Ag Decision Maker

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Strategic Planning Terms

Competitive advantage - What a firm does better than its competitors. Characteristics that allow a firm to outperform its rivals.

- **Distinctive competence** - Special skills and resources that generate strengths that competitors cannot easily match or imitate.
- **First mover advantage** - The competitive advantage held by a firm from being first in a market or first to use a particular strategy.
- **Late mover advantage** - The competitive advantage held by firms that are late in entering a market. Late movers often imitate the technological advances of other firms or reduce risks by waiting until a new market is established.
- **Sustainable competitive advantage** - A competitive advantage that cannot easily be imitated and won't erode over time.
- **Group think** - A tendency of individuals to adopt the perspective of the group as a whole. It occurs when decision makers don't question the underlying assumptions.

Competitive strategy - How an enterprise competes within a specific industry or market. Also known as *business strategy* or *enterprise strategy*.

Competitor analysis - The competitive nature of an industry. It determines how a rival will likely react in a given situation.

- **Barriers to entry** - Factors that reduce entry into an industry.
- **Switching costs** - The costs incurred when a buyer switches from one supplier to another.
- **Barriers to exit** - Factors that impede exit from an industry.
- **Contestable markets** - Markets where profits are held to a competitive level. Due to the ease of entry into the market.
- **Strategic groups** - Clusters of firms within an industry that share certain critical asset configurations and follow common strategies.
- **Predatory pricing** - Aggressiveness by a firm against its rivals with the intent of driving them out of business.

Concentration - Focus the firm's efforts and resources in one industry.

Core business - The central or major business of the firm. The core business is formed around the core competency of the firm. Management of the firm's core business is central to any decision about strategic direction.

Core competency - What a firm does well. The core competency forms the core business of the firm.

Critical success factors - Those few things that must go well if a firm's is to succeed. Typically 20 percent of the factors determine 80 percent of the performance. The critical success factors represent the 20 percent. Also known as *key success factors*.

Culture - The collection of beliefs, expectations, and values learned and shared by the firm's members and passed on from one generation to another.

Diversification - The process a firm into new products or enterprises.

- **Concentric diversification** - Diversification into a related industry.
- **Conglomerate diversification** - Diversification into an unrelated industry.

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Economics - Cost savings.

- **Economies of integration** - Cost savings generated from joint production, purchasing, marketing or control.
- **Economies of size** - Fixed costs decline as output increases.
- **Economies of scope** - The products of two or more enterprises produced from shared resources which allows for cost reductions.
- **Minimum efficient scale** - The smallest output for which unit costs are minimized.

Enterprise - The production of a single crop or type of livestock, such as wheat or dairy. A responsibility center.

- **Primary enterprise** - An enterprise that provides the foundation of the firm. The success of the primary enterprise is critical to the success of the firm.
- **Secondary enterprise** - An enterprise that supports a primary enterprise and/or the mission and goals of the firm.
- **Competitive enterprises** - Enterprises for which the output level of one can be increased only by decreasing the output level of the other.
- **Complementary enterprise** - Enterprises for which increasing the output level of one also increased the output level of the other.
- **Supplementary enterprises** - Enterprises for which the level of production of one can be increased without affecting the level of production of the other.
- **Enterprise strategy** - How an enterprise competes within a specific market or industry. Also called business or competitive strategy.
- **Transfer price** - The price at which a good or resource is transferred across enterprises within a firm.

Entrepreneur - An entrepreneur sees change as normal and healthy. He/she is involved in searching for change, responding to it, and exploiting it as an opportunity.

Environmental scanning - To monitor, evaluate and disseminate information from the external environment to key people within the firm.

- **Environmental analysis** - An analysis of the environmental factors that influence a firm's operations.
- **Environmental opportunity** - An attractive area for a firm to participate in where the firm would enjoy a competitive advantage.
- **Environmental threat** - An unfavorable trend or development in the firm's environment that may lead to an erosion of the firm's competitive position.

Excess capacity - The ability to produce additional units of output without increasing fixed capacity.

Experience curve - Systematic cost reductions that occur over the life of a product. Product costs typically decline by a specific amount each time accumulated output is doubled.

Externalities - A cost or benefit imposed on one party by the actions of another party. Costs are negative externalities and benefits are positive externalities.

Firm vision - The collection of statements listed below indicating the desired strategic future for the firm.

- **Mission statement** - A statement of the reason why a firm exists.
- **Goals** - General statements of where the firm is going and what it wants to achieve.
- **Objectives** - Specific and quantifiable statements of what the firm is to accomplish and when it is to be accomplished.

Innovation - A new way of doing things.

- **Diffusion curve** - The rate over time at which innovations are copied by rivals.
- **Systematic innovation** - The purposeful and organized search for changes, and the systematic analysis of the opportunities these changes might offer for economics and social innovation.

Internal scanning - Looking inside the business and identifying strengths and weaknesses of the firm.

Operations management - Focuses on the performance and efficiency of the production process. It involves the day-to-day decisions of the business.

Portfolio - A group of enterprises within a firm that are managed as individual responsibility centers.

- **Portfolio analysis** - Each product and enterprise is considered as an individual responsibility center for purposes of strategy formulation.
- **Portfolio management** - Management of a firm's individual enterprises and resources across these enterprises.

Proactive - Seek out opportunities and take advantage of them. Anticipate threats and neutralize them.

Responsibility center - An enterprise whose performance is evaluated separately and is held responsible for its contribution to the firm's mission and goals.

- **Cost center** - An enterprise that has a manager who is responsible for cost performance and controls most of the factors affecting cost.
- **Investment center** - An enterprise that has a manager who is responsible for profit and investment performance and who controls most of the factors affecting revenues, costs, and investments.
- **Profit center** - An enterprise that has a manager who is responsible for profit performance and who controls most of the factors affecting revenues and costs.

Restructuring - Selling off unrelated parts of a business in order to streamline operations and return to a core business.

Stakeholder - Individuals and groups inside and outside the firm who have an interest in the actions and decisions of the firm.

Strategic - Maneuvering yourself into a favorable position to use your strengths to take advantage of opportunities.

- **Strategic audit** - A checklist of questions that provide an assessment of a firm's strategic position and performance.
- **Strategic myopia** - Management's failure to recognize the importance of changing external conditions because they are blinded by their shared, strongly held beliefs.
- **Strategic thinking** - How decisions made today will affect the business years in the future.
- **Strategic predisposition** - A tendency of a firm by virtue of its history, assets, or culture to favor one strategy over competitive possibilities.
- **Strategic decisions** - A series of decisions used to implement a strategy.

Strategic management - The act of identifying markets and assembling the resources needed to compete in these markets. The set of managerial decisions and actions that determine the long-run performance of the firm.

Strategic planning - A comprehensive planning process designed to determine how the firm will achieve its mission, goals, and objectives over the next five or ten years or longer.

- **Business planning** - A plan that determines how a strategic plan will be implemented. It specifies how, when, and where a strategic plan will be put into action. Also known as *tactical planning*.

Strategy - A pattern in a stream of decisions and actions.

- **Dominant strategy** - A strategy that is optimal regardless of the action taken by one's rival.
- **Emergent strategy** - Unplanned strategy that emerges from within the organization.
- **Intended strategy** - Planned strategy developed through the strategic planning process.

- **Realized strategy** - The real strategy of a firm that is either an intended (planned) strategy of management or an emergent (unplanned) strategy from within the organization.
- **Strategy formulation** - The development of long-range plans for the management of environmental opportunities and threats, in light of the strengths and weaknesses of the business.
- **Strategy implementation** - The process by which strategies and policies are put into action through the development of programs, budgets, and procedures.
- **Strategy control** - Compares performance with desired results and provides the feedback for management to evaluate results and take corrective action.
- **Firm strategy** - How a firm will reach its goals and objectives by using firm strengths to take advantage of environmental opportunities.
- **Enterprise strategy** - How an enterprise competes within its specific market or industry. Also called business or competitive strategies.
- **Niche strategy** - A strategy serving a specialized part of the market.

SWOT analysis - Analysis of the strengths and weaknesses of the firm, and the opportunities and threats of the firm's environment.

- **Strategic issues** - Trends and forces which occur within the firm or with environment surrounding the firm.
- **Strategic factors** - Strategic issues expected to have a high probability of occurrence and impact on the firm.
- **Opportunities and threats** - Strategic factors in the firm's external environment are categorized as opportunities or threats to the firm.
- **Strengths and weaknesses** - Strategic factors within the firm are categorized as strengths or weaknesses of the firm.
- **Strategic fit** - Fit between what the environment wants and what the firm has to offer.
- **Strategic alternatives** - Alternative courses of action that achieve business goals and objectives, by using firm strengths to take advantage of environmental opportunities.

Vertical integration - The process in which either input sources or output buyers of the firm are moved inside the firm.

- **Backward (upstream) integration** - Input sources are the firm.
- **Forward (downstream) integration** - Output buyers are the firm.
- **Contractual integration** - Separate firms in the various stages of production link the stages through contractual arrangements.
- **Full integration** - Where one firm has full ownership and control over all the stages in the production of a product
- **Quasi-integration** - A firm gets most of its requirements from an outside supplier that is under its partial control.
- **Tapered integration** - A firm produces part of its own requirements and buys the rest from outside suppliers.

Vertical coordination - The stages in the production of a product are linked by more than open markets but less than ownership and control by one firm.

- **Vertical merger** - Firms in different stages of the production and distribution chain are linked together.

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