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Portfolio Analysis and Enterprise Strategy Development

Portfolio analysis and enterprise strategy development are part of the process of <u>Strategic Planning for the Farm Business</u>. After you have selected a <u>Farm Business Strategy</u>, portfolio analysis and enterprise strategy development are processes designed to select, organize and structure your enterprises in a manner that will achieve the business strategy.

Internal Scanning provides you with a description of the current organization of your enterprises and the strengths and weaknesses of your farm business. External Scanning provides you with an assessment of the markets and industries in which your enterprises will compete and the opportunities and threats each enterprise will face.

Portfolio analysis focuses on how to organize the enterprises on your farm. For example:

- If you choose a growth strategy, which enterprise(s) will you expand? How will the other enterprise(s) support these enterprise(s)?
- If you choose a restructuring strategy, which enterprises(s) will be added? What one(s) will be dropped?
- If you choose a succession strategy, how will the enterprise mix be changed due to the addition of new skills from the new participants? What skills will be lost and what effect will this have on your enterprise mix?

Enterprise strategies, often called competitive strategies, identify how each individual enterprise will compete within its respective market and industry. Superior enterprise strategies, especially for primary enterprises, are imperative to the success of the business because they link the business to its markets. If the enterprises are not successful, the farm business will not be successful. So enterprise strategies form the foundation for a successful business. There are three general enterprise strategies that farm business enterprises can follow.

- *Low cost* A low cost strategy focuses on producing the product at the lowest possible cost. The low cost strategy has been the traditional strategy used in the production of agricultural commodities. The focus has been on lowering costs and maximizing income by increasing volume.
- *Product* Agriculture is moving away from broad commodity markets to segmented, or niche, markets of more narrowly defined products. Examples are organic milk, grass-fed beef, specialty soybeans, etc. In these markets it is important to produce precisely the type of product the market demands. These are essentially small commodity markets so cost is still an important component. However, it is easier to differentiate your product in niche markets than in the traditional broad commodity markets. In addition to production, a product strategy may involve the processing, distribution and marketing of the product to consumers.
- *Differentiation* A differentiation strategy is where your product is different (better) than those of competitors. Differentiation forms the basis for charging a premium price over those of your competitors. Differentiation usually includes the processes for taking your product directly to consumers. So processing and marketing are involved. Differentiation in small markets often involves creating a personal relationship with consumers.

Differentiation is easiest to achieve in small local markets. A brand name can be established with

your target customers. This can be done by selling directly to consumers or selling to consumers through a local retailer. Establishing a brand name in a regional market is also an option but requires substantially more time and money.

Use the following questions to guide your portfolio analysis and enterprise strategy development process.

Choosing your primary enterprise(s) and creating the strategy:

- How will the primary enterprise(s) support your farm business strategy?
- What opportunity does the outside environment (e.g. market, industry) provide for this enterprise(s)? How about threats?
- How does this enterprise use the resources and skills of the business?
- What strengths do you and the business provide for the success of this enterprise(s)? How about weaknesses?
- Are the managers committed to this enterprise(s)?
- What is the enterprise strategy(s) for your primary enterprise(s)?

Choosing your secondary enterprise(s) and creating its strategy:

- How will the secondary enterprise(s) support your primary enterprise(s) and the farm business strategy?
- What opportunity does the outside environment (e.g. market, industry) hold for this enterprise(s)? How about threats?
- What strengths do you and the business provide for the success of this enterprise(s)? How about weaknesses?
- Will the secondary enterprise(s) complement the primary enterprise(s)? Will resources and/or skills be shared?
- Will the secondary enterprise(s) compete with the primary enterprise(s)?
- What is the enterprise strategy(s) for your primary enterprise(s)?

An important tool to use in enterprise selection and strategy development is the enterprise budget. Enterprise budgets involve projecting the expected costs, returns, resource requirements, labor needs and skill requirements of the enterprise. Enterprise budgets also help assess complementary and competitive relationships among enterprises and how the enterprises fit into the overall farm business.

... and justice for all

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