Choosing Strategic Options Overview

Assessing strategic alternatives for growth or downsizing is an important consideration every business must manage. Businesses are often limited in their view of growth alternatives and seek expansion as the optimal solution. In reality, identifying the best strategic alternative will vary for every business and be influenced by a wide variety of factors including the business vision, goals and financial position. An important first step for business owners is to understand multiple strategic alternatives and their business implications. Next, effective planning requires consideration of desired objectives aligned with where the business is today and how strengths and weaknesses compare with opportunities and threats.

Strategic Alternatives in Growth and Downsizing

The following tool developed by the Purdue University Agricultural Department identifies ten strategic growth and downsizing alternatives. Six of these options deal with growth (increased income or volume, but not necessarily facility size). The other four explore non-growth options. Use the descriptions for each strategy outlined below to assess growth alternatives most likely aligned with your desired objectives, business vision, goals and financial position.

Growth Strategies

Intensify/ Modernize
- more production through same asset base
- more intensely managed operation
- more modern and intense production technology

Expand
- expand facility size
- most common strategic move
- often over-used

Diversify
- adding new enterprises
- positives – multiple products in same marketing channel
- negatives – may spread management too thin

Replicate
- replicate operation on a different site
- often used with livestock for regulatory compliance

Integration
- moving forward, backward or horizontally in the food chain
- production, processing and marketing
- often used by processors for consistent quality/supply

Alliances
- allows group of small operations to look big in the market
- proven economies of size in production, processing and marketing

Non-Growth Strategies

Focus/ Specialize
- improve efficiency and reduce cost
- low cost producers can stay competitive and maintain future operations

Delay/Wait and See
- buying time for new opportunities to manifest
- in action may have merit in the short run
- must develop a "trigger point" that will result in action

Downsize
- can improve business focus or efficiency
- staying at current or larger levels may not be logical
- often linked to an exit strategy, but not always

Exit
- intended method for retiring or transferring ownership
- plan for cashing in profits on owners' equity
- selling to another company is a common strategy

Growth Strategies

1. **Intensify/Modernize**

   The ability to push more production through the same fixed asset base is the concept. A more intensely run operation spreads fixed costs over greater output, lowering the overall cost of production. Accomplishing this strategy is possible through both a more intensely managed current operation and the adoption of more modern, more intense production technologies.

2. **Expand**

   The most common strategic alternative for many producers is expansion of facility size. This often over-used method has merit after all possible efficiencies have been exploited with current facilities.

3. **Diversify**

   Diversification, the opposite of specialization, involves the addition of new enterprises to the business. Generally, this option is considered a risk reducing method. However, the economic forces that affect one agricultural enterprise generally affect others, so this option may not be as advantageous for risk reduction as one might think. Diversification may also cause management time to be spread too thinly across enterprises.

   Diversification may have more potential to create synergy by capitalizing on such factors as: underutilized skills and/or resources, multiple products in the same marketing channel, or knowledge and management skills. As a risk reduction strategy, the alternatives considered should include investments that are not subject to the same fundamental economic forces that impact agriculture. Alternatives might include stocks or mutual funds, bonds, non-agricultural businesses, or residential or commercial real estate. Expertise should be obtained in choosing among these investments, just like expertise is used to choose among various farm or agricultural investments.

4. **Replicate**

   When growth of the business is the desired course of action, one option to consider is replication of an existing operation on a different site rather than expanding the current unit. This option allows for decentralized management in smaller units. It is the multi-plant strategy of the industrial complex. This option sometimes becomes important in livestock production as issues of odor nuisance and waste handling become more critical.

5. **Integrate**

   Moving forward, backward or horizontal into production/processing may provide real benefits to the system. An example is packing plants in Washington raising apples for their plants. This activity helps the packers eliminate some variability in quality and supply.

6. **Network**

   There are proven economies of size in production and marketing in crop and livestock production. Expanding a single business for size benefits is not always the most prudent option. Networking allows a group of smaller operators to appear as a large operation to the marketplace.

Non-Growth Strategies

7. **Focus/Specialize**

   "Stick to your knitting" is a very applicable cliché in this context. The focus of much of a producer's managerial time is committed to improving efficiency and reducing cost. Lower cost producers will tend to have the ability to stay competitive and maintain future operations. Concentrating on one activity can aid in cost reduction through a more intensely managed operation.

8. **Delay/Wait and See**

   The decision-making team may survey current conditions and determine they are not sure what direction to take. In the short-run, inaction may have merit. "Buying time" may provide for new opportunities to manifest themselves. But the key issue with this strategy is to develop a decision trigger that will result in action.

9. **Downsize/Rightsize**

   There are many in farming who are surveying their situation and wondering if continuing to operate at the current size, or a larger size, is the most logical plan. One strategic option is to reduce the size of the business. The decision to downsize is often linked with a strategy to exit from the business, but this need not be the case. Downsizing may help improve the focus of the business or the efficiency of the business.

10. **Exit**

    This strategy is often the vehicle for retirement, succession to the next generation or selling to another to cash-in on earned equity.

Group Discussion Guide

Including family members, partners, management team members and other trusted advisors such as AgWest Farm Credit in these conversations can be helpful to share lessons, insights and goals.

Prepare Participants

- Schedule a dedicated time (1-2 hours depending on the group size) for a focused discussion.
- Provide the Strategic Growth Alternatives Guide to all participants.

Define Roles

- Identify a facilitator to keep the group focused and moving through the discussion.
- Designate one person to take 'official' notes, documenting the discussion and any decisions.
- Ask the group the following question: **'Why are growth and non-growth strategies important to understand?'** and engage participants to understand their perspectives.

Instructions

- Use the questions below and space provided to gather group perspectives.

Assessment Questions	Discussion Notes
Which strategic alternatives align with your business vision and goals?	
Which strategic alternative will be most effective given your industry, production, processing and marketing capabilities?	
What additional human capital, knowledge and/or management skills will be required to achieve the strategy?	

How does this strategy align with the financial position of the business?	
What alternatives, conversations or next steps should be evaluated further?	

**Consider completing complimentary Strategic Planning Guides including: Business History and Timeline, Business Lifecycles, Operational Capacity and S.W.O.T. analysis.*