 2017.

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