

Plan for Emerging Possibilities in Farm Business Management

Judge a man by his questions rather than his answers.¹

Business planning is about making choices to determine a path for going forward. These include how the business will position itself both in the industry and the market. As well, choosing which action best allows the business to progress toward goals and objectives.

In turbulent business environments, decision makers are not able to think through all possible outcomes to make choices with certainty. Deliberate planning focused on most likely scenarios and guided by check lists will not prepare a farm business for the uncertainty of a business environment with many moving parts. Similarly, planning based on reacting to problems and opportunities as they emerge can prevent decision makers from addressing the right issue at the right time in the right manner. A decision to finance a major capital purchase in order to gain operating efficiencies in a period of strong market prices may not be beneficial when the most significant issue for the business is an existing vulnerability to declining cash flows.

When facing uncertainty business planning can best be served by balancing the deliberate pursuit of likely outcomes and the flexibility needed to realize unexpected possibilities. The “Plan for Emerging Possibilities in Farm Business Management” series of documents will assist modern farm managers consider new perspectives and new possibilities in the context of business planning and decision making. Thinking ahead with different perspectives and different guiding questions can ensure planning and decision making processes address the right issue at the right time in the right manner.

Competitive Advantage Thinking in Farm Business Management

The fundamental basis of above average performance in the long run is sustainable competitive advantage.²

Understanding What Customers Value

Understanding customer value is essential to determining if a farm business can provide superior value through lower costs or differentiated products. Products provide buyers with functional benefits when they meet their operating requirements. Superior functional benefits can improve operating performance for the buyer relative to other products. Feedlots purchasing feeder cattle have certain criteria to assist in assessing whether incoming cattle will meet their operating requirements for feed conversion, grading and profitability.

Products can also provide emotional benefits when they provide strong positive feelings such as a sense of well-being or satisfaction. Customers can gain emotional benefits when farm products are produced and marketed with a strong commitment to the environment.

The costs incurred by customers include the monetary (Total Dollars) convenience (time and effort) and psychological (any stress a person feels about making a transaction) cost. Value is the difference between total benefits and total cost which can be viewed as $\text{Value} = \text{Total Benefits} (\text{functional} + \text{emotional}) - \text{Total Costs}$ (monetary, time and effort and psychological costs).

¹ Cadsby,T.(2014). Closing the Mind Gap; BPS Books. Original Source: Voltaire.(1994). Letters Concerning the English Nation; Oxford University Press.

² Porter, M. E.; Competitive Advantage (1985) pg.11

Competitive Advantage

Farm businesses achieve competitive advantage by providing value to buyers through lower costs or a differentiated product. A competitive advantage can enable a farm business to earn greater profit margins than other farms operating in similar circumstances.

- A cereal and oilseed producing farm with the advantage of a lower cost structure is able to achieve greater margins when selling commodities at the same price as competitors or to maintain margins when competitors are incurring losses.
- A farm business that is direct marketing beef can achieve greater margins when its' differentiated product provides benefits that translate to higher prices than competing products.

A farm business can develop a competitive advantage when it has irreplaceable physical resources as well as unique knowledge, skills and processes:

- Soil quality that supports superior production efficiency (yield per acre or feed conversions) that result in lower costs per unit of production.
- A detailed understanding of cost drivers and a lower cost structure (Cost per bushel or cost per pound can allow a farm to sustain acceptable margins over a wide range of market prices.
- Having a profound and insightful understanding of customer needs allowing it to offer differentiated products for which customers are willing to pay a price premium. For example providing timely delivery of a crop that meets the agreed upon specifications.
- The ability to manage machinery costs and in particular limit the costs of excess capacity can provide a farm with the advantage of a lower cost structure.
- Technical ability combined with enhanced capabilities acquired through learning can enable a farm business to adopt advances in production processes that increase productivity. In certain situations implementing Variable Rate Technology (VRT) may allow a grain producer to lower fertilizer costs as well as lower costs per unit of production.
- The ability to innovate by producing and marketing products that provide incremental functional or emotional benefits to customers. The adoption of lean thinking has enabled some farm to eliminate waste and continuously seek opportunities to deliver value to customers through enhancing value.

A Sustainable Competitive Advantage

If a competitive advantage is to have a long lasting beneficial impact on a farm business it must be sustainable. However a turbulent business environment can generate a diversity of forces that:

- Change the perceptions of value that customers attach to certain products and services
- Change the ability to the farm to products at lower costs or deliver differentiated products that generate higher prices.

In a turbulent business environment business planning may need to balance the commitment required to realize a sustainable competitive advantage with the flexibility required to adjust to ongoing change. Management thinking must address the trade-offs of committing resources to achieve a competitive advantage with keeping resources available to ensure the business has the flexibility to make adjustments.

Management thinking through the lens of competitive advantage considers more possibilities and more strategy alternatives for the farm business to provide value to customers. This perspective can lead to more possibilities to solve customer problems and more possibilities to capture business opportunities that might emerge in a changing business environment. As well, the perspective of competitive advantage would explore how short lived advantages could be leveraged to give the farm business greater flexibility to change when conditions change. Consider the following cases:

- A competitive advantage built on understanding customer needs can provide the capability to respond to changing customer needs. Producers that understand a buyer's operating needs may be better able to adjust to changes in requirements and create value by ensuring the buyer's production process continues to operate efficiently and effectively. Similarly, a farm that is able to deliver large quantities of a specified crop on short notice is creating value by solving the buyers supply problem.
- A competitive advantage of lower operating costs can enable a farm business to maintain profit margins over a wider range of market prices. In particular the farm would be able to minimize the harmful effects of lower market prices or delivery challenges.

Developing a Value Proposition

A value proposition clarifies how the business might use its' resources and capabilities to provide value to customers and achieve a sustainable competitive advantage.

The key elements in a value proposition are:

- **Who:** the specific market segment that the business can provide value to through solving a problem.
- **What:** specifies the problem that the market segment needs to be solved.
- **How:** specifies how the farm business will solve the problem.
- **Why:** specifies the reasons that allow the farm business to solve the problem more effectively than competitors.



Asking the Right Questions

Individuals can pursue competitive advantage by considering alternative views for the future and how they impact on the capacity of the farm to offer products with lower costs or differentiated products that generate premium prices. Asking the right questions can guide farm managers in planning how a farm business would organize resources to provide value to customers in a turbulent business environment.

What are the unique physical resources as well as specialized knowledge, skills and processes that could be the source of competitive advantage for the farm business?

Are these resources and capabilities currently being used to provide value to buyers and customers?

What are the key elements of the buyers' production process, which elements are problematic and opportunities to provide enhanced value?

What opportunities are there to provide value to customers through products with lower costs or differentiated products that generate premium prices?

Are there opportunities to create value for specific buyers by ensuring products enhance their production processes?

What are the possible value propositions for the farm business that specify the market segment, the problem to be solved, how the problem will be solved and why is approach is superior to the competition?

What changes may occur in the business environment to create opportunities for achieving competitive advantage?

Developed by:

Dennis Dey, Farm Management Consultant
Joel Bokenfohr, Alberta Agriculture and Forestry