



Practical Business Transition Strategies

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All businesses go through natural stages of development and evolution. Businesses are dynamic entities with somewhat predictable courses of action derived from their natural product/industry growth cycle and their specific current business situation. The STARS model (Watkins 2003, 2009) in Figure 1 provides a perspective on business evolution and development that identifies the most common business situations:

- Startup
- Turnaround
- Accelerating growth
- Realignment
- Sustaining success.

The ability to navigate successfully in each situation is crucial to the success of individual businesses. These basic concepts were developed by Michael Watkins, professor at Harvard Business School, and have been

applied to business analysis and development, group management, leadership transitions, and career planning.

This paper summarizes strategies and actions that can be used for each business situation. This information is meant to stimulate new perspectives and thinking in agribusiness owners and managers. The STARS model is used as a frame of reference, but the suggested strategies have been compiled from a variety of sources in the business literature. Some of the references relate to well-known large organizations, but the business concepts introduced are for the most part applicable to both large companies and small businesses.

Your business situation and the STARS model

Look at Figure 1 and try to identify your current business situation. Then read about your options, which are covered in the sections below.

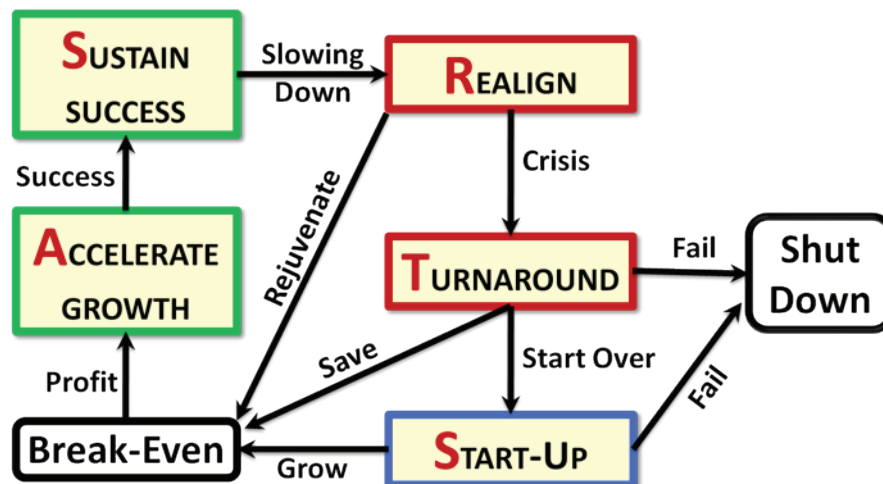


Figure 1. STARS model (drawn from Watkins 2003 and 2009).

Decisiveness: The power of focusing

The success of your business will depend on your ability to identify its major problems and to focus on appropriate strategies to resolve these issues. It takes a combination of courage, clear thinking, and an overall perspective on your goal to make the critical changes to your business required by your business situation.

Startup

When starting a business, your focus should be on generating cash, gathering skilled labor for your business, product and marketing development, securing adequate inventory, and acquiring production technology. If you are not entering into a conventional business, managing your new business will require strategic thinking and action within an uncertain environment where key information may be missing. This is true of agribusinesses based on innovative products or services that stand to create new markets or change traditional products. Block and MacMillan (1985) recognized that starting a business is essentially an experiment to test the assumptions made in its planning. To emphasize the importance of incorporating new information in the modification of ongoing business plans they proposed 10 milestones to guide the startup phase of innovative businesses:



1. Completion of concept and product testing
2. Completion of prototype
3. Initial financing
4. Completion of initial plant test
5. Market testing
6. Production startup
7. Bellwether sale
8. First competitive action
9. First redesign or redirection
10. First significant price change

Large corporations such as Sony followed a milestone approach from their origins. Variations of milestone planning have emerged, and the Block and MacMillan approach evolved into discovery-driven planning, a process that successively transforms assumptions into knowledge by testing business models against emerg-

ing data (McGrath & MacMillan 1995). Terra Nova Nurseries (www.terranovanurseries.com), a producer of ornamental plants in Oregon specializing in new plant introduction, has followed a similar approach over the last 20 years, successfully introducing over 500 new varieties.

The challenges are in designing new production systems and business structures, selecting business strategies, recruiting, and building teams, all with limited resources. These are some of the most important aspects during the startup phase:

Assemble a talented business team.

- Recruit the right partners or employees with the right skills appropriate for your business.
- Create a team aimed at achieving high performance in management, marketing, and production.
- Keep in mind that the lack of skilled employees is the first obstacle to successful implementation of a business strategy.

Gather sufficient capital and operating cash.

- Your startup budget may need to cover one or two years of operating expenses before your business is able to generate any significant revenues.
- Try to make your financial projections realistic, especially in regards to timing.

Work to remove kinks in your production system.

- Ensure availability of starting materials, skilled staff, agricultural inputs, production targets, and markets.
- It is helpful to dry-run your production techniques to iron out glitches and identify technical problems.
- Resolve any significant remaining technical issues.
- Make a better estimation of the costs of production.

Turnaround

A turnaround is critical when there is a need to save a failing business. It is similar to radical surgery to save the life of the business.

The focus should be on business restructuring and obtaining external advice as needed. It is a period when employees may be demoralized and facing layoffs, when decisions have to be made under time and financial pressures. A turnaround may still fail, due to poor handling of



required changes by either the previous or the new management in the form of wrong decisions, inappropriate timing, no sense of urgency, or complacency. Reevaluate your business plan and make the necessary changes to the strategies, markets, products, or technologies that are not working. For observations and leadership ideas while going through a turnaround in a large organization, see Gerstner's (2003) narratives of IBM. When bunchy top virus hit Hawai'i around 2004, Hamakua Springs Country Farm (www.hamakuasprings.com) in Hawai'i Island lost over 100 acres of banana. To turn their business around they focused on diversification and sustainability as business strategies. As a result, Hamakua Springs has become a major producer of vegetables, specialty vegetables, and fruits in the state of Hawai'i.

Learn and understand what went wrong in the business and communicate it to your employees.

- Evaluate your business strategies, structure, markets, products, and technologies to determine and prioritize the problem areas. This will bring awareness and emphasize the need for change.

Remove any non-core business activities.

- Keep profit-making products or services.
- Eliminate those losing money.

Make faster and bolder moves.

- Revise your vision.
- Revise your strategies.
- Revise your action plans.

Clean house at the top.

- Make management changes.
- Seek external qualified advice.
- Recruit new people with new ideas.

Secure early wins.

- Focus on achieving even small successes and improvements for morale and to sustain motivation.
- Make some profit.
- Shift mindset from despair to hope.

Create supporting alliances.

- Gain support from stakeholders to invest necessary resources for the required changes.
- Generate additional investment capital if necessary.
- Consider strategic partnerships.

Accelerating growth

There are times when you have to deal with the challenges and opportunities of increasing demand. Opportunities arise from a demonstrated potential for growth, which helps to motivate stakeholders through



earnings, revenues, or bonuses. Your focus should be on managing the pressures of scaling up production by ensuring the resources required, improving the existing systems, and creating new business structures. Ball Horticultural Company (www.ballhort.com), a major producer and distributor of ornamental plants and seeds, has been in business for over 100 years. After WWII, the company started a major phase of expansion and accelerating growth based on mergers and acquisitions strategies, diversification, and the development of new products and new markets. Currently Ball operates in publishing, biomedical research, marketing, and plant production in over 20 countries.

Modify your business model for quicker response to market needs.

Organize to learn what is working.

- Identify your most profitable products.
- Identify your most productive resources and assets. Build and expand on them if possible.

Improve production systems.

- Add production shifts if needed.
- Set up incentives to increase productivity at various levels.
- Maintain quality control to ensure a consistent product or service.
- Revamp product development.

Design new business structures as a way to ensure financing for expansion.

- Explore joint ventures, partnerships, co-branding, and/or acquisition of key suppliers and new retail locations. Vertical integration upstream into the manufacture of key production inputs or downstream into expanded direct sales is possible.
- Sell franchises or explore licensing and collaboration options.

- Develop new national or international markets.

Implement new technologies.

- Modernize or acquire more efficient technologies.
- Automate the production process to increase productivity, from inventory tracking to customer management.
- Develop Web sites, blogs, and other social media to build a connection with potential customers.
- Use online sales reach new customers.

Integrate new employees.

- Standardization of processes facilitates expansion, including staff training.
- Hire skilled labor or train new employees.
- Consider hiring or contracting staff knowledgeable in computer technology to evaluate and implement technology solutions at all levels.

Realignment

This is perhaps the most common business situation. Realignment is needed when businesses fall into stagnation or poor profitability but are not in serious financial trouble requiring a major turnaround. Realignment is like a tune-up, utilizing in-house resources and refocusing the business on making a profit in the short run. The challenge is to re-energize the business while facing internal resistance, restructuring management, and refocusing the organization. Management opportunities arise from staff that has experienced a certain level of success previously and may have renewed motivation for success and certain business strengths. Agri-Starts (www.agristarts.com) is a company specializing in tissue culture liners for ornamental businesses in Florida. After more than 20 years of success, it realigned its business to include the fruit industry (e.g., blueberries, banana) as a strategy to manage the negative economic impact of the recession over the last few years.



Organize to learn what works and what doesn't.

- What areas are business strengths?
- Where are the bottlenecks (sales, marketing, products, services, or customer experience)?
- What specifically needs to change?

Generate innovative ideas.

- Identify opportunities to innovate arising from structural industry changes, including changes in direct rivals, threats of substitutes and newcomers, and the power of suppliers and buyers; and from changes in the external economic environment, such as fuel cost changes, new international markets, etc.
- Ideas should be market focused and market driven.

Establish priorities and focus on a few vital goals.

- How to increase sales?
- How to increase marketing efforts?
- How to improve quality of product or service?

Build team leadership.

- Carefully implement shifts in business direction.
- Create a sense of urgency for positive change.
- Promote leaders from within your business.
- Improve team morale and communication.
- Ensure business changes are implemented.

Secure early wins.

- Shift organizational mindset from denial to awareness.
- Develop smaller goals with achievable targets to measure incremental progress.

Create supporting alliances.

- Build support from within to ensure better execution.
- Obtain outside alliances to help diversify your business.

Sustaining success

Some businesses reach their desired level of success but struggle to sustain it. Sales are adequate, and the business is performing well, with a strong and experienced team or teams and production lines. The positive impact is that employees and staff are motivated to continue their history of success. The challenge is moving to the next level while facing internal resistance to change due to past successes. The focus should be on business-model innovation – developing a persistent competitive advantage through continuous improvement of your business model. See the research by Collins (2001), which highlights the role of



business culture in achieving sustained performance over time. The following recommendations for developing a more profitable business model are summarized from the work of Mitchell and Coles (2003). Hawaiian Sunshine Nursery (www.hawaiinursery.com) has been recognized as a leader in tropical plant production in Hawai'i by growers and local trade associations. An emphasis on innovative new products and plant quality has helped the company to sustain its success.

Focus on your most productive areas for innovation.

- Increase value without raising prices, perhaps by providing online access, sales, and services or offering extended shopping hours.
- Increase sales profit by adjusting prices. At higher prices you may sell less, but this may also decrease your total production cost.
- Eliminate costs without reducing customer benefits.

Provide sustained benefits for all stakeholders.

- Prepare for lean times, but also provide fair and appropriate rewards.
- Strengthen foundation by delivering on promises and keeping the product/service quality. Continually improve ways of serving customers to outperform competitors.
- Build right organizational focus and strong and strategic marketing.
- Share profits fairly with all who created them.

Expand business-model innovation.

- Be the first to capture early gains. Quickly adapt to changing market conditions by making your business model appropriate, innovative, and effective. This step includes becoming more aware of potential competitive challenges and of legal, social, and economic environmental changes that may affect the business.
- Focus on customers' needs.
- Enhance business innovative capability – master the skill of redesigning your business model.

Pursue higher potential business-model improvements.

- Keep looking for larger, more attractive future markets and opportunities.
- Identify areas of highest growth and profitability and expand them.
- Expand benefits to stakeholders as a way to motivate

further innovation.

The key to success: Continuous business-plan innovation

Once you have determined the problems in your business and found some appropriate solutions, implementation is the next step. A number of business-planning guides are available from extension programs that present a variety of strategies to achieve business success (see for example Holcomb & Johnson 2006, and Bennett & Bevers 2003). A solid business foundation covers the following aspects:

Business mission, vision, goal, or expected successful outcome

- Research on visionary companies by Collins and Porras (1997) deals with mission and purpose, vision and values, and shows that a lasting business must be built to embrace change and adapt.
- Clarify what business success means to you. What is the purpose of your business?
- What market needs can you fill?
- Where will your business be in five years?
- Find a balance between your core competencies, what you like to do, and the market needs you want to meet.

A profitable business model

- To develop and understand the elements of a successful business model, see Entrepreneur Press and Debelak (2006).
- What are your specific business strategies and plans for implementation?
- Use this simple GEL test to evaluate the three critical factors of a business model.

Great customers

Will your business generate repeat customers willing to pay for your products? Think about your target numbers, whether they are easy or difficult to find, as well as your spending patterns, the value of each sale, and repeat sales.

Easy sales

Is your product important or useful to customers? Think about price/value perceptions, comparative competitive advantage, and requirements for sales support or promotions.

Long life

Can a long future be built around your product?

This relates to your production costs, costs of entering the market by newcomers, costs of holding your market share, and costs of maintaining your competitive leadership.

Business strategies

- These are the general approaches and alternatives that businesses directly or indirectly adopt to achieve success. They help define the attitude and general demeanor of your business in the marketplace and may be adopted to balance the nature of the business with the personal preferences of the owner or manager.
- Be one of a kind – by being remarkable (e.g., Godin 2002a), or by building your brand (e.g., Calloway 2003).
- Create your own market space – eliminate or greatly reduce competition by focusing on untapped markets or creating demand through innovative products or expansion of existing industry boundaries (e.g., Kim & Mauborgne 2005).
- Learn from customers – undertake an organized, systematic, rational study of customers' preferences in order to design, create, market, and sell new products (e.g., Moskowitz & Gofman 2007).
- Aim at becoming a market leader – develop a corporate culture of learning, value quality first, and embrace change (e.g., Slater 2002).

Marketing plan and marketing strategies

- These provide timeline, budget, and strategies to get the right message to the right people through the right method.
- Do you have a well-defined target market? Consider demographics, income groups.
- Are your marketing strategies appropriate to the business model, target market, and stage of business/product cycle? For instance, the strategies “made to stick” (Heath & Heath 2007) and “customer experience management” (Schmitt 2003) are useful for product introduction, while the “momentum effect” (Larreche 2008) is more applicable to the growth phase. At a mature stage, “survival is not enough” (Godin 2002b) can be helpful in developing a corporate culture of change and adaptation to reinvigorate the business.
- What marketing deployment options have you tried? To minimize the use of resources and maximize marketing impact, “guerrilla marketing” (Levinson 2007) suggests alternative marketing deployment options.

Financial planning

- Financial management focuses on costs and benefits, and financial planning and strategies help reach established milestones.
- How much money to invest? What do you need to spend money on?
- When can you reach a break-even point?
- Are you making a profit or losing money? How much profit can be made?
- Consider these operational decisions: budget allocation, revenue forecasting and tracking, setting a level of sales needed, monitoring of business plan execution, business valuation before sale.
- What part of your business is efficient and what part needs to trim down?
- When would be a time to shut down?

Production plan

- Careful planning, strategizing, and step-by-step execution can help to achieve desired production in a cost-effective way. Convert financial goals into production targets, and develop a critical perspective of your production capability, production technology gaps, and difficulties in achieving product quality.
- Create a one-year plan, a three-year plan, and long-term production strategy. Assign milestones for major steps. If this is a new business or idea, then these plans may represent pre-feasibility, feasibility, and full production phases of your business.
- Consider these operational decisions: anticipate problems, set up information-flow systems, communicate, manage time and set priorities, and review and revise routinely.
- Build competency through employee training.
- Create high-performance teams.
- Think of product quality in terms of appeal, function, experience.

Business plan

- For a simple approach to creating focus, accountability, and results for small businesses, see Horan (2004). There are many online sources that offer guidance in developing more detailed business plans (see www.bplans.com for popular sample business plans).
- Gather all the information above into a simple business plan that can be a point of reference and help you track your progress and plan business modifications as

needed. It may also serve as a way to document your business potential to gather funding from prospective investors or financing officers.

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