# STRATEGY DEVELOPMENT

# FOR THE FARM BUSINESS:

# OPTIONS AND ANALYSIS TOOLS

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Staff Paper #04-12

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**Department of Agricultural Economics**

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Michael Boehlje, Allan Gray and Craig Dobbins
Department of Agricultural Economics, Purdue University
West Lafayette, IN 47907-1145
gray@purdue.edu
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**Abstract**

The strategic thinking process requires managers to assess their business' strengths and weaknesses, the result of which lead to an identification of core competencies. These in turn are used to respond to the opportunities and threats found in the external environment. Only by understanding internal capacities and the external environment can the successful manager analyze the strategic positioning options available to the business. Choosing a strategic position of either cost leadership or differentiation based on this analysis provides the manager with a fundamental direction for the business that can shape its ability to create value for its customers. In addition to these issues this paper provides specific criteria for core competencies and examples of value plate implementation.

Keywords: external and internal business analysis, core competency, value plate, cost leadership, differentiation

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Successful farmers of the 21st century will not only be top-notch production/operations managers, but they will also know how to strategically position their business for the long-term. Strategy is about making a choice as to where the farm business manager will focus resources and passion. In essence, strategy represents–the way the farm creates value for the customer. Strategy drives the farm's resource investment decisions, including how management allocates time and energy. As discussed in detail later, the strategy 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 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 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 the 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 products and services. "Who" 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.

## Strategic Planning and Analysis

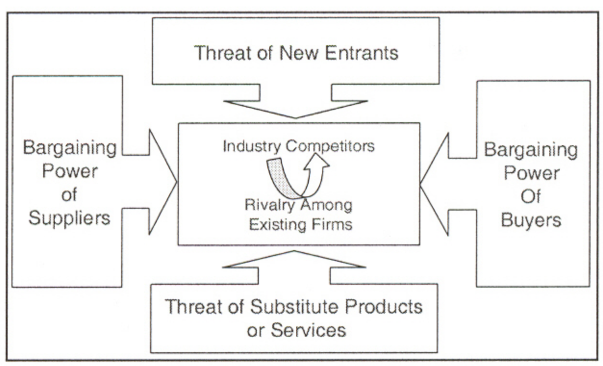
Any planning activity involves thinking about the future. However, the focus of strategic planning and analysis is not on predicting the future, but instead on making better decisions here and now in order to reach a desired future. Since the future cannot be known with certainty, farm business managers must make certain assumptions about what the future will hold. An important part of the strategic planning process is to recognize and explicitly state any key assumptions about what the future may hold. To be successful the farm business manager must find a fit between what the business environment wants and what the farm provides, as well as between what the farm needs and the environment can provide.

In thinking about the future, strategic planning requires information about both the external economic environment in which the farm business operates and the internal characteristics of the farm business. This information provides data for the development and evaluation of alternative strategies. Thus one of the keys to developing a sound business strategy is conducting a SWOT (Strengths, Weaknesses, Opportunities, and Treats) analysis for a business. With the SWOT a business's internal strengths and weaknesses are used to take advantage of external opportunities while avoiding threats.

## External Analysis–Five Forces Model

In conducting an external environmental scan, the farm business manager also must assess various industry forces. Michael Porter, an authority on competitive strategy, contends there are five forces that need to be accounted for in conducting an industry analysis. "The collective strength of these forces", he contends, "determines the ultimate profit potential in the industry, where profit potential is measured in terms of long-run return on invested capital."[1] These five forces are illustrated in Figure 1.

**Figure 1. Porter's Five Forces Model**




*New entrants* usually bring new capacity and competition for customers and resources. This is a threat to existing businesses in the industry. The threat of entry depends on presence of entry barriers. Entry barriers make it difficult for another business to enter the industry. Examples of these barriers include economics of scale and capital requirements. Because these are large in farming, they prevent new firms from quickly entering the industry. Another barrier to entry can be the relationships developed with customers. The care taken to satisfy customer needs can prevent a landowner from deciding to rent their farm to a competitor for an additional $5 per acre. The responsiveness to a processors need for grain on short notice can result in offers being presented to you but not your competitors.

*Substitute products* are products that appear to be different but can satisfy the same need as another product. Chicken can be a substitute for beef in consumers' diets. When switching

[1] M. E. Porter, *Competitive Strategy*, New York: Free Press, 1980, page 3.

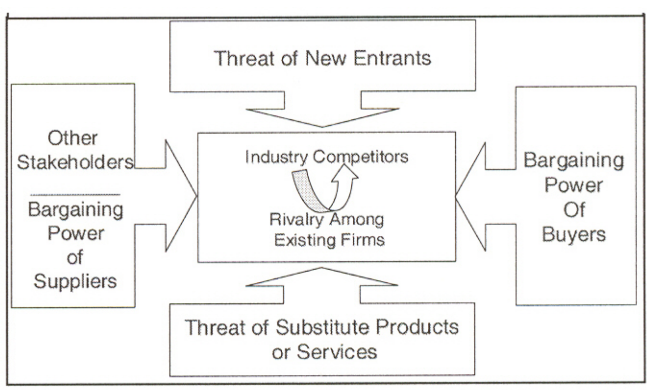
costs are low, substitutes can place a price ceiling on products. Market analysts often talk about "wheat capping corn." This occurs because wheat and corn are substitutes in animal feed. If wheat prices are low; corn prices will also be low because millers will quickly shift to wheat in order to keep ration costs low. This will reduce the demand and price of corn.

*Bargaining power of suppliers* affects their ability to raise prices. Suppliers are likely to be powerful if they are few in number, each individual farmer purchase represents only a small amount of the company's sales, there are not good substitutes of the product purchased, and the product or service is unique.

*Bargaining power of buyers* affects the industry through their ability to force down prices, bargain for higher quality or more services, and play competitors against each other. Buyers are likely to have power if a buyer purchases a large part of the sellers product, if alternative suppliers are plentiful and the product in undifferentiated, the buyers faces low margins and is sensitive to cost differences, and individual suppliers provides only a small amount of the total quality of the input needed by the buyers, and the purchased input has little importance to the final quality or price of a buyer's product.

*Rivalry among exiting firms* is the amount of direct competition in an industry. Industries that have intense competition are characterized by competitors that are roughly equal in size, slow rates of industry growth, the production of commodities, high fixed costs, and high exit barriers arising from investments in specialized equipment. In addition to the level of rivalry, it is important to note how businesses in the industry compete. Wal-Mart likes to compete for business based on price, but you never see a farmer trying to expand sales by offering to sell grain to the elevator for less than a competitor. If there is competition in this market, it is generally based on things other than price. However, in the cash rent market for farmland, there is a lot of price competition. So in assessing the rivalry among businesses, it is important to learn how and where businesses in the industry compete.

**Figure 2. Modified Five Forces Model**




Since the introduction of this five forces model for industry analysis, others have suggested that a sixth force should be included. This is force of other stakeholders (Figure 2). These stakeholders include federal, state, and local governmental units. These units of government can impose various limits on the actions that businesses can take. In Indiana, the desire for green-space in and around communities has resulted in various types of land-use regulations. While government is a force in every industry, other stakeholders also have different impacts in different industries. These stakeholders can include creditors, special-interest groups, and local community organizations. Changing our earlier figure to recognize this additional force makes the model more complete.

## Internal Analysis–Resources, Capabilities, and Core Competencies

The goal of the strengths and weaknesses component of SWOT analysis is to identify those activities conducted on a farm that can create a sustainable competitive advantage for the business. It is important to identify those activities in which a farm business excels relative to other competitors, not just activities that a farm business does equally as well as its competitors. However, it is not enough to just be better than competitors at certain activities. For an activity to be an important strength, it must also be valuable to customers. Unfortunately, objectively identifying strengths and weaknesses for one's own farm business is very difficult to do. The tools introduced in this paper should help the farm business manager frame the task of identifying their farm business's strengths and weaknesses.

The focus of an internal analysis of the farm business is to identify, resources, capabilities, and core competencies. Resources are inputs into a production process, such as capital equipment, cash, skills of individual employees, and talents of management. Resources are of two types: tangible and intangible. For most farmers, it is fairly easy to recognize tangible farm business resources because they can be seen and counted, and a dollar value can be assigned to them. Tangible resources would include things like land, storage facilities, barns, and machinery. Intangible farm business resources are not so easy to identify. Intangible resources would include technological or mechanical know how, family commitment, organizational structure, reputation, etc. These resources, generally, can't be touched or counted and would be difficult to assign a dollar value to. Nonetheless, intangible resources are increasingly becoming the key to the long-term success of businesses both in and out of agriculture. However, just identifying the tangible and intangible farm business resources is not enough because resources, by themselves, do not create a competitive advantage. To develop a competitive advantage it is necessary to combine resources and capabilities.

A firm's capabilities refer to management capacity to use resources in a way that achieve goals and objectives. Capabilities relative to the way in which business decisions are made and implemented. Capabilities don't necessarily reside in individuals, but more in the culture and decision-making procedures used on the farm. They are also reflected in the organizational structure and control systems used.

To be successful, business managers use resources and capabilities to create and maintain core competencies. Core competencies are resources and capabilities that serve as a source of competitive advantage. Core competencies are strengths that allow a business to achieve superior efficiency, quality, and innovation. For resources and capabilities to be a core competency they need to be valuable, costly to imitate, and non-substitutable.

### Criteria for Identifying Core Competencies

A valuable resource or capability creates value for the farm business by exploiting opportunities and/or neutralizing threats in the external environment. Valuable resources or capabilities enable the farm to develop and implement strategies that create value for specific customers. Based on flexible work schedules and the ownership of a semi-truck, a farm business manager may be able to create value for grain customers by delivering grain after only a few hours notice. To create value, the resource or capability must be used to help solve a customer problem.

Rare resources or capabilities are possessed by few current or potential competitors. A key question that farm business managers need to consider when using this criteria is “How many other farms have this characteristic?” Resources or capabilities possessed by many rivals are unlikely to provide a source of competitive advantage. Planting the most popular hybrids or using the most popular brand of machinery will not provide a competitive advantage. Competitive advantage results only when the farm business manager can develop and exploit capabilities that differ from those possessed by competitors.

Costly to imitate resources or capabilities are those that competitors would have a difficult time developing because they require a large capital outlay or a long period of time to develop. One example would be an in-depth understanding of cropland that has been handed down through the family for a number of generations. Because of years of experience in managing this land, family members understand how to achieve the best crop performance from the land better than anyone else and can use the land more productively than others. This particular capability (tangible resource of land and the capability to use it properly) would be difficult for many competitors, who either rent land or are new to the ownership of land, to quickly replicate.

Finally, a core competency must have no close substitutes that could be used to gain the same competitive advantage. One example is the trust-based working relationship that some farmers may have with their employees or in some cases with buyers or processors. Trust-based relationships take time to develop, are many times hard for competitors to recognize, and have very few, if any, close substitutes for gaining the same advantage.

Core competencies are the key to developing a successful business strategy–a competitive advantage. However, relatively few resources or capabilities meet the stringent requirements of a core competency (Figure 3). It is hard to develop more than a few core competencies. In fact, most research conducted in this area suggests that firms should identify and concentrate on only three or four core competencies.

**Figure 3. Criteria for Identifying a Core Competency**

| Is the Resource or Capability Valuable? | Is the Resource or Capability Rare? | Is the Resource or Capability Costly to Imitate? | Is the Resource or Capability Nonsubstitutable? | Competitive Consequences |
|---|---|---|---|---|
| No | No | No | No | Competitive disadvantage |
| Yes | No | No | Yes/no | Competitive parity |
| Yes | Yes | No | Yes/no | Temporary competitive advantage |
| Yes | Yes | Yes | Yes | Sustainable competitive advantage |

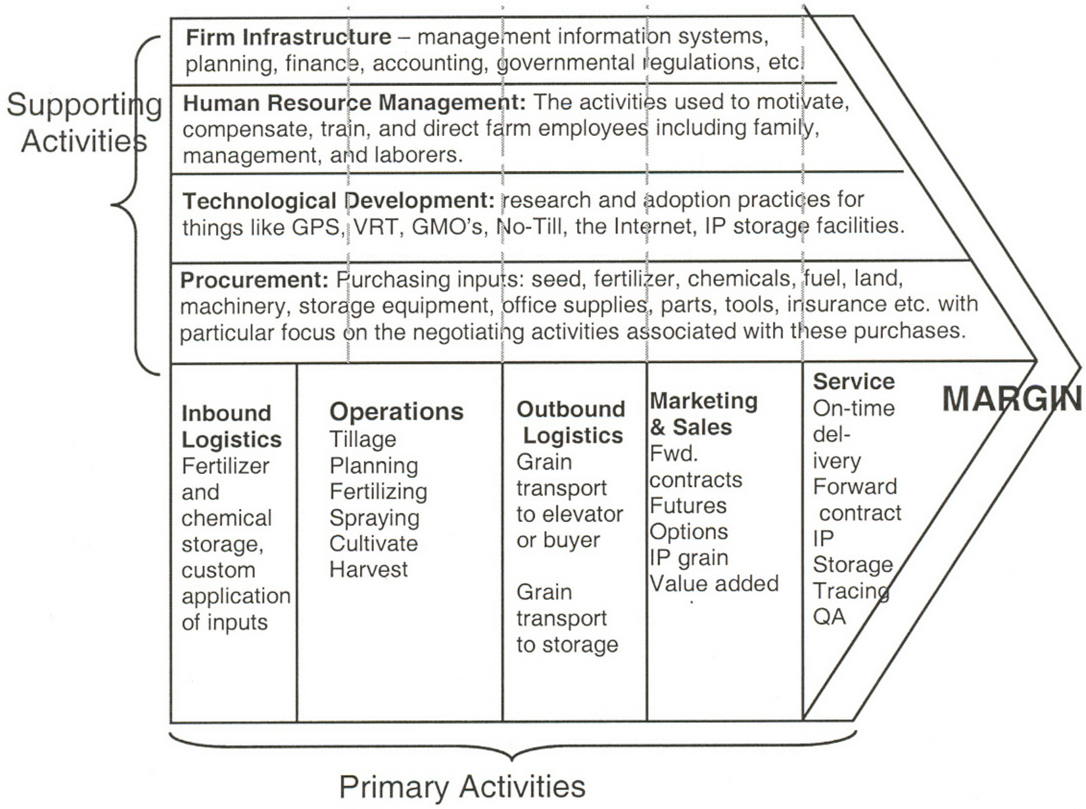
Source: Hitt, Ireland, and Hoskisson, 2001.

## The Value Plate

Another tool that is useful for identifying the resources and capabilities of the farm business and contemplating their potential for providing a competitive advantage is value chain analysis or the value plate.

The value plate is a framework developed by Michael Porter for identifying the activities the firm conducts to create value. Figure 4 depicts the activities that might be preformed on cash grain farms to deliver production services. The size of the external boundary of the plate represents the total value the farm creates for its customers. The individual boxes within the boundaries represent the individual activities performed and the cost of performing those activities. To the extent that the cost of performing the activities does not exceed the value created for the customers, the farm business receives a margin or has a profit. One wants the size of the individual box to be as small as possible, while having the overall value plate as large as possible. Those activities that the firm does at the lowest cost relative to the value created, vis-á-vis their competitors, give it a better chance of achieving a competitive advantage. Although not all farm businesses will include all of the activities depicted by this value plate, it is a useful way to think about the activities the farm currently performs and the activities that can be added to create more value.

**Figure 4. Value Plate Activities for a Cash Grain Farm**




The bottom half of the value plate represents the set of primary activities the farm undertakes in producing goods or services. These activities consist of supplier relationships (inbound logistics), operations (product or service creation), and buyer relationships (outbound logistics, marketing and sales, and service).

The top half of the value plate represents supporting activities undertaken so the primary activities can be done. These activities consist of the firm infrastructure, human resource management, technology development, and procurement. Each of these functions is necessary for successfully completing the primary activities depicted in the lower half of Figure 4. The idea is to identify the support activities conducted and determine the cost of those activities relative to the value they create either directly or through the product or service that they support. Supporting activities can often be the true source of a firm's competitive advantage, yet they are often ignored when management thinks about its resources and capabilities because much of the performance in these areas is associated with intangible assets. Let's briefly examine each of the different activities.

*Inbound logistics* are concerned with the way in which physical inputs are received and stored and the relationships with suppliers, referred to as "upstream value activities." These activities can be important to our production or service processes when the quality of the input is critical to the value we are trying to create. When special relationships are created with suppliers that either reduce the cost of providing value to the customer or reduce the costs of creating value, relationships with suppliers can be a source of competitive advantage. The example in Figure 5 illustrates these activities.

**Figure 5. Supplier Relationships in Action**

Don Villwock, a corn and soybean producer in Southwest Indiana has reconfigured his value plate in a number of ways. One interesting change has been the way his farm handles inbound logistics. Through agreements with local suppliers, Don has his fertilizer, seed, and chemicals delivered directly to the field where it is needed. According to don, this arrangement has resulted in a substantial reduction in his cost structure, “By taking advantage of the volume of business I provide to the supplier, I was able to convince him to deliver the inputs to the field for about the same price as if he were to deliver the entire volume to my farm. The great thing is that I no longer pay for storage facilities, insurance, or inventory taxes for my inputs.”

*Operations* include the physical activities carried out in the production of the product or service. These are the planting, tillage, harvesting, breeding, feeding activities we normally think of as farming. The way in which those operations are conducted and/or sequenced may prove to be the key to the farm's competitive advantage. Organic crop production is one area where the types and timing of operations can provide a key strategic advantage in the quality of the final product. And even in commodity production, timely planting or harvesting implemented using two or three shifts, may be an important source of a yield or cost competitive advantage.

**Figure 6. Customer Relationships in Action**

Eric Akins, a grain farmer in North Texas, partnered with two other farmers to purchase a grain elevator that had been out of service for over 10 years. By combining the partners' com production, the 1 million bushel grain elevator's capacity could be fully utilized. A large egg producer located a mile from the facility recognized the value of the million bushels stored so close to their operation and was willing to pay a substantial premium to Eric and his partners for their com. In return, the partners agreed to deliver the com to the egg farm on demand.

Eric said, "The old elevator is probably not commercially viable, but we can keep it running well enough to satisfy our needs. Besides, once you have a million bushels of com collected in one spot you have something to bargain with. I don't know if this will last, but so far it has provided us a considerable advantage over other farmers in the region."

*Outbound logistics* focus on the collection, handling, storage, and delivery of the completed product or service. The managers may create value in this activity by undertaking activities that assure quality or purity of the finished product, helping buyers manage inventories by storing the product until needed, or creating relationships with intermediaries such as wholesalers or retailers to store and deliver the product to the buyer. Figure 6 provides an example of this activity.

*Marketing and Sales* activities build the relationship with the buyer by understanding what the buyer values and helping the buyer understand the value that your farm creates. These activities can be a key source of competitive advantage for the farm and may consist of, for example, pooling production with others through a coop to provide both volume and quality needed by the buyer. Or for specialty products and services, it may be a set of integrated pricing, promotion, and delivery strategies that are unique and customized to each buyer. These activities might also include the set of pricing strategies the farm uses to reduce its risk in the product market.

*Service* activities are often tightly linked with marketing and sales, and involve providing services the buyer would value along with the product. These services might include product characteristic explanations, product quality assurance, and product warranties. These additional services can, in some cases, be the only thing that differentiates your products from competitors. In agriculture, a competitive advantage might come from the adoption of a set of documented identity preservation practices that are provided to the buyer, assuring them that exact procedures were followed to maintain the quality and safety of the specific product.

**Figure 7. One Method of Providing Business Oversight**

> "Our family farm has a board meeting every month. The board consists of my son, son-in-law, all three wives, and myself. We do not make any major decisions in the crop or hog side of the business without approval by at least a majority of the board members. In fact, we have not yet made a decision that didn't have unanimous approval. This approach to decision making makes sure we are all in agreement on the direction of our business, which increases our efficiency and lowers cost." - Levi Huffman, Farmer, Tippecanoe County Indiana

*Firm infrastructure* is associated with the functions of top management and includes the activities of strategic planning, systems integration, regulatory oversight, and other functions that cut across the business. This function is extremely important in making sure the business stays focused on the goals and objectives, and that activities, core to the success of the farm's strategy, are carried out in a superior fashion. Figure 7 provides an example of this activity.

*Human resource* activities deal with recruiting, hiring, training, developing, and retaining the farm's employees. This support activity can be critical to the firm's success, particularly when the primary activities require particular skills or incentive structures to achieve the desired product or service. For example, many farm businesses have grown to a size where herdsmen are employed to provide operations management to the livestock enterprise or maintenance and machine operations managers are employed for the grain enterprise.

*Technological Development* is concerned with the way farm managers develop, evaluate, and use technology in the production process. For many farms, this may include investments in research and development, such as on-farm tests to improve production processes or product characteristics. For other firms, probably most farming operations, this activity will focus on the evaluation of technologies developed by others.

*Procurement* activities focus on the processes used for purchasing inputs. This activity may involve bidding processes, Internet purchases, participating in purchasing groups, hiring buyers, negotiated contracts, etc. Ultimately, the firm uses a series of different procurement processes to assure a proper balance between cost and quality in the development of its primary products or services.

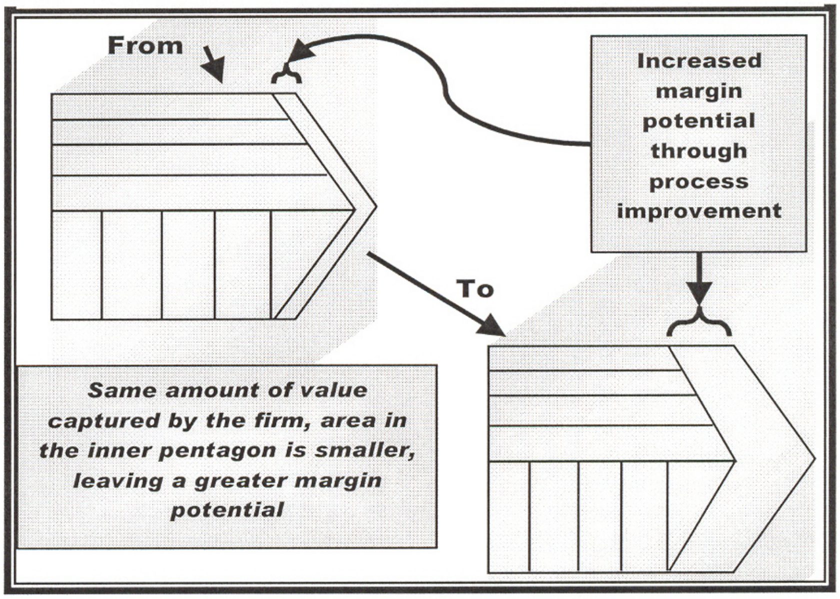
*Margin* is the desired result of performing the value-creating activities. The basic idea of the value plate is that the customer is willing to pay a certain amount for the value the farm creates. The value the customer is willing to pay is represented by the size of the overall pentagon. The size of the individual activity boxes represents the cost of performing those particular activities. Thus, the smaller the size of the individual activity boxes relative to the value the customer is willing to pay, the greater the *margin* will be for the farm.

When using the value plate as a mechanism for identifying the farm's strengths and weaknesses, it must be compared to competitors' value plates. Those activities that are a strength for a farm business are those that it can perform in a manner that is superior to competitors' or those that the competitors simply cannot perform.

Evaluating a farm and/or a competitor's capacity to execute the primary and support activities of the value plate is challenging. This activity requires judgment because there is no obviously correct model or rule available to help in the process. In addition, much of the data available for these evaluations is largely anecdotal, sometimes unreliable, or difficult to interpret. Nonetheless, the concept of the value plate is a useful way to frame all of the various activities conducted by a farm business. In addition, the value plate forces farm business managers to think about these activities relative to the way their competition conducts these activities, as well as what value these activities create for customers.

There are two traditional strategies for improving margins: improving productivity and creating more value. Figure 8 illustrates the concept of improving margin potential by improving productivity. The focus in this approach is on reducing the costs associated with performing the value-creating activities while maintaining the same overall value to the customer. The result of the improved productivity is a larger margin area.

**Figure 8. Increasing Margins by Improving Productivity**

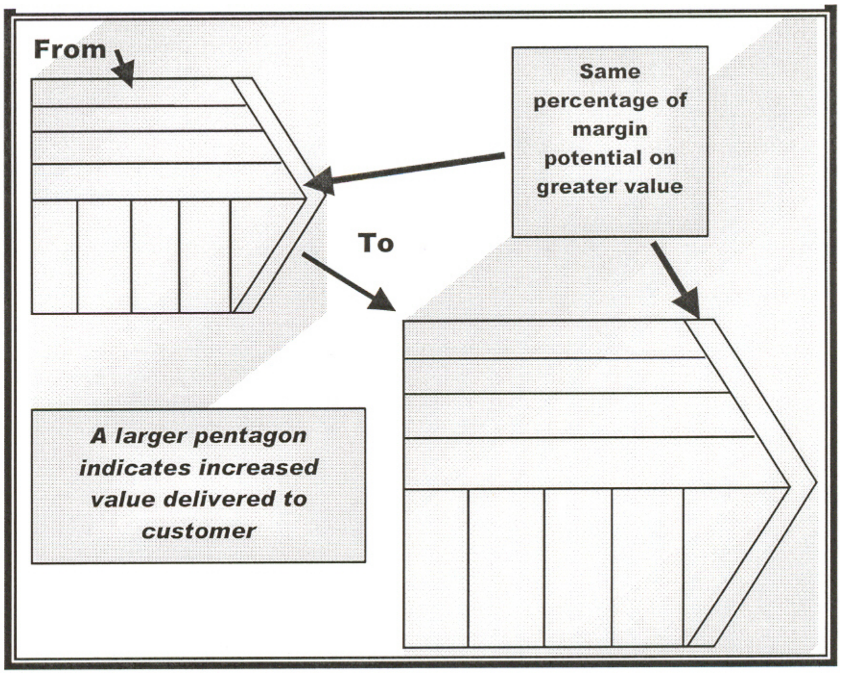



Margins can be increased even if additional costs are incurred in some activities if benefits are obtained in others. For example, acquiring a more skilled work force may result in an increase in the cost of human resources. But attracting more skilled workers may reduce downtime and managerial oversight and thus the cost of production activities. The size of the human resource box in the value plate would increase, but the size of the inbound logistics, operations, market and production boxes would decrease. As long as the overall cost savings is larger than the increase in the human resource cost, the result will be an increase in potential margin.

The typical strategy to create value and generate a margin is to accomplish the activities at the lowest cost–to have the lowest fertilizer cost per acre or feed cost per cwt. gain or to purchase seed and chemical inputs at the best prices.

Figure 9 illustrates the concept of increasing the value delivered to the customer and the additional margin generated. Here the size of the overall value plate is being increased. Along with the increase in the overall value comes an increase in the cost of performing the activities to create that value. Thus, the margin potential may remain the same as a percentage of the product's value, but the product is worth more. As long as the increased cost associated with creating more value is less than the additional value created, there will be potential additional margin.

**Figure 9. Increasing Margin Potential by Increasing Customer Value**




While the first approach to improving margins was concerned with reducing the costs associated with delivering the current value, the focus of this approach is on creating additional value for the customer. This can be a substantially different mind set. This approach requires a keen understanding of customers and what exactly they value. Once the customers' needs are understood, this approach would focus on delivering that value efficiently, not on making sure costs for individual activities were lower than competitors' costs.

With increased interest in specialty products, quality attributes, and identity preservation and segregation, opportunities for producers to create more value for customers have increased. However, creating additional value only allows the potential for an increase in margin. For the increased potential margin to be realized, the farm business manager must find a way to capture the increased margin.

In a similar vein, farmers can create additional value for suppliers and have the potential to capture higher margins. Probably the best example of this concept is in the land rental market, where a tenant may incur additional costs of weed control and building/fence/land maintenance and repair that is of value to the landlord. In turn, the landlord may offer more favorable rental terms or a longer term rental contract or make investments in drainage or clearing that will benefit the tenant. A similar value creation activity might occur when a farmer incurs the cost of putting in test plots for a seed company. Often in this situation the farmer is rewarded with a discount on seed purchased from the dealer or with preferred access to the highest yielding varieties. Another example would be a grain processor that does not want to invest in inventory or storage and handling facilities and will compensate the farmer/supplier to do so. Even though the producer is incurring additional costs, he/she is creating more value for the customer (a bigger value plate) and there is additional margin if the additional value created exceeds the costs.

## Strategic Options

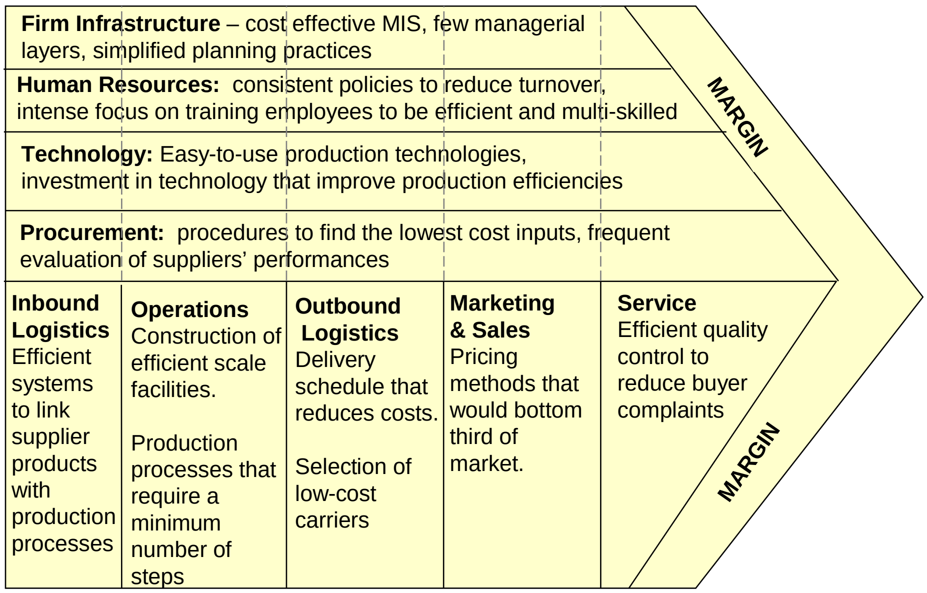
Farm business managers must evaluate their overall strategy as they seek to match their core competencies with the changing complexion of the marketplace. Two fundamentally different strategic options are possible.

### Cost Leadership

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 successful competitors. These firms are involved in the manufacture of generic commodity products in most cases.

The value plate concepts discussed earlier can be used as a mechanism for assessing the potential of a low-cost leader strategy. Figure 10 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 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 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 10. The Value Chain for a Low Cost Strategy**




The potential success of the low-cost leadership strategy in terms of an effective response to the external threats and opportunities can be evaluated using the five forces model. Just to illustrate, to effectively implement a low-cost strategy:

- Farm business managers will be able to operate with low prices better than their *rival* competitors;
- They will be able to sustain or mitigate the price pressure that results from *buyer power* better than their competitors;
- They will develop procurement procedures that resist price pressures and bargaining *power of suppliers;*
- They will be able to thwart or off-set the threat of *new entrants* through continuous improvement in efficiency to lower cost; and
- They will use various techniques to deepen customer relationships and thwart customers switching to *substitute products or suppliers.*

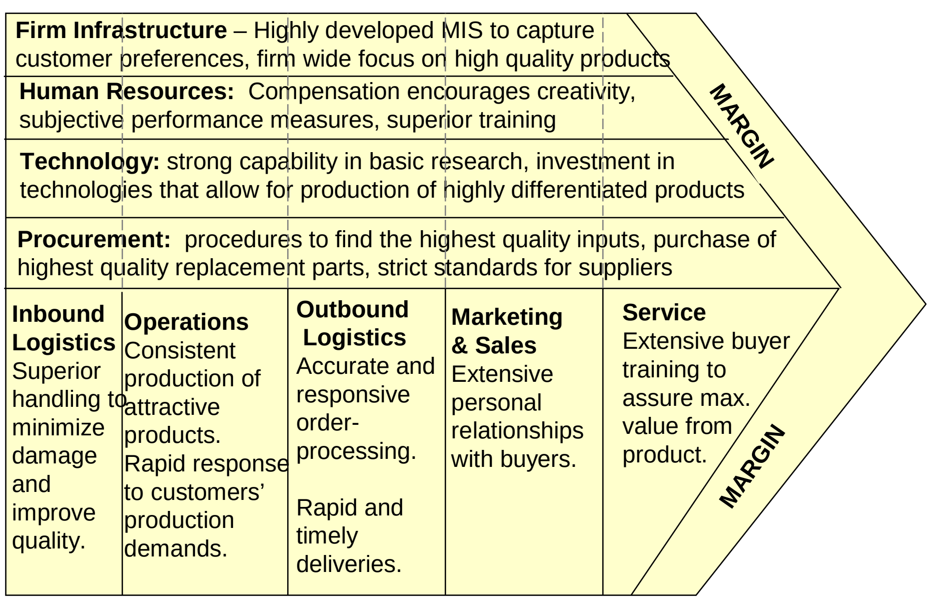
## Differentiation

The farm business manager that focuses on differentiation offers a steady stream of new products and services. Their product and service offerings are at above average market prices because of the extra value delivered by the differentiational innovations. If they pursue 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. If a more narrowly defined niche market is pursued, size economies are less likely and higher prices will be needed to generate adequate margins.

Focus/niche firms differentiate by developing highly tailored solutions for specific customers. The focus on specific 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.

Again, the value plate and five forces models can be used to help assess the potential of a successful differentiation strategy. Figure 11 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 delivery times 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 11. Value Plate for a Product 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.

## 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 core competencies. Core competencies become our tools for responding 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 options available to the business. Choosing a strategy of a cost leadership or product/service differentiator 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 competitive advantage.